



Senate Budget and Fiscal Review

Subcommittee No. 1 2008 Agendas

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SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

Tuesday, March 25, 2008
1:30 p.m.
Room 113, State Capitol

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ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 1: Overview of Governor’s K-12 Education Budget

DESCRIPTION: The Office of the Secretary and the Department of Finance will present the Governor’s budget proposals for K-12 education in 2008-09. Additional background information on the proposed Governor’s K-12 budget is provided below.

K-12 Funding Proposed by the Governor

The Governor proposes a total of \$49.3 billion in Proposition 98 funding for K-12 education in 2008-09. This level of funding reflects a decrease of nearly \$1 billion (2.0 percent) below the 2007-08 budget, as revised to reflect mid-year reductions pursuant to AB 4XXX (Chapter 2; Statutes of 2007-08 – Third Extraordinary Session.)¹

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to decrease by 30,464 in 2008-09, a decrease of 0.5 percent over the revised 2007-08 budget. Average per-pupil Proposition 98 funding is estimated to be \$8,368 in 2008-09, a decrease of \$123 (1.4 percent) below the revised 2007-08 level of \$8,491.

K-12 Education Budget Summary					
<i>(Dollars in Millions)</i>					
	Actual 2006-07	Revised 2007-08 ^a	Proposed 2008-09	Changes From 2007-08	
				Amount	Percent
K-12 Proposition 98					
State General Fund	\$37,264	\$37,345	\$35,460	-\$1,885	-5.0
Local property tax revenue	11,753	12,949	13,850	901	7
Subtotals	(\$49,017)	(\$50,294)	(\$49,310)	(\$-984)	(-2.0)
Other Funds					
General Fund					
Teacher retirement	\$876	\$1,535	\$1,111	-\$424	-27.6
Bond payments	1,764	2,084	2,381	297	14.3
Other programs	440	1,221	985	-236	-19.3
State lottery funds	979	936	936	—	—
Federal funds	6,832	6,698	6,316	-382	-5.7
Other	7,226	7,791	7,467	-324	-4.2
Subtotals	(\$18,117)	(\$20,264)	(\$19,197)	(\$-1,068)	(-5.3)
Totals	\$67,134	\$70,558	\$68,507	-\$2,052	-2.9
K-12 Proposition 98					
Average daily attendance (ADA)	5,951,933	5,922,913	5,892,449	-30,464	-0.5
Total Funds per ADA	\$11,279	\$11,912	\$11,626	-286	-2.4
Prop 98 Funds per ADA	\$8,235	\$8,491	\$8,368	-\$123	-1.4
^a Reflects actions taken in AB X3 4					
Totals may not add due to rounding.					

¹ AB 4XXX enacts a total of \$506.8 million in Proposition 98 savings in 2007-08, which includes \$488.4 million in K-12 and \$18.4 million in community colleges savings.

The 2008-09 Governor's Budget proposes \$68.5 billion in total funding for K-12 education, which reflects a decrease of \$2.1 billion (2.9 percent) above 2007-08 budget, as revised. The Department of Finance estimates that average per-pupil funding from all sources (state, local, federal, other) totals \$11,626 in 2008-09, a decrease of \$286 below the \$11,912 per-pupil amount in 2007-08, as revised.

Governor's Overall Proposition 98 Budget

Total Proposition 98 funding for K-14 education in 2008-09 is proposed at \$55.6 billion, a decrease of \$962 million, or 1.9 percent, below the revised 2007-08 budget, as indicated by the table below.

K-14 Proposition 98 Appropriations Summary <i>(Dollars in Millions)</i>	2007-08 Budget Act	2007-08 Revised *	Proposed 2007-08	\$ Change	% Change
Distribution of Prop 98 Funds					
Department of Education	\$50,797	\$50,294	\$49,310	-\$984	-2.0
Community Colleges	6,209	6,189	6,223	34	0.5
Other Agencies**	119	119	106	-12	-10.2
Total	\$57,125,	\$56,709	55,640	-\$962	-1.9
Prop 98 Fund Source					
State General Fund	\$41,479	\$41,601	\$39,593	-\$2,007	-4.8
Local Property Taxes	15,646	15,001	16,046	1,045	7.0
Total	\$57,125	\$56,602	\$55,640	-\$962	-1.7

* Reflects actions taken in AB 4XXX.

** Includes Division of Juvenile Justice (Formerly California Youth Authority), State Special Schools, Commission on Teacher Credentialing, Dept. of Developmental Services, Dept. of Mental Health, School Facilities Aid Program, American Indian Education Centers.

Of the \$55.6 billion in Proposition 98 spending for K-14 education in 2008-09, \$49.3 billion is appropriated to the Department of Education for K-12 schools; \$6.2 billion for Community Colleges; and \$106 million for all other state education agencies.

General Funds comprise \$39.6 billion (71.2 percent) of total Proposition 98 funding; property taxes comprise the remaining \$16.0 billion (28.8 percent).

Governor's Major Budget Proposals – Budget Balancing Reductions & Suspension of Proposition 98

The Governor proposes **\$4.3 billion** in Proposition 98 Budget Balancing Reductions for K-12 education in 2008-09. Together with **\$483 million** in proposed reductions for community colleges, the Governor proposes a total of **\$4.8 billion** in Proposition 98 Budget Balancing Reductions in 2008-09. These reductions place Proposition 98 funding \$4 billion below the minimum guarantee in 2008-09. For this reason, the Governor is

proposing suspension of the Proposition 98 minimum funding guarantee in 2008-09. (This issue is discussed in more detail later in the Subcommittee agenda.)

The chart below summarizes the Governor’s K-12 budget proposals. The \$4.3 billion in Budget Balancing Reductions for K-12 education are applied to the Governor’s “workload budget”. Specifically, the Governor first provides \$3.3 billion in workload increases to the 2007-08 budget and then applies across-the-board reductions totaling \$4.3 billion for virtually all K-12 education programs. These reductions bring K-12 Proposition 98 funding down to \$49.3 billion in 2008-09 from \$50.3 billion in 2007-08, as revised for AB 4XXX. This reflects a year-to-year drop in Proposition 98 of nearly \$1 billion for K-12 education in 2008-09.

K-12 Proposition 98 Budget Proposal	
<i>(In Millions)</i>	
2007-08 Budget Act	\$50,796.7
Reduction per AB 4XXX	-\$488.8
Technical adjustments	-\$14.0
2007-08 Revised	\$50,293.9
"Workload Budget" Adjustments	
Cost-of-living adjustment (4.9 percent)	\$2,428.1
Restore funding for ongoing programs	566.6 ^a
Restore reductions per AB 4XXX	\$488.8
Make charter school facilities grant ongoing	\$18.0
Decline in average daily attendance	-\$121.0
High Priority Schools program adjustment	-29.0 ^b
Other	\$0.9
Subtotal	(\$3,352.4)
Governor's "Workload" Estimate for 2008-09	\$53,646.2
Governor's "Budget Balancing Reductions"	
Revenue limits	-\$2,607.9
Categorical programs	-\$1,727.9
Subtotal	(-\$4,335.8)
2008-09 Proposal	\$49,310.4
^a Portions of the deferred maintenance, Home-to-School Transportation, and High Priority Schools Grant programs were funded using one-time funds in 2007-08. ^b Funding for the program is reduced due to schools exiting the program.	

As detailed above, the Governor provides \$3.3 billion in workload adjustments to the 2007-08 budget, as revised to reflect AB 4XXX. These adjustments reflect current law assumptions by providing growth and cost-of-living adjustments (COLAs) for K-12 programs that traditionally receive these adjustments; restore ongoing funds for programs funded with one-time dollars in 2007-08; restore Special Session reductions to the 2007-08 budget; and make other technical adjustments. Together these workload changes bring total funding for Proposition 98 from \$50.3 billion in 2007-08 to \$53.6 billion in 2008-09.

As a part of the Budget Balancing Reductions, the Governor then applies a 10.9 percent across-the-board reduction for K-12 programs to the \$53.6 billion workload budget. This equates to \$4.3 billion to K-12 education programs and affects nearly all K-12 education programs, including \$2.6 billion in reductions for revenue limit programs (general purpose funds) and \$1.7 billion for categorical programs.

In implementing the \$4.3 billion in Budget Balancing Reductions, the Governor eliminates the 4.94 percent COLA for revenue limit and categorical programs provided in the workload budget for a savings of \$2.4 billion in 2008-09. In addition, the Governor's budget makes base reductions to revenue limit and categorical programs that total \$1.9 billion in 2008-09.

The Governor proposes to restore \$2.6 billion in foregone COLA and base reductions in 2008-09 to the revenue limit program in the future. In so doing, the Governor proposes to establish a revenue limit "deficit factor" to track these funds until such time as they are restored.

ISSUE 2: Governor’s Budget Proposal – Suspension of Proposition 98

DESCRIPTION: The Governor proposes to spend **\$55.6 billion** in Proposition 98 funding for K-14 education in 2008-09. This level of funding is **\$4.0 billion** below the estimated Proposition 98 minimum guarantee in 2008-09. In order to spend below the required minimum guarantee, the Governor proposes suspension of Proposition 98 in 2008-09. Existing law authorizes the Legislature to suspend Proposition 98 in any given year through enactment of urgency legislation – separate from the budget bill – which requires a two-thirds vote.

BACKGROUND:

Calculation of the Minimum Guarantee. Proposition 98, a constitutional amendment passed by the voters in 1988 and amended by Proposition 111 in 1990, established a minimum funding guarantee for K-12 schools and community colleges. The minimum funding guarantee is calculated by one of three different formulas or “tests”, which are summarized by the Department of Finance below:

PROPOSITION 98 TEST CALCULATIONS

Test 1 – Percent of General Fund Revenues: Test 1 is based on a percentage or share of General Fund tax revenues. Historically, school districts and community colleges (K-14) received approximately 40 percent in the 1986-87 fiscal year. As a result of the recent shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 40.96 percent.

Test 2 – Adjustments Based on Statewide Income: Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local tax dollars as they received in the prior year; adjusted for enrollment growth and growth in per capita personal income.

Test 3 – Adjustment Based on Available Revenues: Test 3 is used in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A low revenue year is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the state budget.

In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a maintenance factor.

Test 1 has only been used once following passage of Proposition 98 in 1988. According to the LAO, Test 2 has been used in 13 of the last 20 years; Test 3 has been used in 6 of the last 20 years.

Suspension Provisions. Proposition 98 includes a provision allowing the state to suspend the minimum funding requirements for K-14 education. In so doing, the Legislature may suspend the minimum guarantee to any funding level consistent with Legislative priorities. In order to suspend, the Legislature must pass an urgency bill - other than the budget bill – requiring a two-thirds vote for passage.

Suspension History: The minimum funding guarantee has only been suspended once – in 2004-05 -- since Proposition 98 was enacted in 1988. Chapter 213, Statutes of 2004 suspended the minimum guarantee and specified that funding would be \$2 billion below the guarantee level as estimated at that time.

Maintenance Factor: In the years following a suspension of the minimum guarantee – or in a Test 3 year -- the Legislature must accelerate Proposition 98 funding until the higher amount that would have been required is fully restored. The amount that needs to be restored is referred to as the maintenance factor and it is defined as the difference between the long- term Test 2 minimum guarantee and level of funding actually appropriated during the suspension year.

Constitutional formulas specify how much maintenance factor repayment is required each year. When General Fund revenues strengthen (grow faster than personal income, i.e. Test 2), these formulas require that approximately 50 percent of additional state General Fund revenues must be dedicated to Proposition 98 until the maintenance factor is restored.

Trailer Bill: The Administration has drafted trailer bill language to invoke the suspension provisions for minimum funding guarantee for K-12 and community colleges pursuant to the California Constitution.

COMMENTS/RECOMMENDATIONS:

Maintenance Factor Level: Suspension to the \$55.6 billion level proposed by the Governor would create an additional **\$4.0 billion** in maintenance factor, which would be repaid in future years. According to the LAO, the state will end the 2007-08 year with \$100 million in maintenance factor from prior years when Proposition 98 levels were based upon Test 3. Together with this amount, suspension would bring total maintenance factor to \$4.1 billion in 2008-09.

General Fund Savings: At the expenditure levels proposed by the Governor, suspension of Proposition 98 would create **\$4.0 billion** in General Fund savings in 2008-09 and additional savings in future years until the maintenance factor is restored.

Suspension Level: The LAO points out that the Legislature has full discretion over the level of K-14 funding when it suspends the Proposition 98 minimum funding guarantee. In order to avoid disagreements that emerged after the minimum guarantee was suspended in 2004, the LAO indicates that the Legislature could pass legislation authorizing suspension without regard to the dollar amount of the suspension.

LAO Alternative Budget Also Requires Suspension: The LAO alternative budget, which will be discussed later in the agenda, also requires suspension of Proposition 98 in 2008-09.

SUGGESTED QUESTION:

- 1. The LAO recommends suspending without reference to the level of funding; does the Administration share this view? It appears from the Administration's current proposed trailer bill language that they are taking a similar approach to the LAO.*

ISSUE 3: Governor’s Budget Proposal – Across-the-Board Reductions

DESCRIPTION: The Governor proposes across-the-board reductions to K-12 programs in 2008-09 as a part of his Budget Balancing Reductions. Specifically, the Governor proposes a 10.9 percent reduction to the workload budget for virtually all Proposition 98 K-12 education programs. These savings result in a \$4.3 billion Proposition 98 reduction to the Governor’s 2008-09 workload budget, including \$2.6 billion in reductions from revenue limit apportionments and \$1.7 billion in reductions from categorical programs. The Governor proposes to establish a deficit factor to restore the \$2.6 billion in revenue limit reductions in future years.

BACKGROUND: In order to close the budget shortfall, the Governor is proposing Budget Balancing Reductions that make 10 percent across-the-board reductions for all state departments and agencies. The Governor’s reductions for K-12 education reflect a 10.9 percent reduction to the workload budget for more than 70 K-12 education programs. According to the Administration, virtually all K-12 programs were included in the across the board reductions; no major K-12 General Fund programs were excluded from the reductions.

In presenting the K-12 Budget Balancing Reductions, the Governor’s Budget Summary states the K-12 budget preserves funding for all core programs, at a slightly lower level compared to 2007-08. In making across-the-board reductions, the Governor’s approach is intended to spread the impact over as many programs as possible “to minimize the impact on each, while preserving as much funding as possible for classroom instruction.”

The Governor’s Budget Balancing Reductions for K-12 Proposition 98 education programs amount to \$4.3 billion in 2008-09, as measured against the Governor’s workload budget. The Governor’s Budget Summary defines workload budget as reflecting “what a given program will cost next year under existing law and policy.” The Governor proposes the following workload adjustments in 2008-09: Cost-of-Living Adjustments (COLAs); enrollment adjustments based upon average daily attendance; local property taxes; and funding for ongoing programs that utilized one-time funds in 2007-08.

The \$4.3 billion reductions to the Governor’s 2008-09 workload budget reflect \$2.6 billion in reductions from revenue limit apportionments and \$1.7 billion in reductions from categorical programs for school districts and county offices of education.

Budget Balancing Reductions <i>Dollars in Millions</i>	COLA	Base Program Reduction	Total
Revenue Limits Apportionments	\$1.8	\$.8	\$2.6
Categorical Programs	\$.6	\$1.1	1.7
TOTAL	\$2.4	\$1.9	\$4.3

K-12 reductions are detailed in the Governor's Budget Balancing Reduction proposals released with the Governor's Budget on January 10. These write-ups provide detailed information about the across-the-board reductions for each program that implement \$2.4 billion in COLA reductions (4.9 percent) and \$1.9 billion in base program reductions for revenue limit apportionments and categorical programs. (These figures assume an enrollment reduction of \$120 million, which reflects an estimated 0.5 percent decrease in K-12 average daily attendance in 2008-09.)

The Governor proposes to restore \$2.6 billion in foregone COLA and base reductions in 2008-09 to the revenue limit program in the future. In so doing, the Governor proposes to establish a revenue limit "deficit factor" to allow \$1.8 billion in foregone COLA and \$800 million in base reductions to be built back into the revenue limit funding base when sufficient funding is available in the future.

The Governor proposes to reduce *federal* special education funding by \$278 million in 2008-09, in addition to the \$358 million reduction in *state* Proposition 98 funds proposed for special education programs. The Governor proposes this federal funds reduction anticipating that the loss of state Proposition 98 funds would create a federal Maintenance of Effort (MOE) problem, threatening \$278 million in federal funds.

In addition to the \$4.3 billion in reductions for K-12 Proposition 98 programs, the Governor proposes \$2.4 million in reductions for four Non-98 General Fund programs. The Governor also proposes across-the-board reductions for the State Department of Education, including the State Special Schools. These issues will be discussed at future Subcommittee hearings.

LAO ANALYSIS: In assessing the impact on local K-12 schools, the LAO believes the effect would vary by program and district, but that generally districts would have to reduce the level of services they provide. It is likely districts would reduce services provided and/or reduce the number of program participants. For mandated services, districts will be required to backfill expenditures with general purpose or any reserve funds.

According to the LAO, the net effect of the Governor's across-the-board reductions varies for individual programs due to differences in growth and COLA adjustments for programs. In addition, revenue limit and special education programs that receive local property tax increases can offset the Governor's General Fund reductions.

Overall, the LAO indicates that the Governor's reductions eliminate the 4.9 percent COLA for K-12 programs and for most programs result in lower funding levels than provided in 2007-08. The LAO has summarized the actual year-to-year reductions for major K-12 education programs in the table below -- without the COLA reductions included in the Governor's workload budget. Overall, K-12 programs experience a 3.6 percent year-to-year reduction overall -- while revenue limit apportionments decline by 2.8 percent and categoricals fall by 5.4 percent.

Major K-12 Education Programs Funded by Proposition 98
(Dollars in Millions)
Revised to reflect ABXXX 4

		Revised 2007-08a	Proposed 2008-09	Change	
				Amount	Percent
Revenue Limits					
General Fund		23,207.4	21,328.5	(1,878.9)	-8.1%
Local property tax		12,549.9	13,413.2	863.3	6.9%
Subtotals		35,757.3	34,741.7	(1,015.6)	-2.8%
Categorical Programs					
Special education	b	3,565.4	3,359.6	(205.8)	-5.8%
K-3 class size reduction	a	1,797.7	1,689.2	(108.4)	-6.0%
Child development and care	a,c	1,721.1	1,626.3	(94.8)	-5.5%
Targeted Instructional Improvement Block Grant	c	1,075.7	1,000.8	(75.0)	-7.0%
Economic Impact Aid	a	969.3	929.7	(39.6)	-4.1%
Adult education		753.7	722.4	(31.3)	-4.2%
Home-to-school transportation	a,c	618.7	588.8	(29.9)	-4.8%
After School Education and Safety Program		547.0	487.4	(59.6)	-10.9%
Regional Occupation Centers and Programs	b	524.6	492.0	(32.6)	-6.2%
School and Library Improvement Block Grant		465.5	433.0	(32.4)	-7.0%
Summer School Programs		420.8	393.5	(27.3)	-6.5%
Instructional Materials Block Grant		419.8	390.5	(29.3)	-7.0%
Deferred Maintenance	c	277.4	262.2	(15.1)	-5.5%
Professional Development Block Grant		274.7	255.6	(19.1)	-7.0%
Grades 7-12 counseling		209.1	195.5	(13.6)	-6.5%
Public School Accountability Act	a,c,d	145.4	107.1	(38.3)	-26.3%
Other	a	1,613.2	1,635.1	21.9	1.4%
Subtotals		15,398.9	14,568.7	(830.28)	-5.4%
Totals		51,156.3	49,310.4	(1,845.9)	-3.6%
Not including one-time funds		50,294.3	49,310.4	(983.9)	-2.0%

a The 2007-08 totals reflect reductions made in ABXXX 4.

b Includes local property tax revenue.

c The 2007-08 totals include funding from one-time sources used for ongoing purposes.

d In addition to the 10.9 percent budget balancing reduction, the High Priority Schools Grant Program is reduced by an additional \$29 million in 2008-09 due to schools exiting the program.

The LAO has provided data identifying the actual year-to-year cuts for the more than 70 individual programs included in the Governor's across-the-board reductions. (See Attachment A.) This data identifies the budget item number and the associated page number of the Governor's Budget Balancing Reductions documents.

LAO RECOMMENDATION: The LAO takes a different approach to Proposition 98 K-12 education funding in 2008-09 and will present their alternative budget to the Subcommittee later in the agenda. On the issue of program reductions, the LAO recommends a more strategic approach and recommends \$180 million in reductions for programs that are duplicative, poorly structured, or technically over-budgeted. Similar to the Governor, the LAO budget does not recommend a COLA for K-12 education programs in 2008-09.

The LAO also recommends that the Legislature reject the Governor's proposal to reduce special education funding. Such a reduction would violate federal MOE requirements, resulting in a dollar-for-dollar loss in federal funding, and places a financial strain on local education agencies. The Governor's proposes a \$358 million reduction in state funding for special education. However, the LAO estimates the MOE shortfall to be \$189 million, which reflects the year-to-year reduction for special education -- adjusted

for growth. The LAO states that it is possible to apply for a federal MOE waiver, given the state's economic circumstances, however the LAO believes that such a waiver is unlikely. The US Department of Education has never approved a state MOE waiver due to financial hardship.

COMMENTS/RECOMMENDATIONS: The Governor's Budget Balancing Reductions include a \$2.4 billion reduction in COLAs and \$1.9 billion in base reductions for K-12 Proposition 98 programs. While the loss of COLA would not allow K-12 programs to obtain new funds necessary to keep pace with inflationary pressures, the program reductions would reduce funding for existing programs by \$1.9 billion below 2007-08 levels. Staff has identified a few issues the Subcommittee may wish to consider in evaluating the effect of the Governor's program reductions in 2008-09.

Across-the-Board versus Targeted Reductions. The Governor's budget proposal does not differentiate between programs and applies an across-the-board cut to virtually all programs. The LAO rejects the Governor's across-the-board approach to program reductions. Instead, the LAO argues for a more limited and strategic approach to reductions focusing on elimination of duplicative, poorly structured, technically over-budgeted and non-core programs.

Trade-Offs Between Revenue Limit and Categorical Reductions. The Governor's proposal includes both revenue limit and categorical programs. All local education agencies receive revenue limits, but categorical programs are allocated for specific needs or purposes. Deficit factors, which have traditionally been created to restore revenue limit reductions in future years, can mitigate the long-term effect of revenue limit reductions.

Protection of Needs-Based Categorical Programs. Many categorical programs are allocated to assist low-income students. Research published as a part of the *Getting Down to Facts* studies, confirmed the strong relationship between income and student achievement. In addition, a 2006 analysis conducted by the LAO found that California provides less direct funding for disadvantaged students and English learners than some other states.

Protection of Prevention & Intervention Programs. Some education programs are focused on providing prevention and early intervention services to students. For example, state funded preschool programs for low-income students would be an example of programs directed to better preparing young children for schools. For middle and high school students, a number of K-12 programs are directed to assisting students with passage of the California High School Exit Exam and providing intensive interventions to students who have not been able to pass the exam. Passage of the CAHSEE is a new requirement for graduation in California.

Programs for Special Populations of Students. A number of categorical programs are focused on improving student outcomes for students who have traditionally under-performed in our schools, such as English learners. Roughly 25 percent of our state's

students are English learners. Other such programs support special education students, foster youth, and youth in alternative school settings.

Protection of Impacted Programs. A few state programs have been running chronic deficiencies in funding, requiring deficated funding rates. Two of these programs are supplemental instruction (summer and before/after school instruction programs) and community day schools.

Federal Maintenance of Effort Issues. Due to federal maintenance of effort requirements, the Governor recognizes a potential loss of federal funds for special education programs as a result of the proposed reduction of state funds. According to the Department of Education, federal vocational education funds could also be threatened by a reduction of state funds. What other federal funds are at risk as a result of the Governor's proposed reductions to state programs?

ISSUE 4: LAO Overview of Proposition 98 & K-12 Funding

DESCRIPTION: The LAO will summarize the Governor's budget proposal for Proposition 98 and K-12 education in 2008-09 and present their overall recommendations. The LAO will also summarize the 2007-08 budget savings enacted as a part of the recent Special Session. In addition, the LAO will provide an update on K-12 school enrollments and per-pupil funding levels for Proposition 98.

Recap of Current Year Reductions

Legislation passed in the recent Special Session applied mid-year reductions to the 2007-08 Proposition 98 budget for K-14 education. These reductions have the effect of reducing the Proposition 98 minimum guarantee by \$507 million in 2007-08. As enacted by AB 4XXX (Chapter 2; Statutes of 2007-08 – Third Extraordinary Session), these changes:

- Capture \$506.8 million in savings for K-12 schools and community college programs in order to achieve current year savings and reduce the Proposition 98 minimum funding guarantee. These savings reflect excess funds available from the current year and several prior years, and provide an alternative to the \$400 million reduction in K-12 and community college apportionments proposed by the Governor.
- Move \$1.1 billion in advance revenue limit apportionment payments for K-12 school districts from July to September in 2008-09 in order to meet the state's cash needs.
- Provide a definition of "continuous appropriation" for purposes of Proposition 49 (The After School Education and Safety Program), specifying that funds are appropriated on a fiscal year basis and are available for encumbrance for one year. This change clarifies a statutory definition and does not alter the program as adopted by the voters.
- Appropriate an additional \$100 million in Proposition 98 Reversion Funds for the Emergency Repair Program (ERP) in 2007-08 pursuant to current law. This brings total funding for ERP to \$200 million in 2007-08 and makes conforming budget changes.

LAO Alternative Proposition 98 Budget

Overall Approach: The LAO's alternative Proposition 98 budget for K-12 schools and community colleges provides a very different outcome than the Governor's budget. Specifically, the LAO alternative would:

- Provide \$57.7 billion for Proposition 98 in 2008-09 -- roughly the same amount of ongoing program support as in 2007-08; and
- Provide \$2 billion more in ongoing Proposition 98 funding than the Governor's plan and result in a suspension of \$800 million, rather than \$4 billion proposed by the Governor.

Major Features: The LAO's alternative Proposition 98 budget for K-14 education takes a different approach to building the 2008-09 budget than the Governor and includes the following major features:

- **Takes A More Selective, Strategic Approach.** The administration proposes across-the-board cuts that reduce virtually all K-14 education programs; the LAO alternative takes a more strategic approach - weighing the merits of various programs and funding certain core programs while capturing savings that are deemed duplicative, poorly structured, or technically over-budgeted.
- **Restores Ongoing Funding for Ongoing Programs.** Similar to the Governor's plan the LAO restores ongoing funding for programs that were funded with one-time funds in 2007-08. In contrast, the LAO plan captures additional, unspent funds from child care and development programs in 2007-08. Some of these savings were captured in Special Session, pursuant to AB 4XXX. Although these additional funds are not needed in 2007-08, they would need to be partially restored in 2008-09 to ensure maintenance of services.
- **Funds Enrollment Growth; Not Cost-of-Living Increases (COLAs).** Similar to the Governor's plan, the LAO would make various growth adjustments for K-12 programs. The Governor's across-the-board reductions subsume elimination of COLAs for K-12 programs. The LAO is more explicit and would not fund a COLA for K-14 programs that typically receive them, which would cost about \$3 billion in 2008-09.
- **Covers Additional Ongoing Cost of K-14 Mandates.** The LAO would provide \$205 million to fund the estimated full-year cost of already approved K-14 mandates. For many years, annual mandate payments have been deferred to future years. While some repayment has occurred, the state currently owes \$567 million in outstanding, prior year mandate claims for K-14 education. The Governor's plan provides \$4 million for ongoing community colleges mandates, but continues to defer funding for K-12 mandates.

Alternative Budget Relies on a Number of K-14 Savings: In order to provide the level of ongoing Proposition 98 funding in 2008-09, the LAO relies on a number of alternative current and budget year savings, including:

- **Additional Current Year Savings.** The LAO had identified more than \$1 billion in existing Proposition 98 savings that will not likely be spent in 2007-08. In the

recent Special Session, the Legislature approved \$507 million in these savings, which were contained in AB 4XXX. The LAO recommends that the Legislature achieve additional savings available in the current year. These funds can be used to reduce spending that counts toward the Proposition 98 minimum guarantee without affecting schools' current operations.

- **Utilization of Settle-Up Funds.** Proposition 98 settle-up obligations are incurred when the minimum guarantee exceeds the funding level of the enacted budget in a given year. When this happens, the state is required to provide more funding to meet the higher funding requirement, i.e. to settle-up. In contrast, when the reverse happens (as in the current year), and the minimum guarantee falls after the budget is enacted, the state has no automatic tool for reducing spending, i.e. to settle-down. The LAO recommends designating some of the Proposition 98 funds appropriated to K-14 education in 2007-08 as payment toward existing settle-up obligations. Such action would avoid midyear cuts to schools. It also would ensure that the state meets the requirements of Proposition 98 for prior years before exceeding the requirement for the current year. Using settle-up in this way has the added benefit of allowing the state to prepay the settle-up payment scheduled for 2008-09 (\$150 million), thereby yielding additional budget year solution.
- **Achieve Various Selective Program Reductions.** The LAO recommends \$178.7 million in various targeted reductions for K-14 programs. These program reductions are recommended to better align funding with actual expenditures; eliminate programs that are poorly structured, duplicative or that have significantly reduced participation; and reduce funding for non-core programs. (This proposal is discussed in more detail in the following agenda item.)

Suspend Quality Education Investment Act (QEIA). The LAO recommends that the Legislature suspend the QEIA program until more additional state funding is available. The LAO further recommends that suspending for one year would allow the Legislature to consider possible program improvements, such as better integration of QEIA with other state and federal programs that focus on low-performing schools and districts. The LAO argues that ramping up such a program in the budget year while at the same time not providing a COLA to existing core programs (revenue limits and major categorical programs, including existing class size reduction and CTE programs) that also provide funding to participating QEIA schools, would be counterproductive. (This proposal is discussed further later in the agenda.)

Alternative Includes Major Categorical Reform Component: To help districts respond to a tight fiscal year, the LAO alternative includes recommendations that would provide districts with greater fiscal flexibility. Specifically, the LAO is recommending consolidation of 43 K-12 categorical programs into one base funding grant and three supplemental block grants. These recommendations will be presented to the Subcommittee at the April 1st hearing.

Enrollment Update

According to Department of Finance (DOF) population estimates, K-12 enrollment is projected to decline in 2008-09 for the fourth consecutive year, dropping by about 0.5 percent for a total enrollment of 6.2 million. K-12 enrollment levels will continue to decline until 2011-12. The recent decline in enrollment reflects the loss of children born to “baby-boomers” who are aging out of the K-12 schools – particularly high schools – and a decline in birth rates beginning in the 1990s.

Student enrollment changes play out quite differently for elementary schools and high schools than reflected by statewide trends overall. Elementary school enrollments slowed in the late 1990s and have experienced a sharp decline since 2001-02, with actual declines since 2003-04. Elementary enrollments are expected to start growing again in 2010-11. High school enrollments grew steadily in the late 1990s through 2004-05. However, beginning in 2005-06, high schools began to slow significantly. High school enrollments will continue to slow, and are projected to actually decline beginning in 2008-09. High school enrollments are not expected to grow again until 2013-14.

Enrollment trends also differ greatly among school districts. Roughly half the school districts in the state (more than 500) are currently experiencing declining enrollment. The remaining districts are growing – some slightly and some rapidly.

Per Pupil Funding Comparisons

The LAO presents a comparison of per pupil funding – all funds – for K-12 education. The LAO reports that per pupil per pupil funding for K-12 education programs has increased nearly \$3,000 over the last ten years. When adjusted for inflation, which allows more meaningful comparisons over time, per pupil funding has remained relatively flat over the last decade. In 2007-08, per pupil funding – all funds – is estimated at \$11, 626 per pupil.

SUGGESTED QUESTION:

- 1. The latest LAO forecast suggests that Test 1 factor could become operative in 2010-11. Test 1 – operative only in 1988-89-- sets minimum funding for Proposition 98 at approximately 40 percent of General Fund revenues. As forecasted, Test 1 would require large funding increases for Proposition 98 beginning 2010-11 and continuing through the next two years of the LAO forecast period. What is the LAO’s latest forecast for onset of Test 1?*

ISSUE 5: Legislative Analyst Proposal: Selected Program Savings & Reductions

DESCRIPTION: The LAO recommends **\$178.7 million** in selective program savings and reductions for K-12 education programs in 2008-09. Of this total, \$167.7 million is for K-12 programs and \$11 million for community colleges programs. The LAO has identified these savings from programs that have been deemed poorly structured, technically over-budgeted, duplicative or non-essential. The Subcommittee will consider the K-12 savings recommended by the LAO; the community college savings proposals will be heard by the Subcommittee at a future higher education hearing.

BACKGROUND:

The LAO recommends various targeted K-12 program reductions totaling \$178.7 million in 2008-09 as a part of its alternative budget proposal. Of this amount, \$167.7 million is tied to reductions for eleven K-12 programs, which are listed below.

Recommended Categorical Program Reductions for 2008-09		
<i>(In Millions)</i>		
Program	Amount^a	Rationale^b
Physical Education Incentive Grants	\$41.80	Poorly structured
Adult education	30	Technical realignment
Economic Impact Aid	25	Technical realignment
Year Round Schools	19	Reduced participation
School safety competitive grants	18.1	Duplicative
Home-to-School Transportation	11	Technical realignment
Targeted Instructional Improvement	10	Technical realignment
High Priority Schools (corrective action)	6	Duplicative
Alternative certification/intern	3	Technical realignment
National Board certification	2	Technical realignment
Paraprofessional teacher training	1.8	Technical realignment
CCC economic development	11	Noncore program
Total K-14 Reductions	\$178.70	
^a Reflects reduction from 2007-08 Budget Act level.		
^b See text for description of various rationales.		

For K-12 programs, the LAO recommends reductions for two general purposes identified in the table above: (1) alignment of funding with expected spending and (2) elimination of programs that are poorly structured, duplicative, or have a significant reduction in participation.

Reductions to Align Program Funding with Expenditures. The LAO recommends the Legislature capture savings from **seven programs** in order to better align funding with anticipated spending levels. The LAO has identified year-end savings for several of these programs.

- Six programs – Economic Impact Aid, Home-to-School Transportation, Targeted Instructional Improvement, Alternative Certification, National Board Certification, and Paraprofessional Teacher Training -- have savings because of declines in student enrollment or program participation.
- For the Adult Education program, the LAO recommends reducing funding by \$30 million to capture excess growth the program has received over the past four years. Current law provides a 2.5 percent annual growth adjustment for the adult education; the LAO recommends changing the statutory rate to reflect the projected increase in the adult population. The LAO asserts that the adult population has been growing below 2.5 percent since the early 1980s when the rate was established. In the 1990s the adult population grew by an average of 1.2 percent; since 2000 the average growth rate has been 1.8 percent. The projected growth rate for 2008-09 is 1.6 percent.

Elimination of Programs that are Poorly Structured, Duplicative, or Have Significantly Reduced Participation. The LAO recommends eliminating or phasing out the following **four programs**.

- **Physical Education Incentive Grant Program.** This grant program was established by the 2006-07 Budget Act. The program provides funds to 1,142 K-8 schools in order to hire physical education teachers. Schools are selected randomly, in perpetuity, based on the size, type, and geographic location of the school. The LAO recommends elimination of this program because it does not distribute funds based on need, lacks accountability, and prioritizes physical education above other core subject areas. Elimination of this program would save **\$41.8 million** in 2008-09.
- **Year Round Schools.** The Year Round Schools (YRS) grant program provides funding for schools that operate on a multi-track year round calendar and enroll more students than the state's facility capacity standards. The YRS program provides a dollar amount per pupil that is adjusted depending on the degree to which a school site is above its capacity.

According to the LAO, over the last several years, the YRS program has experienced a decline in the number of participating school districts. In 2004-05, 16 school districts received funds through the program. Only four districts have requested funds in 2007-08. Due to statewide enrollment declines, some schools no longer qualify for the program. In addition, a majority of the schools that currently receive YRS funding are not expected to be on a multi-track calendar by 2012-13. The settlement of the Williams lawsuit in 2004 also requires the state to eliminate by 2012 the "Concept 6" calendar, a type of multi-track calendar that reduces the number of days of instruction but increases the length of the school day.

The 2007-08 budget provided \$97 million for the YRS program. To address an expected decline in the program, the LAO recommends reducing the program to \$78 million in the budget year, a reduction of **\$19 million** from the 2007-08 level. The LAO further recommends that the state phase out the entire program over a four year period by reducing the program an additional \$19 million each year until 2012-13, when most schools are expected to be off multi-track calendars.

- **School Safety Competitive Grants.** The School Safety Consolidated Competitive Grant program (SSCCG) awards grants of up to \$500,000 for a five-year period for local educational agencies (LEAs) to address school safety and violence prevention issues. This competitive grant is open to LEAs serving grades K-12 for school safety activities involving community collaboration. The LAO reports that the program lacks accountability, reporting, or evaluation requirements. In 2007-08, the state provided appropriated \$18 million for this program, providing 31 grants that served 46 schools.

The state also funds the School Safety Block Grant program, which according to LAO, serves the same purpose as SSCCG—providing grants to LEAs to address school safety and violence prevention issues. In 2007-08, the state appropriated \$101 million for this program, providing apportionments to 950 LEAs—including all 31 of the LEAs receiving SSCCG grants.

The LAO recommends that the Legislature eliminate the SSCCG program due to lack of accountability and flexibility and because the program is duplicative of the larger and more flexible School Safety Block Grant program. Eliminating this program would result in **\$18 million** in Proposition 98 savings in 2008-09.

- **High Priority Schools Corrective Action.** The 2007-08 budget appropriates \$6 million in Proposition 98 funds for state corrective actions for non-Title I High Priority schools working with School Assistance and Intervention Teams (SAITs) or to non-Title I schools subject to state and federal sanctions after participating in the Immediate Intervention/Underperforming Schools Program (II/USP). The 2007-08 budget also appropriates \$71 million in federal funding for Program Improvement, including \$20 million for SAIT corrective actions. The LAO recommends that the Legislature eliminate **\$6 million** in state funding from the High Priority Schools program for corrective actions as the program is under-spending state dollars and federal funds are available for the same purpose.

STAFF COMMENTS/RECOMMENDATIONS:

- **Continuation of Current Year Savings.** Several of the technical program reductions recommended by the LAO reflect savings that were identified as a part of the mid-year reductions process.
- **Growing Consensus for Several Proposals Aligning Funding with Expenditures.** There appears to be growing agreement among the Department of Education and

Department of Finance for a number of the LAO savings proposals. Agreements could be finalized for the Subcommittee at the May 6th hearing.

- **Adult Education.** The LAO recommendation for Adult Education, while identified as a technical realignment, would appear to reduce funding for the program because it corrects funding for prior years, after funding has been appropriated and expended. At the very least, the LAO recommendation to align program growth with growth in the adult population could commence in the budget year.
- **Additional Program Savings Options.** *Staff recommends* that the Subcommittee request the LAO to pursue additional budget savings for K-12 education programs stemming from program duplications, inefficiencies, and technical over-budgeting. The LAO could report back to the Subcommittee at the April 29th hearing. Such savings could be used to offset budget reductions for K-12 education and give the Subcommittee additional budget savings options to consider.

ISSUE 6: Legislative Analyst Proposal: Suspension of Quality Education Investment Act (QEIA)

DESCRIPTION: The LAO recommends suspension of the Quality Education Investment Act in 2008-09 for a General Fund savings of **\$450 million**.

BACKGROUND: The Quality Education Investment Act (QEIA) was established pursuant to SB 1133 (Torlakson), Chapter 751, Statutes of 2006 to implement a settlement agreement between the Governor and education groups involving the level of Proposition 98 funds appropriated in 2004-05 when the minimum guarantee was suspended.

Chapter 71 appropriates \$2.7 billion in one-time General Fund dollars over a seven year period beginning in 2007-08 for QEIA. General Funds for QEIA are appropriated annually on top of funds appropriated for Proposition 98. These are statutory appropriations, which are not included in the annual budget act.

A total of \$300 million is appropriated for the first year of the program in 2007-08 – including \$268 million for K-12 education and \$32 million for community colleges. The Legislation appropriates full funding of \$450 million per year beginning in 2008-09. Of this amount, \$402 million is appropriated to K-12 education, primarily for class size reduction in grades 4-12 program, and \$48 million is appropriated to the community colleges, primarily for expanding Career Technical Education (CTE).

An estimated 1,455 schools ranked in decile 1 or 2 on the 2005 Academic Performance Index (API) with a valid API are eligible for funding. Of this number, approximately 488 schools have been selected to participate in the program.

Funding is allocated to selected schools on the basis of \$500 per pupil for grades kindergarten through third, \$900 per pupil in grades fourth through eighth, and \$1,000 per pupil for grades ninth through twelfth.

LAO PROPOSAL: The LAO recommends the Legislature suspend the program until more additional state funding is available. The LAO further recommends that suspending for one year would allow the Legislature to consider possible program improvements, such as better integration of QEIA with other state and federal programs that focus on low-performing schools and districts.

The LAO argues that ramping up such a program in the budget year while at the same time not providing a COLA to existing core programs (revenue limits and major categorical programs, including existing class size reduction and CTE programs) that also provide funding to participating QEIA schools, would be counterproductive.

According to the LAO, while little information is available on how much the 488 K-12 schools participating in QEIA are spending in 2007-08, virtually none of the community college CTE funding has been awarded to date.

ATTACHMENT A.

**Governor's Budget Balancing Reductions –
Summary of Year-to-Year Changes**

Program Name	Footnote	Item No.	BBR Pg #	2007-08 Programmatic Funding	0809 Total	Year to Year change amount	Year to Year change Percent
K-12 Revenue Limits	a		636	35,097,373	34,007,669	-1,089,704	-3.1%
COE Revenue Limits	a		*	670,057	698,473	28,416	4.2%
Special Education	a	6110-161-0001	638	3,565,425	3,359,597	-205,828	-5.8%
Class Size Reduction (K-3)		6110-234-0001	688	1,829,662	1,689,217	-140,445	-7.7%
Child Care & Development		6110-196-0001	640	1,761,366	1,626,332	-135,034	-7.7%
Targeted Instructional Improvement Grant (TIIG)	b, c	6110-246-0001	755	1,075,731	1,000,751	-74,980	-7.0%
Economic Impact Aid		6110-128-0001	692	994,279	929,718	-64,561	-6.5%
Adult Education	b	6110-156-0001	708	753,717	722,396	-31,321	-4.2%
Home to School Transportation	b, c	6110-111-0001	736	629,714	588,826	-40,888	-6.5%
Afterschool Education and Safety Program		6110-649-0001	642	546,981	487,355	-59,626	-10.9%
ROC/Ps	a, b	6110-105-0001	704	524,556	491,963	-32,593	-6.2%
School and Library Improvement Block Grant		6110-247-0001	734	465,451	433,009	-32,442	-7.0%
Supplemental Instruction	b	6110-104-0001	648	420,789	393,466	-27,323	-6.5%
Instructional Materials Program		6110-189-0001	657	419,774	390,515	-29,259	-7.0%
Deferred Maintenance	c	6110-188-0001	744	277,382	262,238	-15,144	-5.5%
Professional Development Block Grant		6110-245-0001	661	274,718	255,570	-19,148	-7.0%
Supplemental School Counseling Program		6110-108-0001	732	209,060	195,486	-13,574	-6.5%
Charter School Categorical Block Grant	b	6110-211-0001	722	151,474	186,183	34,709	22.9%
School Accountability (HP Schools Grant/Sanctions)	c	6110-123-0001	682	149,209	107,112	-42,097	-28.2%
Teacher Credentialing Block Grant (BTSA)		6110-244-0001	665	125,346	117,207	-8,139	-6.5%
Child Nutrition		6110-203-0001	644	123,281	116,211	-7,070	-5.7%
Arts and Music Block Grant		6110-265-0001	659	109,757	102,630	-7,127	-6.5%
9th Grade Class Size Reduction		6110-232-0001	686	106,621	99,239	-7,382	-6.9%
School Safety Block Grant	b	6110-228-0001	700	100,553	93,545	-7,008	-7.0%
Pupil Retention Block Grant		6110-243-0001	730	97,461	90,668	-6,793	-7.0%
Year Round Schools		6110-224-0001	753	97,308	90,526	-6,782	-7.0%
Student Assessment		6110-113-0001	684	85,123	76,095	-9,028	-10.6%
CAHSEE Supplemental Instruction		6110-204-0001	650	72,752	68,028	-4,724	-6.5%
English Language Acquisition		6110-125-0001	690	63,600	59,168	-4,432	-7.0%
CalSAFE		6110-198-0001	652	58,395	54,325	-4,070	-7.0%
Mathematics and Reading Professional Development		6110-137-0001	*	56,728	50,548	-6,180	-10.9%
Gifted and Talented (GATE)	b	6110-124-0001	736	55,634	51,756	-3,878	-7.0%
Community Day Schools	b	6110-190-0001	718	51,999	48,622	-3,377	-6.5%
Community Based English Tutoring (CBET) Program		6110-101-0001	694	50,000	44,553	-5,447	-10.9%

PE Teacher Incentive Grants		6110-260-0001	680	41,812	39,098	-2,714	-6.5%
Alternative Certification Program		6360-101-0001	NA	31,723	28,267	-3,456	-10.9%
Peer Assistance /Review		6110-193-0001	669	30,101	28,002	-2,099	-7.0%
Partnership Academies		6110-166-0001	712	23,490	20,931	-2,559	-10.9%
Foster Youth Programs		6110-119-0001	736	18,992	17,668	-1,324	-7.0%
Apprentice Program	b	6110-103-0001	706	18,990	17,757	-1,233	-6.5%
School Safety Competitive Grant		6110-248-0001	702	18,050	16,792	-1,258	-7.0%
Charter School Facility Grant Program	c	6110-220-0001	746	18,000	16,039	-1,961	-10.9%
Adults in Correctional Facilities		6110-158-0001	710	17,771	16,966	-805	-4.5%
Education Technology		6110-181-0001	724	17,705	16,471	-1,234	-7.0%
Early Mental Health Initiative			NA	15,000	13,366	-1,634	-10.9%
Certificated Staff Mentoring		6110-267-0001	681	11,707	10,947	-760	-6.5%
COE Fiscal Oversight (FCMAT)		6110-107-0001	748	11,680	10,922	-758	-6.5%
K-12 High Speed Network		6110-182-0001	726	10,404	9,270	-1,134	-10.9%
County Office of Education Williams Audits		6110-266-0001	720	10,000	8,911	-1,089	-10.9%
Paraprofessional Teacher Program		6360-101-0001	NA	7,850	6,995	-855	-10.9%
Specialized Secondary Program Grant		6110-122-0001	716	6,155	5,727	-428	-7.0%
National Board Certifications		6110-195-0001	673	6,000	5,346	-654	-10.9%
Agricultural Vocational Education		6110-167-0001	714	5,201	4,838	-363	-7.0%
Administrator Training		6110-144-0001	663	5,000	4,455	-545	-10.9%
California School Information Services (CSIS)		6110-140-0001	*	4,594	4,093	-501	-10.9%
Child Oral Health Assessments		6110-268-0001	655	4,400	3,921	-479	-10.9%
District loans		6110-636-638		3,535	3,535	0	0.0%
BTSA Regional Infrastructure		6110-244-0001	665	3,325	3,109	-216	-6.5%
Bilingual Teacher Training		6110-193-0001	667	2,149	2,000	-149	-6.9%
Deferred Maintenance		6350-610-001		1,821	910	-911	-50.0%
Advanced Placement		6110-130-0001	698	1,793	1,668	-125	-7.0%
International Baccalaureate		6110-240-0001	696	1,280	1,190	-90	-7.0%
Child Nutrition Startup Grants		6110-201-0001	654	1,017	906	-111	-10.9%
American Indian Early Childhood Education		6110-150-0001	740	662	619	-43	-6.5%
Student Friendly Services Program		6110-140-0001	750	500	446	-54	-10.8%
Reader Services for the Blind		6110-193-0001	671	404	376	-28	-7.0%
Teacher Assignment Monitoring		6360-101-0001	NA	308	274	-34	-10.9%
Civics Education		6110-208-0001	751	250	223	-27	-10.8%
Teacher Dismissal Apportionment		6110-209-0001	674	48	45	-3	-6.3%
Mandates		6110-295-0001	NA	38	38	0	0.0%
California Association of Student Councils		6110-242-0001	757	33	29	-4	-12.1%
Total, Proposition 98 Programmatic K-12	c			51,423,064	49,311,148	-2,111,916	-4.1%

a Includes local property tax revenue

b Includes deferral amount

c Includes one-time funds for ongoing program.

CCC Apportionments	a,b	6870-101-0001		5,438,608	5,505,255	66,647	1.2%
CCC Categoricals		6870-101-0001		706,542	655,094	-51,448	-7.3%
CCC Lease Purchase		6870-103-0001		58,328	58,328	0	0.0%
CCC Mandates		6870-295-0001		4,004	4,004	0	0.0%
Total, Proposition 98 CCC				6,207,482	6,222,681	15,199	0.2%
Other agencies		various		118,508	105,957	-12,551	-10.6%
Total, Proposition 98 Programs				57,749,054	55,639,786	-2,109,268	-3.7%

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

Tuesday, April 1, 2008
Upon Adjournment of Session
(and Upon Call of the Chair)
Room 113, State Capitol

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ISSUE 1: LAO Proposal: Categorical Funding Reform

DESCRIPTION: The LAO believes that reform of the categorical system would have multiple benefits, including greater transparency, fairness, flexibility, and performance-oriented accountability. To this end, the Legislative Analyst's Office recommends consolidating **\$42 billion** and 43 individual K-12 funding streams into one base funding grant and three categorical block grants. The LAO will present their recommendations to the Subcommittee.

BACKGROUND: The LAO has proposed categorical consolidation since the early 1990's. In their 2008-09 Analysis of the Budget Bill, the LAO again proposes the Legislature consolidate several categorical programs in an effort to increase local flexibility. The LAO has identified the following benefits of categorical reform for LEAs:

- ***Flexibility to Use Funds to Meet Local Priorities.*** Since student and school needs can vary substantially among districts, funding should allow schools and districts the latitude to identify and resolve the most pressing local problems.
- ***Ability to Find Local Solutions to Problems.*** Allowing teachers and administrators to develop solutions to local issues helps build school-site problem-solving capacity and a shared commitment to the improvement process.
- ***Increased Focus on Outcomes.*** The push for greater student success requires adaptation and change at the local level. Increasing local flexibility helps educators to feel safe about trying new things rather than focusing on complying with state rules and regulations.
- ***Increased Understanding of Available Resources and Options.*** Increasing the transparency of the finance system reduces confusion among parents, teachers, and administrators about the level of resources provided by the state and how those funds may be used.

Categorical Programs and Funding: The 2007-08 Budget Act appropriates \$14.9 billion in General Fund support for 62 K-12 categorical programs. These programs fund a broad array of program activities. Among the largest are Special Education (\$3.2 billion); K-3 Class Size Reduction; (\$1.8 billion); Child Development (\$1.8 billion); and Economic Impact Aid (\$994 million).

Many programs, however, are relatively small—30 of the 62 programs received an appropriation of less than \$50 million in the current year. Many of these programs also are comprised of several separate subprograms. The child development program, for example, has eight individual subprograms that serve different subgroups of infants and toddlers using different payment mechanisms. Similarly, the special education program is comprised of more than 15 individual subprograms.

Some Categorical Programs Needed: The LAO notes that some categorical funding, however, may serve legitimate state purposes. In general, categorical funding streams represent a tool used by the state to correct negative local incentives—forces that encourage districts and schools to engage in behavior that is not in the best interests of students. District incentive problems include:

- **Weak Subgroup Accountability.** Local accountability for outcomes may not be sufficiently strong for some subgroups of students. Accountability for foster children, for instance, is weak because (1) there are relatively few foster children in each school and (2) some groups of foster children change placements frequently.
- **Strong District Spending Incentives.** District behavior may be skewed by local factors that favor spending for specific inputs. Categorical programs, for instance, shield state funding from the employee union bargaining process.
- **Lack of Uniformity.** Some state policies require uniform application across the state as a critical condition for program success. The most important example of this is statewide testing, which requires all students in a grade (or subject) take the same test.
- **Cost Shifting.** Local incentives exist for schools and other local governments to shift costs to each other. For instance, failure of county mental health agencies to provide mental health services to students may result in school costs due to a greater number of “problem” students. Similarly, failure to address student academic and social needs can result in higher dropout rates, with the accompanying costs for local government in the form of higher crime and welfare costs.

Overview of LAO Proposal: The LAO recommends the Legislature streamline the K-12 fiscal system by consolidating a large number of categorical programs into one base funding grant and three categorical block grants. Together, these programs total **\$42.3 billion**, reflecting approximately 80 percent of all Proposition 98 K-12 funds.

Figure 1	
LAO Proposed K-12 Finance Reform	
Proposed New Grants	
<i>(In Billions)</i>	
	2007-08 Amounts
Base	\$34.8
Special education	3.2
Opportunity to learn	3.1
Instructional improvement	1.2
Total	\$42.3

Under the LAO proposal, districts would continue to receive the same amount as in the past in the first year. In the future, grants would be equalized based on the formulas contained in each block grant. Also, the underlying requirements of the programs that are merged into the block grants would be eliminated as part of the reform.

Base Funding Grant. The “base” grant is largest of the LAO proposed grants providing almost **\$35 billion**. The new grant would include **existing base revenue apportionments** and **seven other individual funding programs**. The LAO also includes class size reduction (CSR) funds in the base grant. Rather than spread the CSR funds across all grades, however, the LAO recommends the Legislature adopt specific *grade-span* base grants that reflect the higher funding levels for K-3 and 9th grade CSR.

LAO Proposed K-12 Base Grant	
Current Program	2007 - 08 Amounts (In Billions)
Base revenue limits	\$31.4
K-3 Class Size Reduction	1.8
SB 813 incentives	1.4
Meals for Needy Pupils	0.2
9 th Grade Class Size Reduction	0.1
Minimum teacher salary	0.1
Unemployment insurance ¹	-
Public Employees' Retirement System (PERS) reduction	-0.2
TOTAL	\$34.8
¹ Less than \$100 million	

Consolidated Special Education Grant. This grant would merge funding from **seven programs** into the existing per pupil funding formula for special education, creating a **\$3.2 billion** state grant for special education. In identifying the programs to consolidate, the LAO focused on programs that distribute funds to most of the SELPAs or support core special education activities.

While no additional accountability provisions would be recommended, the LAO does recommend the Legislature require the California Department of Education (CDE) to submit an annual performance report on the progress of special education students using data from Standardized Testing and Reporting (STAR) and California High School Exit Examination (CAHSEE).

LAO Consolidated Special Education Grant	
Current Program	2007-08 Amounts (In Millions)
Attendance-based apportionments	\$3,021.5
SELPA* base funding	88.1
Workability	39.6
Vocational Education	5.3
Small SELPA* base funding	2.6
Personnel development	2.5
Low incidence services	1.7
Necessary small SELPA*	0.2
TOTAL	\$3,165.5
*Special Education Local Plan Area	

Opportunity to Learn (OTL) Grant. This grant would merge **11 programs** aimed at students who need additional services to succeed in school. This new grant would provide **\$3.1 billion** in funds to districts and is split into two parts: an academic support grant that would provide compensatory instructional services to disadvantaged students and a student support grant that would fund other types of services or activities that promote learning in schools.

The LAO suggests districts be given flexibility to move money from one grant to the other and also suggest continuing the requirements that districts provide counseling and remedial instruction to students who fail or are likely to fail CAHSEE. Further, the LAO suggests the state monitor district performance under this grant through STAR scoring, graduation rates, and completion of "A through G" courses or an employer-certified vocational certificate. They also recommend the CDE be required to submit an annual performance report on the progress of disadvantaged students using the program data discussed above.

LAO Opportunity to Learn Grant	
<i>Academic Support</i>	
Current Programs	2007-08 Amounts (In Millions)
Targeted Instructional Improvement	\$1,075.7
Economic Impact Aid	994.3
Supplemental Instruction	420.8
CAHSEE Supplemental Instruction	72.8
English Learner Assistance	63.6
Advanced Placement Fee Waivers	3.1
<i>Subtotal</i>	<i>(\$2,630.3)</i>
<i>Student Support</i>	
Grade 7-12 Counseling	\$209.1
School Safety	100.6
Pupil retention	97.5
Community English Tutoring	50.0
AVID (non-98)	9.0
<i>Subtotal</i>	<i>(\$457.2)</i>
TOTAL	\$3,087.5

Expanded School Improvement Grant. Under this last grant, the LAO proposes to merge the funding currently provided by **16 programs** to provide **\$1.2 billion** for the new grant. The new grant is comprised of two parts, one targeted at instructional improvement and the second focused on staff development. Consistent with the purposes of the other grants, this grant would free districts from the specifics of the existing grants but would still require districts to use the funds to improve student achievement through better instructional approaches and training.

The LAO proposes distributing funding for the two grants based on average daily attendance and allowing districts to transfer funds between the grants. They would not provide additional accountability as they feel that school accountability under existing state and federal law is sufficient.

LAO School Improvement Grant	
<i>Instructional Improvement</i>	
Current Programs	2007-08 Amounts (In Millions)
School & Library Improvement Grant	\$465.5
Arts and Music Grant	109.8
Gifted and Talented	51.3
Partnership Academies	23.5
Education Technology	17.7
Specialized Secondary Program	6.2
Civic Education	0.3
<i>Subtotal</i>	<i>(\$674.3)</i>
<i>Staff Development</i>	
Professional Development	\$274.7
Teacher Credentialing Block Grant	128.7
Mathematics and Reading Professional Development Program	56.7
Staff Development	32.7
Alternative Certification (Intern)	31.7
Certificated Staff Mentoring	11.7
Paraprofessional Teacher Training	7.9
Teacher Incentives National Board	6.0
Principal Training	5.0
<i>Subtotal</i>	<i>(\$555.1)</i>
TOTAL	\$1,229.4

RELATED LEGISLATION:

SB 1755 (Romero) – Categorical Reform. States intent of the Legislature to enact legislation that would streamline the funding for categorical education programs for kindergarten and grades 1 to 12, inclusive.

AB 599 (Mullin) – Revenue Limit Consolidation. Consolidates revenue limit apportionments with four revenue limit add-on programs.

AB 2831 (Fuller) – Categorical Reform. Authorizes a school district or county office of education to transfer any and all of the unencumbered available balance of state categorical program funding to the general fund of that district or office for encumbrance and expenditure, for any appropriate purpose determined by its governing body, except for the expansion of existing programs or for increasing the salaries of that agency's personnel for the 2008-09 and 2009-10 fiscal years. This provision would prohibit the transfer of the unencumbered available balance of the capital outlay funds, federal funds, proceeds of bonds issued by that agency, or sinking funds for the repayment of funds borrowed through the issuance of bonds by that agency. This provision would become inoperative on July 2, 2013, and would be repealed on January 1, 2014.

AB 2933 (Committee on Education) – Categorical Reform. Requires the Superintendent of Public Instruction to provide an analysis to the Legislature based on information for each state and federal categorical program annually compiled and updated by the department pursuant to existing law. The bill would require this analysis to be submitted to the Legislature by January 15, 2010, and to include, but not necessarily be limited to, a summary by program and object of the expenditure of funds provided to school districts through each of the block grants created, under a prescribed statute, for the funding of categorical education programs.

ISSUE 2: Local Funding Flexibility: Governor’s Proposal To Expand Local Transfer Authority per Budget Control Section 12.40

DESCRIPTION: The Governor proposes to expand the authority of local educational agencies (LEAs) to transfer funds among a selected list of categorical programs. Budget Control Section 12.40 currently allows LEAs to transfer up to 10 percent of the funds allocated for a list of 12 programs into other programs on the list, as long as the total increase to any one program does not exceed 15 percent of the base of the receiving program. The Governor proposes to allow LEAs to move up to 50 percent of the funding for these categoricals into other programs on the list, as long as the total increase does not exceed 55 percent of the funding for any program.

BACKGROUND

Control Section 12.40 of the budget gives local educational agencies – school districts and county offices of education -- additional budget flexibility by allowing them to shift limited amounts of funding among categorical programs. This control section was added to the 1999-2000 budget to retain some of the transfer authority among categorical programs included in a budget “mega-item” for categorical appropriations that was eliminated that year.

The original control section allowed transfer of up to 20 percent of funding out of any program and transfer of up to 25 percent into any other program listed in the Control Section. This transfer authority was reduced to up to 10 percent “out” and 15 percent “into” beginning in 2003-04 as the result of the significant, limited-term budget flexibility options authorized for LEAs that year. (Other flexibility options are in the following agenda item.) Transfer authority has remained at 2003-04 levels ever since.

However, while the 2003-04 Budget Act reduced transfer authority levels for LEAs, subsequent legislation contained in AB 1266 (Chapter 573; Statutes of 2003) amended the budget to allow LEAS to transfer up to the amounts they transferred in 2002-03 per the Control Section 12.40. Reportedly, AB 1266 also gave LEAs the ability to mix transfers more than allowed by the Control Section. The authority provided by AB 1266 was in effect for the 2003-04 fiscal year only, reflecting legislative intent, and was not continued in Control Section 12.40 in 2004-05.

Control Section 12.40, as first enacted, provided transfer authority for 25 categorical programs that were previously contained in the budget mega-item; the 2007-08 budget covers just 12 programs. The list of programs covered by the control section has been reduced in recent years, to reflect programs that were eliminated or consolidated into other programs. For example, programs consolidated into block grants pursuant to AB 825 (Chapter 871; Statutes of 2004) were removed from the list of covered programs.

Additionally, the 2006-07 Budget Act removed two programs -- Economic Impact Aid and Foster Youth Services – from the list of programs LEAs could transfer funds “out” of, but retained the ability of LEAs to transfer other categorical programs “into” these programs.

Governor’s Budget Proposal: The Governor proposes to increase the transfer authority in Control Section 12.40 from up to 10 percent out to up to 50 percent out; and from up to 15 percent into to 55 percent into covered programs. These changes are proposed as a means of providing LEAs with greater funding flexibility to offset the Governor’s proposed budget reductions. The Governor’s 2008-09 budget proposes no changes to the number of programs covered by Control Section 12.40, which includes the following 12 programs covered in the 2007-08 budget. Together these programs total nearly \$2.1 billion.

Programs Covered by Control Section 12.40	Program Appropriation -- 2008-09 Proposed
Economic Impact Aid*	\$1,043,396,000
Home-to-School Transportation	660,882,000
Child Nutrition	130,420,000
Year-Round School Grants	101,595,000
Gifted and Talented Education	58,084,000
Staff Development	34,092,000
Foster Youth Services*	19,828,000
Educational Technology Programs	18,485,000
Specialized Secondary Programs	6,427,000
Agricultural Career Tech. Education Incentive Program	5,430,000
American Indian Education Centers	695,000
Teacher Dismissal	50,000
<i>*Funds can be transferred into, not out of these programs.</i>	

CDE Transfer Report: As a condition of receiving the funds provided for the programs covered by Control Section 12.40, LEAs must report annually (by October 1st) to the California Department of Education (CDE) on the amounts they shift between programs. CDE is required to report this information by February 1st of each year to the Joint Legislative Budget Committee, the chair and vice-chair of the fiscal committees of each house of the Legislature, and the Department of Finance.

The most recent transfer report available from CDE is for 2004-05, when there were a larger number of programs in the control section. Several of these programs are no longer listed in the control section because they were rolled into the block grants as a part of AB 825 in 2004.

CDE has provided some raw data on Control Section 12.40 transfers for 2005-06, but has not yet summarized this information to reflect net transfers out and into programs at the state level. CDE is working to finalize this information. CDE is also currently preparing the 2006-07 transfer required by the Control Section, which was due February 1, 2008.

COMMENTS:

Correction to Amount Proposed. The Governor's proposed budget bill increases the transfer authority in Control Section 12.40 to up to 60 percent out and up to 65 percent into covered programs. The Department of Finance reports that this is an error and the Governor's official proposal requests an increase of up to 50 percent out and up to 55 percent into covered programs.

Timeframe for Control Section Transfer Uncertain. The Governor's proposal is intended to offset proposed reductions to the K-12 education budget in 2008-09. It is unclear if changes to the Control Section are intended to be temporary (one-year only, limited-term) or permanent.

Programs in Control Section Subject to Governor's Reductions. The Governor has proposed across-the-board reductions for all 12 programs covered by Control Section 12.40. Access to transfer authority could be useful for mitigating reductions for some of these programs.

CDE Reports Overdue. Staff recommends that the Subcommittee urge CDE to provide the annual report describing categorical transfers by LEAs authorized by Control Section 12.40. This information would be helpful for the Subcommittee in evaluating existing transfer authority and the Governor's expansion proposal.

Utilization Levels Unclear – Fewer Programs; Less Funding Available for Transfer. While LEAs appear to support transfer flexibility provided by Control Section 12.40, it is not clear how LEAs utilize these provisions. The number of programs covered has declined from 25 to 12 since the Control Section was created. The most recent CDE report available, which reflects transfers for 2004-05, indicates that overall, most of the transfers involve two large categorical programs. Specifically, Economic Impact Aid (EIA) accounted for most of the funding transferred out of programs. Home-to-School transportation was the program that received the greatest amount of transfers into programs. However, EIA is now protected from transfers "out", which reduces the total amount available for transfer.

Transfer Authority Obscures Alignment of Funding with Programs Needs. Under the Governor's proposal, LEAs would have the authority to move up to 50 percent of funds out of some programs and increase funding into other programs by up to 55 percent. If transfers of this magnitude are available, it may be the case that programs can be reduced or eliminated and savings can be captured by the state. If so, state savings could mitigate the level of statewide program reductions that may be required for K-12 schools. For example, the LAO has recommended phasing out the Year Round Schools programs, starting with savings of \$19 million a year in 2008-09. Maybe this is a better approach than allowing LEAs to shift funds for this program to other programs.

Is Expansion of the Control Section Useful? The Governor's proposal would provide fairly extensive authority for fund transfers for a small number of programs. Historically,

most funds were shifted from EIA to Home-to-School Transportation. With the exclusion of EIA, most funding available for transfer would come from Home-to-School Transportation, Child Nutrition, Gifted and Talented Education, Year Round Education, and Staff Development. Home-to-School Transportation has been a big user of Control Section transfers due to excess costs of running these programs at the local level. According to CDE, there are significant restrictions for LEAs in reducing state child nutrition funds due to federal maintenance of effort requirements. Also, funds can only be transferred to other programs covered by the Control Section. Maybe less authority among a larger group of programs would provide more relief to LEAs in mitigating program reductions. There may be more appropriate and effective flexibility options for providing more relief to LEAs.

Other Budget Control Sections – Supplemental Instruction Flexibility. Budget Control Section 12.65 was added to the 2002-03 budget to allow the State Controller, upon request of the Superintendent of Public Instruction and approval of the Director of Finance, to transfer unencumbered funds among four Supplemental Instruction programs (before, after, and summer school programs). This Control Section was added as a part of SB 18X (Chapter 4; Statutes of 2003). Control Section 12.65 provides flexibility for state appropriations. The intent of this section is to ensure that supplemental instruction and remedial programs are funded at statutorily authorized levels.

ISSUE 3: Local Funding Flexibility: Other Options

DESCRIPTION: The Legislature authorized a number of different funding flexibility options for local educational agencies (LEAs) in 2003 to mitigate significant budget reductions to the 2002-03 and 2003-04 budgets. These options were offered in order to help LEAs maintain programs in the face of budget cutbacks by giving them some flexibility to direct funds to where they were most needed. Most of these options were authorized by SB 18X (Chapter 4; Statutes of 2003) -- enacted in March 2003 as a part of the mid-year cuts to the 2002-03 budget -- and by AB 1754 (Chapter 227; Statutes of 2003) -- the 2003-04 education budget trailer bill enacted in August 2003. These flexibility options are described below.

Reserve for Fiscal Uncertainty

Current Law: Existing law requires school districts to maintain specific minimum funding reserves for economic uncertainty, as previously adopted by the State Board of Education. Reserve requirements range from one percent to five percent of district general purpose funding, depending on district size. (One percent for the largest; five percent for smallest districts.)

Flexibility Provided: SB 18X reduced the standards for minimum reserves established for economic uncertainty for school districts to one-half of their required levels for the 2002-03 fiscal year. Freed up funds could be used for any purposes determined by the school districts governing board. SB 18X included legislative intent language that school districts use the flexibility provided to address mid-year budget reductions for the Peer Assistance and Review Program; Supplemental Instruction and Remedial Programs; and one-time funding for the Instructional Materials Realignment Program. Additional intent language stated that LEAs make every effort to maintain prudent expenditure plans that ensure fiscal solvency in 2002-03 and subsequent fiscal years.

AB 1754 extended this reserve authority for two more years. Specifically, AB 1754 reduced minimum reserve requirements for economic uncertainty to one-half of the percentage for the reserve minimums adopted by the State Board of Education as of May 1, 2003. Reserves were lowered for both the 2003-04 and 2004-05 fiscal years and restored to the percentages adopted by the State Board of Education on May 1, 2003 in 2005-06.

Flexibility Authority: SB 18X (Chapter 4; Statutes of 2003); AB 1754 (Chapter 227; Statutes of 2003).

Comments: The Department of Education has a number of concerns about the risks associated with reducing LEA minimum reserves for economic uncertainty, given the state's current budget shortfall and the Governor's proposed reductions for K-12 education. Most importantly, CDE points out that reserves are necessary for managing fiscal uncertainty and reducing the reserve requirements could increase the risk of fiscal

insolvency, requiring state emergency funding and interventions. Fortunately, CDE notes that very few school districts utilized the option of lowering their minimum reserves for economic uncertainty, especially since minimum reserves needed to be restored in 2005-06.

Access to Restricted Fund Balances

Current Law: Existing laws generally prohibit LEAs from transferring funds from restricted program accounts to other general or categorical program purposes, without specific budget or statutory authority.

Flexibility Provided: In order to mitigate budget reductions in 2002-03 and 2003-04, LEAs were given specific authority to access the account balances for restricted program funds – categorical programs -- and use them for general purposes. However, the rules governing local use of these restricted account balances were different in each of these years.

In 2002-03, SB 18X gave LEAs access to up to 50 percent of its restricted General Fund accounts, as of July, 1, 2002, for the 2002-03 fiscal year. LEAs were prohibited from accessing reserves committed for capital outlay, bond funds, sinking funds, and federal funds. LEAs were not prohibited from accessing reserves from any categorical programs.

LEAs were also allowed to access up to 50 percent of their reserves for economic uncertainty. However, LEAs access to reserves for economic uncertainty and restricted account balances could not exceed the level of LEA budget reductions in 2002-03.

SB 18X included legislative intent that access to reserves for economic uncertainty and restricted account balances be used to address budget reductions for the Peer Assistance and Review Program; Supplemental Instruction and Remedial Programs; Instructional Materials Funds.

AB 1754 continued LEA access to restricted account balances for the 2003-04 fiscal year; however, the rules governing this access changes. Specifically, LEAs were allowed to use 100 percent of their general fund and cafeteria restricted balances as of June 30, 2003, to offset revenue limit reductions LEAs were not allowed to access capital outlay funds, sinking funds or federal funds, as in SB 18X.

AB 1754 prohibited LEAs from accessing account balances from the following five categorical programs:

- Public Schools Accountability Act (II/USP & HP)
- Economic Impact Aid
- Targeted Instructional Improvement Grants
- Instructional Materials
- Special Education

In addition, LEAs could not access funds available at the end of the year due to program deferrals and funds required to maintain federal maintenance of effort requirements. If LEAs accessed funds available for reimbursement of mandate claims; they could not submit a claim for subsequent reimbursement.

AB 1754 stated that LEAs may use freed up funds from restricted account balances, reserves for economic uncertainty and routine maintenance authorized in 2003-04, to backfill their share of the revenue limit reduction in 2003-04. Revenue limits were reduced by 1.2 percent or \$350 million in 2003-04.

A memo from the Superintendent of Public Instruction (SPI) to LEAs in November 2003 stated that these freed up funds could be used to mitigate the impact of 2003-04 budget reductions, not just revenue limit reductions. That same memo defined available restricted balances as total restricted accounts available on June 30, 2003, minus any accounts excluded by AB 1754 and those balances that LEAs have determined would be better spent in the original program based upon local priorities.

AB 1754 requires LEAs that elect to use restricted account balances to report the programs and amounts to the SPI, in a manner determined by the SPI. In turn, the SPI is required to report this information to the Joint Legislative Budget Committee in a timely manner. The California Department of Education (CDE) recently provided transfer data contained in this report; a copy of the full report is forthcoming.

Flexibility Authority: SB 18X (Chapter 4; Statutes of 2003); AB 1754 (Chapter 227; Statutes of 2003).

Comments: Both SB 18X and AB 1754 contained language attempting to tie LEA access to restricted account balances to the level of LEA budget reductions. However, these provisions were not clearly defined for implementation and enforcement purposes. CDE did gather data on AB 1754 transfers in 2003-04. Statewide, LEAs transferred \$223 million into general purpose accounts. The largest account transfers out include the following:

- Unrestricted (\$35.4 million)
- English Language and Intensive Literacy Program (\$26.8 million)
- English Language Acquisition Program (\$25.4 million)
- Teachers as a Priority Program (\$19.5 million)
- School Improvement Program (\$16.3 million)
- California Public School Library Act (\$10.5 million)
- Peer Assistance and Review Program (\$9.5 million)
- School Violence & Safety Prevention (\$8.9 million)
- School Improvement & Pupil Achievement Block Grant (\$8.6 million)
- School Based Coordination Program (\$6.9 million)
- Community Day Schools (\$6.2 million)
- Gifted and Talented Education (\$5.0 million)

Routine Maintenance Reserve

Current Law: Under current law, school districts that receive state bond funds are required to establish a restricted account within the school district's general fund for the purpose of providing money for ongoing and major maintenance of school buildings. State law requires school districts deposit at least three percent of general fund expenditures of the school district for that fiscal year in the account.

The routine maintenance reserve requirement was added to the state building program in 1998 in order to encourage school districts to maintain state investments in school facilities.

School districts are authorized to use 0.5 percent of their routine maintenance reserves to satisfy its required match for state Deferred Maintenance program funds. Remaining reserve funds are utilized for routine and major maintenance generally performed by district classified staff.

Flexibility Provided: Pursuant to AB 1754 in 2003, school district maintenance reserves were reduced from three to two percent of general fund expenditures. This authority was provided for 2003-04 fiscal year only.

Flexibility Authority: AB 1754 (Chapter 227; Statutes of 2003)

Related Legislation. AB 2832 (Fuller) -- Routine Maintenance Reserve. For the 2008–09 and 2009–10 fiscal years, this bill would authorize school districts to deposit a minimum amount equal to or greater than 1.5% of the total general fund expenditures of the school district for those respective fiscal years. The bill would prohibit funds diverted to another purpose under this bill from being expended or encumbered for the expansion of existing programs or for increasing the salaries of a school district's personnel.

Comments: Lowering the routine maintenance reserve from three to two percent could free up one percent of general purpose funding for other purposes in school districts. Lower funding will reduce maintenance services in school districts, making it more difficult for schools to maintain clean and safe school environments.

Deferred Maintenance Local Match

Current Law: The Deferred Maintenance Program, as administered by the Office of Public School Construction (OPSC), Department of General Services, provides funding for school facilities maintenance.

This program provides state matching funds to school districts to cover major repairs or replacement of school facilities generally to ensure a clean and safe educational environment for students. Maintenance projects typically include roofing, plumbing,

heating, air conditioning, electrical systems, wall systems, floor systems, inspection and removal of asbestos and lead, etc.

The Deferred Maintenance Program provides two types of state grants to school districts. The Basic Grant is provided to districts for the major repair or replacement work listed on the *Five Year Plan*, which is a projection of deferred maintenance work to be performed within the district over the next five years. The Extreme Hardship Grant is provided in addition to the Basic Grant if the district has a critical project on the five year plan that must be completed within one year due to health and safety or structural reasons.

Funding for the Deferred Maintenance Program is provided largely through the budget act, although funding is also provided by excess repayments from the State School Building Aid Program and from State School Site Utilization Funds.

Senate Bill 892 (Chapter 909; Statutes 2004) addresses sufficiency and availability of restroom facilities in public schools. The OPSC has established procedures for concerned parties to file complaints regarding the condition of public school restrooms. Failure to address the violation outlined in the complaint may result in the withholding of the district's Deferred Maintenance Basic Grant apportionment.

Flexibility Provided: Education Code section 17584 requires the State Allocation Board to apportion state funds from the Deferred Maintenance Program to school districts on a dollar-for-dollar basis up to 0.5 percent of general fund expenditures. SB 18X waived the local education agency match requirement for participation in the Deferred Maintenance Program for the 2002-03 fiscal year. Later, AB 1754 eliminated the match requirement for the 2003-04 fiscal year.

Flexibility Authority: SB 18X (Chapter 4; Statutes of 2003); AB 1754 (Chapter 227; Statutes of 2003).

Comments: Waiver of the local match requirement for the Deferred Maintenance program could free up the equivalent of 0.5 percent of the district's general fund expenditures for other purposes. However less funding for deferred maintenance will delay scheduled repair or replacement projects and could contribute to higher costs and health and safety problems. Reportedly, deferred maintenance projects typically involve contract services rather than district employees.

Instructional Materials – Extend Purchase Period

Current Law: Current law requires that every K-8 pupil be provided with state-adopted instructional materials aligned to state standards by the start of the school term that commences no later than 24 months from the state adoption date for K-8 materials. The current state standards-aligned K-8 instructional materials adoptions are as follows:

2005 - History-Social Science

2006 - Science
2007 - Mathematics
2008 - Reading/Language Arts/English Language Development

State law established pursuant to the Williams settlement agreement requires that every K-12 pupil be provided with appropriate standards-aligned instructional materials by the end of the second month of each school year. The Williams settlement does not specifically require that the textbooks be state adopted, in contrast to the state Instructional Materials Program; however, the Williams settlement requires standards-aligned textbooks or instructional materials in the same four core curriculum areas as the state Instructional Materials Program.

The 2007-08 budget appropriates \$420 million for the state Instructional Materials Program, which provides \$69.32 per K-12 pupil. An LEA that does not provide each student with the newly adopted instructional materials within the 24 months risks loss of Instructional Materials funding.

Flexibility Provided: Following mid-year reductions for instructional materials in 2002-03, SB 18X allowed LEAs to utilize previously adopted instructional materials in 2002-03 and 2003-04, instead of purchasing newly adopted materials within the 24 month time period. In effect, SB 18X allowed LEAs to delay the purchase of new Reading/Language Arts materials that were adopted by the State Board in 2002. Following additional reductions in the 2003-04 budget, AB 1266 extended the timeframe for providing newly adopted instructional materials to K-8 pupils from 24 months to 36 months and made that change effective through the 2004-05 fiscal year.

Flexibility Authority: SB 18X (Chapter 4; Statutes of 2003); AB 1266 (Chapter 573; Statutes of 2003)

Comments: Under the current adoption cycle, LEAs must provide the new, state adopted science instructional materials to each K-8 pupil in 2008; new math materials must be provided in 2009; and new Reading/Language Arts materials must be provided in 2010. The benefit to LEAs of extending the 24 month timeframe for purchase of newly adopted materials would be to avoid costly purchases and save funds for future purchases. In this case, Instructional Materials funds would accumulate large year-end account balances that could be tapped if LEAs have access to restricted ending balances. However, LEAs were not allowed access to ending balances for Instructional Materials by any of the previously enacted flexibility options.

K-3 Class Size Reduction

Current Law: School districts participating in the existing Class Size Reduction (CSR) program are eligible to receive an apportionment of \$1,071 per pupil in a kindergarten, first, second, or third grade class if the class maintains an average size of 20 or fewer pupils per teachers.

Current law, established by SB 311 (Sher) – Chapter 910; Statutes of 2004) provides for mitigation of penalties for participating school districts that fail to maintain class sizes at these specified levels. These penalties will sunset on July 1, 2009.

Under current statute, once mitigation penalties sunset, pre-existing statute will take effect. Under the pre-existing statute, participating school districts would lose all of their K-3 CSR apportionments if average class sizes exceed 20 pupils.

Flexibility Provided: Mitigation of K-3 CSR penalties were considered as a part of the special session convened to address mid-year budget adjustments to the 2002-03 budget in early 2003. SB 10X (Sher) , as passed by the Senate, created a new CSR Flexibility Alternative program, in addition to the existing CSR program, that schools could elect to participate in if they had hired “fully and properly credentialed” teachers. Previously, schools lost all K-3 CSR funding if they exceeded an average of 20 pupils. (SB 10X did not pass the Legislature; a similar measure, SB 311 (Sher), was enacted in 2004.)

Flexibility Authority: Education Code Section 52124.

Related Legislation: SB 1112 (Scott) -- Class Size Reduction. Extends current law – which sunsets July 1, 2009 -- to allow school districts to exceed the 20:1 pupil-teacher ratio and continue to receive partial funding for the state grade K-3 class size reduction program.

Comments: There will be additional costs to LEAs if the CSR flexibility provided in current law sunsets on July 1, 2009. However, if LEAs can no longer afford to participate in the CSR program, districts may drop out of this voluntary program and there will be additional savings for the state.

Reallocation of Supplemental Grants

Current Law: The Supplemental Grants was created in 1989-90 to equalize categorical aid to LEAs. In October 1995, LEAs were required to designate revenue limit and categorical programs that would receive the grant.

Flexibility Provided: In 2003 school districts were allowed to change the categorical programs they designate to fund with state Supplemental Grants. Districts were required to report these changes to the Superintendent of Public Instruction – in December 2003 -- on a one-time only basis.

Flexibility Authority: AB 1266 (Chapter 573; Statutes of 2003).

Comments: The Supplemental Grant program, previously authorized in statute, was folded into the Targeted Instructional Improvement Block Grant following enactment of AB 825 in 2004.

ISSUE 4: Fiscal Status of School Districts –FCMAT Presentation

DESCRIPTION: Joel Montero, Chief Executive Officer, Fiscal Crisis & Management Assistance Team (FCMAT), will provide a presentation on the financial status of school districts and county offices of education, including an update on the number of districts with negative certifications on the latest Financial Status Report.

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.

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

According to the First Interim Report for 2007-08 – the most recent report available – there are currently 7 school districts with negative certifications and 27 school districts and 1 county office of education with qualified certifications. In contrast, the First Interim Report for 2006-07 included 3 districts on the negative list and 19 districts on the qualified certification list.

Attachment A provides a complete listing of negative and qualified certifications. The 7 school districts with negative certifications listed below will not be able to meet their financial obligations for 2007-08 or 2008-2009.

District	County	Budget (\$)
Vallejo City Unified	Solano	152.7 million
Chico Unified	Butte	116.8 million
Dixon Unified	Solano	31.4 million
Healdsburg Unified	Sonoma	20.7 million
King City Joint Union High	Monterey	20.3 million
Aromas-San Juan Unified	San Benito	12.8 million
Gorman Joint Elementary	Los Angeles	1.1 million

Only one school district on the negative list for the First Interim Report in 2007-08 -- Vallejo City Unified – was also on the negative list for the First Interim Report in 2006-

07. Regarding the other two districts on the 2006-07 negative list – Biggs Unified is on the qualified list and Parlier Unified is now on the positive list for 2007-08.

According to FCMAT, the number of school districts with negative and qualified certifications will probably increase when the Second Interim Report for 2006-07 is released by CDE in June or July.

State Emergency Loan Recipients. A school district governing board may request an emergency apportionment loan from the state if the board has determined the district has insufficient funds to meet its current fiscal obligations. Current law states intent that emergency apportionment loans be appropriated through legislation, not through the budget. The conditions for accepting loans are specified in statute, depending on the size of the loan.

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

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

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

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

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

Valley – have received emergency loans from the state since 1991, but have paid off those loans.

Of the five districts with continuing emergency loans from the state, Vallejo Unified remains on the negative list in 2007-08 and Oakland Unified remains on the qualified list for the First Interim Report in 2007-08. The other three districts -- West Fresno Unified, West Contra Costa Unified, and Emery Unified -- are not on either the negative or qualified certification lists for the First Interim Report.

Annual Reports for Districts Receiving Emergency Loans. Legislation appropriating emergency state loans to school districts requires the preparation of annual written status reports for assessing the progress of schools districts in meeting their improvement plans. These reports are prepared by FCMAT for a three year period through funds provided in emergency loan legislation for each district. There is no process for funding these reports in subsequent years, if progress reports continue to be needed.

The 2006-07 budget authorized FCMAT to utilize any unexpended funds available from prior years to fund additional annual written progress reports for the Oakland Unified School District, the West Fresno Elementary School District and the Vallejo Unified School District. Additional unexpended funds from this source were not available for this purpose in 2007-08. Instead, the 2007-08 budget appropriated \$385,000 in one-time Proposition 98 funds for these annual studies, including \$150,000 for Oakland Unified; \$125,000 for Vallejo Unified; and \$110,000 for West Fresno Unified.

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.

COMMENTS/RECOMMENDATIONS:

Number of Negative & Qualified LEAs Likely to Increase at Second Interim Report.

The First Interim Fiscal Reports were prepared by local educational agencies prior to the release of the Governor's budget proposal for 2007-08. According to FCMAT, the number of school districts with negative and qualified certifications will increase when the Second Interim Report for 2007-08 is released by CDE in June or July to reflect assumptions in the Governor's budget.

FCMAT Budget Subject to Governor's Proposed Across-the-Board Reductions. The Governor proposes to reduce the FCMAT budget by \$88,000 on a year-to-year basis, bringing total funding to \$10.9 million in 2008-09.

Questions:

1. *Has FCMAT been able to assess the fiscal impact of the Governor's proposed nearly \$1 billion reduction for K-12 schools in 2008-09? To what extent will the Governor's proposal affect the ability of LEAs to file fiscal reports with a positive certification?*
2. *In considering funding flexibility options, what recommendations do you have about reducing local reserves for economic uncertainty? If this proposal were pursued, should LEAs on the negative or qualified lists be specifically excluded?*
3. *July revenue limit apportionment payments will be deferred from July to September in 2008-09, as a part of current year savings proposals enacted in the recent Special Session for K-12 education. Will the deferral of these payments affect the fiscal status of LEAs?*

ATTACHMENT A

First Interim Status Report, 2007-08

<http://www.cde.ca.gov/fg/fi/ir/first0708.asp>

ATTACHMENT B

State Emergency Loans 1991-2007

<http://www.cde.ca.gov/fg/fi/ir/loanlist.asp>

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



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

April 8, 2008
1:30 pm – Room 113

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I. HASTINGS COLLEGE OF THE LAW (Item 6600)

Hastings College of Law Budget Summary				
<i>(Dollars in Thousands)</i>				
	Revised 2007-08	Proposed 2008-09	Change	
			Amount	Percent
State Operations				
General Fund	\$10,631	\$10,115	-\$516	-4.9%
State Lottery Education Fund	178	178	—	—
University Funds (fees, overhead, publications other)	29,577	33,830	4,253	14.3%
Totals	\$40,386	\$44,123	\$3,737	9.3%

The Governor’s Budget proposes a total 2008-09 General Fund budget of \$10.1 million General Fund for Hastings College of Law. Included in this amount is a reduction of \$1.1 million (primarily in the form of an unallocated cut).

Background. Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the California Supreme Court, with a \$100,000 donation to the University of California to start a law school. Justice Hastings attached two conditions to his donation: (1) the school must remain in San Francisco, near the courts; and (2) the school must be governed by its own board of directors. Thus, although Hastings is affiliated with the University of California, it is a stand-alone, independently governed law school.

Funding. Since the inception of the higher education funding "compacts" (which began under Governor Wilson), the Administration and the Legislature have traditionally afforded the same funding provisions that were applied to the University of California and the California State University to Hastings. In sound budget years, this practice has afforded Hastings moderate General Fund increases to adjust for price increases, as evidenced by General Fund appropriations averaging \$14.5 million between 1999 and 2003. However, the tight budget years that followed showed a steady decline in state support for Hastings, reaching an all-time low in 2004-05 when the General Fund provided \$8.1 million.

The "compact" provisions have not always suited the unique needs of Hastings. For example, given that student enrollment levels at Hastings remain fairly constant, it has never benefited from the enrollment growth provisions negotiated by the UC and CSU. In tight budget years as well, Hastings faces unique challenges that are attributable to both its small size and its stand-alone status. While other colleges and UC campuses offer myriad academic programs and are able to disperse cuts across many programs and functions, Hastings is a single-subject college that does not operate on the economies of scale that are present on other campuses.

Fees. The Hastings Board of Directors has the authority to increase student fees, and intends to implement an 18 percent increase for the 2008-09 academic year. In the past, fee increases have been used to directly offset General Fund reductions and/or retain students' current level of service.

Recently however, Hastings has determined that fee increases should also allow for an *increased* level of educational services to students. Thus, Hastings is initiating a plan to use a portion of the increased student fee revenue to increase the faculty-to-student ratio, which is a key component to creating and assessing the quality of the law school experience.

Staff recommends that the committee: "hold open" funding for this item pending an update of the General Fund at the May Revision.

II. CALIFORNIA STATE LIBRARY (Item 6120)

California State Library Budget Summary (General Fund)				
<i>(Dollars in Thousands)</i>				
	Revised 2007-08	Proposed 2008-09	Change	
			Amount	Percent
State Operations				
Support/operating budget	\$12,107	\$14,677	2,570	21.2%
Lease-revenue bonds	2,360	2,389	29	1.2%
Repairs for Sutro Library	17	15	-2	-11.8%
<i>Subtotals</i>	<u>\$14,484</u>	<u>\$17,081</u>	<u>\$2,597</u>	<u>17.9%</u>
Local Assistance				
CA Civil Liberties Public Education Prog.	\$500	\$450	-50	-10%
California Newspaper Project	240	216	-24	-10%
California Library Services Act	14,342	12,908	-1,434	-10%
CA English Acquisition & Literacy Prog.	5,064	4,558	-506	-10%
Public Library Foundation	14,360	12,924	-1,436	-10%
<i>Subtotals</i>	<u>\$34,506</u>	<u>\$31,056</u>	<u>-\$3,450</u>	<u>-10%</u>
Totals	\$48,990	\$48,137	-853	-1.7%

The Governor's Budget proposes a total of \$72.6 million for the California State Library's operations and the various local assistance programs. Of that amount, \$45.8 million is from the General Fund, the remainder comes from other sources, including state special funds, federal funds, and bond funds.

The Governor's Budget includes funding for the following one-time expenses prior to implementing the proposed ten percent across-the-board reduction: (1) Phase 2 of the Integrated Library System Replacement Project; and (2) Temporary Space and Moving expenses related to the renovation of the historic Library and Courts Building.

Background. The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library: (1) administers and promotes literacy outreach programs; (2) develops

technological systems to improve resource sharing and enhance access to information; and (3) administers the Public Library Foundation, which, via a statutory formula, distributes state funding to support basic services at local libraries.

A. Integrated Library System Replacement Project. The Governor's Budget provides \$1.4 million in funding for the second year of a three-year information technology project. According to the State Library, the Integrated Library System Replacement Project is necessary to keep the State's library records automated in the face of the current vendor's phase-out of the existing information technology system. The current system has been in operation since 1989 and while it has served the State Library well, the State Library indicates that the vendor who designed and supports the system will cease upgrading it or providing any maintenance or support.

The total cost for the project is \$2.5 million; however, the State Library intends to redirect approximately \$937,000, leaving the balance of the project to be funded from additional state resources. The state provided \$52,000 in the current year for procurement-related activities; in year three, the project would require an additional \$136,000. On an ongoing basis, the State Library will need \$250,000 annually to maintain the new system.

Staff recommends that the committee: "Approve" \$1.42 million in one-time funding to continue replacement of the Library's Integrated System Replacement Project.

B. Temporary Space and Moving Expenses. In 2008-09 the historic Library and Courts building will undergo a significant renovation aimed at providing for fire, life, safety, and infrastructure improvements, as well as the rehabilitation of historically-significant architectural elements of the 1928 Library and Courts building, which is a registered federal and state landmark.

The Library is seeking \$2.6 million for the temporary relocation of both its staff and the contents of its collections (books, materials, historical artifacts, and artwork), which must be moved and, in some cases, stored in special conditions due to their notable value (the historic artifacts that is, not the people). Costs include such items as: moving expenses; art storage facilities; modular office space; installation of telephone and data lines.

Staff recommends that the committee: "Approve" \$2.6 million in one-time "swing space" funding associated with the refurbishment of the Historic Library and Courts Building.

C. Public Library Foundation and other Local Assistance Programs.

1. Public Library Foundation (PLF). The Governor's Budget proposes to *reduce* the amount of funding available for the PLF by ten percent (or \$1.4 million), bringing total funding in 2008-09 to \$12.9 million. This program provides core operational assistance to local libraries and is used to support library staffing; maintain hours of operation; develop and expand library-based programs such as after-school reading programs and homework assistance centers; and purchase books and materials.

At its peak (in 2000-01), the state appropriated \$56.9 million to the Public Library Foundation. Since then, local libraries have experienced a rapid decline in support for the program, equating to an approximate 75 percent reduction over six years.

Statute dictates that in order for a local library to receive funding from this program the library must maintain the same level of local funding as was provided in the prior year; thus any reductions to library spending by local governments would cause them to be disqualified from receiving money from the Public Library Foundation. As such, the committee may wish to consider either a full or partial waiver of this Maintenance-of-Effort requirement.

Staff recommends the Governor's funding proposal be "Approved as Budgeted", and that the committee staff work with the State Library to examine options related to waiving the Public Library Foundation local Maintenance-of Effort requirements.

2. Other Local Assistance Programs. As noted in the chart on Page 3 of this document, the remainder of the Local Assistance programs administered by the State Library (including the Civil Liberties Public Education Program; California Newspaper Project; California Library Services Act/Transaction-Based Reimbursements; and the California English Acquisition and Literacy Program) are slated to be reduced by ten percent. It is important to note that both the Transaction-Based Reimbursement Program and the English Language/Literacy Program receive federal matching funds. The Administration indicates that it is currently in the process of working with the State Library to request a waiver from the federal government for the minimum state matching funds requirement. *Without a federal waiver, the state faces a loss of approximately \$1.8 million in federal funds.*

Staff recommends: While these programs have great merit, the current condition of the General Fund necessitates program reductions. Thus, staff recommends that the committee "approve" the reductions proposed for the Civil Liberties Public Education Program as well as the California Newspaper Project.

Further, staff recommends that the committee: "hold open" funding for both the English Language/Literacy Program and the Transaction-Based Reimbursement Program, pending additional information regarding the status of obtaining a federal waiver.

III. CALIFORNIA STUDENT AID COMMISSION (Item 7980)

Student Aid Commission				
Budget Summary (includes Gov. budget balancing reductions)				
<i>(Dollars in Millions)</i>				
	2007-08	2008-09	Change	
	Revised	Proposed	Amount	Percent
Expenditures				
<u>State Operations</u>	\$15.8	\$14.6	\$-1.2	-7.7%
<u>Cal Grant programs</u>				
Entitlement	\$664.7	\$773.9	\$109.2	16.4%
Competitive	117.1	57.5	-59.6	-50.9%
Pre-Entitlement	0.5	0.2	-0.3	-68.8%
Cal Grant C	7.9	7.9	—	-0.5%
<i>Subtotals—Cal Grant</i>	<i>\$790.2</i>	<i>\$839.5</i>	<i>\$49.3</i>	<i>6.2%</i>
APLE ^a	\$40.7	\$40.6	-\$0.1	-0.4%
Graduate APLE	0.4	0.4	—	—
National Guard APLE	0.2	0.3	0.1	48.5%
State Nursing APLE – faculty	—	0.2	0.2	—
State Nursing APLE – state facilities	—	0.1	0.1	—
Law enforcement scholarships	0.1	0.1	—	—
Cal-SOAP	6.4	5.7	-0.7	-10.0%
Cash for College Program	—	0.2	0.2	—
Other Grant Programs (including: Chafee; Child Development Teacher; and Byrd Scholarship programs)	19.5	19.5	—	—
<i>Sub Total: Financial Aid Programs</i>	<i>\$857.5</i>	<i>\$906.6</i>	<i>\$49.1</i>	<i>5.7%</i>
Grand Totals	\$873.3	\$921.3	\$48.0	5.5%
Funding Sources				
General Fund	\$842.9	\$890.5	\$47.6	5.7%
Federal Trust Fund	10.6	11.0	0.4	3.1%
Reimbursements	19.8	19.8	—	—
^a Assumption Program of Loans for Education.				

The Governor's 2008-09 Budget proposes a total of \$921.3 million in expenditures from all funding sources (\$890.5 million General Fund) for the California Student Aid Commission. While this proposal reflects a net \$48 million or a 5.5 percent increase above estimated current-year expenditures the Governor does propose to eliminate a key component of the Cal Grant program: the Competitive Cal Grant Program, which results in \$57.4 million in savings.

Staff notes that, at the March 13, 2008 hearing of the full Senate Committee on Budget and Fiscal Review, the committee had a substantial discussion of the impact of the Governor's Cal Grant proposals, in particular, the Governor's proposal to phase-out the Competitive Cal Grant proposal. Given that prior hearing, issues related to the Cal Grant program, are not slated for discussion at this time.

Other adjustments to the Student Aid Commission's budget include a \$1.6 million reduction to the state operations budget of the Commission and a \$637,000 reduction to the California Student Opportunity and Access Program (Cal-SOAP). The Governor's proposal further includes minimal *baseline* adjustments to the various loan assumption programs (APLE; State Nursing APLE-faculty; and State Nursing APLE-State Facilities). Partially offsetting these reductions is a net \$1 million increase to address operational issues related to the sale of EdFUND. Federal Funds (\$200,000) are provided to support the Cash for College Program, which had previously been funded with EdFUND dollars.

In addition, the Governor proposes to issue 7,200 new Assumption Program of Loans for Education (APLE) warrants in 2008-09, this represents a *decrease* of 800 awards (10 percent) from the amount authorized in the current year.

A. Status Report on the Pending Sale of EdFUND (*Department of Finance will provide an update*). Current law (Chapters 182 and 184; Statutes of 2007) authorizes the Director of Finance, in consultation with the State Treasurer to sell (or enter into an alternative financial arrangement of a sale) the state student loan guarantee program (EdFUND).

Background. Operating under California statute, EdFUND is a nonprofit "auxiliary" organization of the California Student Aid Commission which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students do not "pay" for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

Colleges and universities which offer student loan programs have a choice between a variety of FFELP "guarantors" (EdFUND is one of several guaranty agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission's request to statutorily establish EdFUND, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guaranty marketplace.

B. Transitional Issues Related to EdFUND Sale. Since the inception of EdFUND, the Student Aid Commission and EdFUND have shared a variety of administrative and selective programmatic functions and costs, in order to achieve better economies of scale. With the pending sale of EdFUND, a portion of these activities will need to come back "in house". As such, the Governor is proposing to *augment* the Commission's budget by \$2 million and 10.5 positions to account for the workload and related staff that will need to be "reclaimed" by the Commission. Further complicating matters, are the remaining 20 civil service employees that are on the Student Aid Commission's payroll, but were assigned to work at EdFUND, the bulk of which are long-time civil servants who are performing functions directly related to processing student loans.

Partially off-setting the above-noted increase is a reduction of \$1 million related to elimination of the Commission's Federal Policy and Programs Division. Given that the Commission's oversight of EdFUND will terminate with its sale, the Department of Finance has determined that this division is no longer necessary. However, the Budget Bill does contain provisional language allowing for the Commission to retain this division and related funding in the event that the sale of EdFUND is not completed before the end of the current fiscal year.

C. Assumption Program of Loans for Education (APLE). The Governor's budget authorizes 7,200 new APLE loan assumption warrants (a decrease of 800 from the current year, reflecting the Administration's proposal to reduce programs by ten percent across-the-board).

In past years, both the Department of Finance and the LAO have noted that the APLE program has been underutilized. According to the LAO, approximately 10 percent of APLE warrants go unused. Previously, DOF has cited this underutilization as a reason to restructure the program and set-aside warrants for the exclusive use of UC and CSU to attract math and science teachers. Thus, the proposed reduction in the number of warrants could be viewed as a "correction" to adjust for the demand for the program.

However, staff notes that the reasons for the programs underutilization remain unclear and may be attributable to myriad statutory set-asides coupled with a difficult to administer program. Rather than further constricting the number of awards, the committee way wish to request that the policy committee examine this issue and work to address the systemic causes of underutilization in the APLE program.

Staff recommends that the committee hold this issue "open" pending the May Revision and the receipt of additional information related to the underutilization of APLE program warrants.

D. California Student Opportunity and Access Program (Cal-SOAP). The Governor's budget authorizes \$5.7 million in funding for the Cal-SOAP program, a decrease of \$637,000 from the current year. Cal-SOAP is administered by the Student Aid Commission and provides financial aid outreach through regionally-coordinated consortia. Previously funded with dollars from EdFUND, Cal-SOAP's budget declined from \$8.6 million to the current-year level of \$6.4 million.

As part of its April Finance Letter revision process, the Department of Finance is proposing to shift funding for Cal-SOAP *from* the General Fund *to* federal funds (due to an increase in dollars available under the federal College Access Challenge Grant); set-aside \$1 million for public awareness and outreach activities related to career technical education; and require the Commission to work with the California Department of Education and the California Community Colleges Chancellor's Office in determining the usage of this \$1 million.

Staff notes that, among other issues, it remains unclear if Cal-SOAP is the appropriate entity to conduct the outreach activities requested by the Department of Finance, and thus recommends that the committee hold this issue "open" pending further discussion.

IV. CALIFORNIA POSTSECONDARY EDUCATION COMMISSION (Item 6420)

Governor's 2008-09 CPEC Budget Proposal				
<i>(Dollars in Thousands)</i>				
	2007-08 Budgeted	2008-09 Proposed	Change	
			Amount	Percent Change
CPEC				
General Fund	\$2,209	\$2,005	-\$204	-9.2%
Federal Funds	9,032	9,038	5	0.5
Reimbursements	3	3	--	--
Totals	\$11,244	\$11,046	-\$199	-1.8%

The Governor's budget proposal for the California Postsecondary Education Commission (CPEC) makes several baseline adjustments and then reduces this "workload" budget by the Administration's proposed ten percent across-the-board cut.

In light of the reduced level of funding the Administration proposes for CPEC, the Governor's Budget proposes to *prioritize* CPEC's various statutory responsibilities by calling attention to three specific functions in Budget Bill Language and establishing these functions as priorities. This proposal is virtually identical to the prioritization language the Administration included in its 2007-08 proposal.

Lastly, in the face of this unallocated reduction, staff notes that the California Postsecondary Commission, which has the statutory authority to set the compensation levels for its Executive Director, recently opted to increase the Executive Director's salary by two percent; taking his current \$165,000 salary to \$168,300. While statute dictates that the Commission take into account the salary of directors of other state's higher education coordinating bodies, staff notes that a salary "survey"

should not be the principal factor in determining compensation levels. Rather, performance, not just of the Executive Director, but of CPEC as a whole, and the ability of the organization to absorb such salary increases should also be determining factors. While the percentage increase is relatively minor, funds for this raise are not explicitly provided in the Governor's Budget and will only exacerbate the impact of CPEC's unallocated reduction.

Prioritization of CPEC Responsibilities.

The Governor's Budget proposal includes language delineating the following three priorities as being the *highest* for CPEC: (1) conducting all reviews and recommendations of the need for new institutions for public higher education; (2) conducting all reviews and recommendations of the need for new [academic] programs within the public higher education segments; and (3) serving as the designated state education agency to carry out federal educational programs, as required in statute. When queried about its position on the inclusion of these "priorities" in the Budget Bill, CPEC has expressed its intent to carry out *all* of its statutory requirements, regardless of the amount of funding appropriated.

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

Staff finds that the Administration's proposal to "prioritize" CPEC's functions begs the larger question of CPEC's role in state government. This question that has been explored many times in the past five years, as illustrated by the following timeline:

- *May 14, 2002*, Governor Davis proposes to eliminate almost all General Fund support for CPEC at the May Revision. The Legislature stepped in and restored a portion of the reduction and called for the Legislative Analyst's Office (LAO) to convene a workgroup to develop recommendations for CPEC's statutory mission.
- *Spring of 2002*, the Legislature's Joint Committee on the Master Plan for Education proposes replacing CPEC with a new "California Education Commission" and moving many of CPEC's responsibilities to the Office of the Governor.
- *January 2003*, the LAO completes its examination of CPEC's statutory workload in comparison with the fiscal resources it has available, and determines that CPEC is unable to effectively carry out a number of its statutory functions.
- *January 10, 2003*, Governor Davis proposes reducing CPEC's funding by an additional \$1.4 million, leaving only three General Fund positions. The LAO recommends support of the Governor's proposal.
- *May 14, 2003*, Governor Davis proposes to consolidate CPEC, the Student Aid Commission, and the Bureau for Private Postsecondary and Vocational Education into a single Administration body. Contents of the proposal were included in Assembly Bill 655 (Liu), which was held on the Senate Appropriations Committee Suspense file.

- *July 2003*, Final Budget Act includes the restoration of General Fund support for CPEC (\$1.9 million).
- *January 2005*, Governor Schwarzenegger's California Performance Review (CPR) recommends eliminating CPEC and transferring its functions to a new *Division of Higher Education and Financial Aid* within the Governor's Secretary for Education's Office.
- *January 2007*, Governor Schwarzenegger proposes Budget Bill Language to prioritize CPEC's statutory responsibilities. Budget subcommittee rejects language and defers to the policy committee process.
- *January 2008*, Governor Schwarzenegger reintroduces Budget Bill Language to prioritize CPEC's statutory responsibilities.

Staff recommends that the committee "hold open" the above-noted issues, pending further discussion of CPEC's mission and the condition of the General Fund.

V. PROPOSED CONSENT

Staff recommends "approval" of the following items:

1. Item 6120-011-0001 Support, California State Library. *April Finance Letter; Redirection of Federal Funds* (Issue 487) -\$168,000
2. Item 6120-011-0020 State Law Library, California State Library. Payable from State Law Library Special Account. \$706,000
3. Item 6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. \$7,115,000
4. Items 6120-011-3085 Support, California State Library. *April Finance Letter; Add Item to Appropriate Funds for Mental Health Research Activities* (Issue 488) \$169,000
5. Item 6120-011-6000 Support, California State Library. Payable from the California Public Library Construction and Renovation Fund. \$2,407,000
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8. Item 6120-151-0483 Local Assistance, California State Library, Telephonic Services. Payable from the California Deaf and Disabled Telecommunications Program, Administrative Committee Fund. \$552,000

9. Item 6120-211-0890 Local Assistance, California State Library, Library Development Services. Payable from the Federal Trust Fund. \$12,518,000
10. Item 6120-490 Reappropriation, California State Library, to reappropriate expenditure authority for California Cultural and Historical Endowment.
11. Item 6120-490 Reversion, California State Library, *April Finance Letter; Add Item* (Issue 489) to revert unexpended funds from the California Cultural and Historical Endowment.
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14. Item 7980-001-0890 State Operations, California Student Aid Commission, *Cash for College Program*. \$130,000.
15. Item 7980-101-0890 Local Assistance, California Student Aid Commission, Federal Trust Fund (including \$200,000 for *Cash for College Program*). \$10,822,000.
16. Item 7980-495 Reversion, California Student Aid Commission.

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



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

April 8, 2008
1:30 pm – Room 113

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C. Assumption Program of Loans for Education (APLE)	Page 8
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I. HASTINGS COLLEGE OF THE LAW (Item 6600)

Hastings College of Law Budget Summary				
<i>(Dollars in Thousands)</i>				
	Revised 2007-08	Proposed 2008-09	Change	
			Amount	Percent
State Operations				
General Fund	\$10,631	\$10,115	-\$516	-4.9%
State Lottery Education Fund	178	178	—	—
University Funds (fees, overhead, publications other)	29,577	33,830	4,253	14.3%
Totals	\$40,386	\$44,123	\$3,737	9.3%

The Governor’s Budget proposes a total 2008-09 General Fund budget of \$10.1 million General Fund for Hastings College of Law. Included in this amount is a reduction of \$1.1 million (primarily in the form of an unallocated cut).

Background. Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the California Supreme Court, with a \$100,000 donation to the University of California to start a law school. Justice Hastings attached two conditions to his donation: (1) the school must remain in San Francisco, near the courts; and (2) the school must be governed by its own board of directors. Thus, although Hastings is affiliated with the University of California, it is a stand-alone, independently governed law school.

Funding. Since the inception of the higher education funding "compacts" (which began under Governor Wilson), the Administration and the Legislature have traditionally afforded the same funding provisions that were applied to the University of California and the California State University to Hastings. In sound budget years, this practice has afforded Hastings moderate General Fund increases to adjust for price increases, as evidenced by General Fund appropriations averaging \$14.5 million between 1999 and 2003. However, the tight budget years that followed showed a steady decline in state support for Hastings, reaching an all-time low in 2004-05 when the General Fund provided \$8.1 million.

The "compact" provisions have not always suited the unique needs of Hastings. For example, given that student enrollment levels at Hastings remain fairly constant, it has never benefited from the enrollment growth provisions negotiated by the UC and CSU. In tight budget years as well, Hastings faces unique challenges that are attributable to both its small size and its stand-alone status. While other colleges and UC campuses offer myriad academic programs and are able to disperse cuts across many programs and functions, Hastings is a single-subject college that does not operate on the economies of scale that are present on other campuses.

Fees. The Hastings Board of Directors has the authority to increase student fees, and intends to implement an 18 percent increase for the 2008-09 academic year. In the past, fee increases have been used to directly offset General Fund reductions and/or retain students' current level of service.

Recently however, Hastings has determined that fee increases should also allow for an *increased* level of educational services to students. Thus, Hastings is initiating a plan to use a portion of the increased student fee revenue to increase the faculty-to-student ratio, which is a key component to creating and assessing the quality of the law school experience.

Staff recommends that the committee: "hold open" funding for this item pending an update of the General Fund at the May Revision. **ACTION: Committee Held Issue Open.**

II. CALIFORNIA STATE LIBRARY (Item 6120)

California State Library Budget Summary (General Fund)				
<i>(Dollars in Thousands)</i>				
	Revised 2007-08	Proposed 2008-09	Change	
			Amount	Percent
State Operations				
Support/operating budget	\$12,107	\$14,677	2,570	21.2%
Lease-revenue bonds	2,360	2,389	29	1.2%
Repairs for Sutro Library	17	15	-2	-11.8%
<i>Subtotals</i>	<u>\$14,484</u>	<u>\$17,081</u>	<u>\$2,597</u>	<u>17.9%</u>
Local Assistance				
CA Civil Liberties Public Education Prog.	\$500	\$450	-50	-10%
California Newspaper Project	240	216	-24	-10%
California Library Services Act	14,342	12,908	-1,434	-10%
CA English Acquisition & Literacy Prog.	5,064	4,558	-506	-10%
Public Library Foundation	14,360	12,924	-1,436	-10%
<i>Subtotals</i>	<u>\$34,506</u>	<u>\$31,056</u>	<u>-\$3,450</u>	<u>-10%</u>
Totals	\$48,990	\$48,137	-853	-1.7%

The Governor's Budget proposes a total of \$72.6 million for the California State Library's operations and the various local assistance programs. Of that amount, \$45.8 million is from the General Fund, the remainder comes from other sources, including state special funds, federal funds, and bond funds.

The Governor's Budget includes funding for the following one-time expenses prior to implementing the proposed ten percent across-the-board reduction: (1) Phase 2 of the Integrated Library System Replacement Project; and (2) Temporary Space and Moving expenses related to the renovation of the historic Library and Courts Building.

Background. The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library: (1) administers and promotes literacy outreach programs; (2) develops

technological systems to improve resource sharing and enhance access to information; and (3) administers the Public Library Foundation, which, via a statutory formula, distributes state funding to support basic services at local libraries.

A. Integrated Library System Replacement Project. The Governor's Budget provides \$1.4 million in funding for the second year of a three-year information technology project. According to the State Library, the Integrated Library System Replacement Project is necessary to keep the State's library records automated in the face of the current vendor's phase-out of the existing information technology system. The current system has been in operation since 1989 and while it has served the State Library well, the State Library indicates that the vendor who designed and supports the system will cease upgrading it or providing any maintenance or support.

The total cost for the project is \$2.5 million; however, the State Library intends to redirect approximately \$937,000, leaving the balance of the project to be funded from additional state resources. The state provided \$52,000 in the current year for procurement-related activities; in year three, the project would require an additional \$136,000. On an ongoing basis, the State Library will need \$250,000 annually to maintain the new system.

Staff recommends that the committee: "Approve" \$1.42 million in one-time funding to continue replacement of the Library's Integrated System Replacement Project. **ACTION: Committee Approved (3-0).**

B. Temporary Space and Moving Expenses. In 2008-09 the historic Library and Courts building will undergo a significant renovation aimed at providing for fire, life, safety, and infrastructure improvements, as well as the rehabilitation of historically-significant architectural elements of the 1928 Library and Courts building, which is a registered federal and state landmark.

The Library is seeking \$2.6 million for the temporary relocation of both its staff and the contents of its collections (books, materials, historical artifacts, and artwork), which must be moved and, in some cases, stored in special conditions due to their notable value (the historic artifacts that is, not the people). Costs include such items as: moving expenses; art storage facilities; modular office space; installation of telephone and data lines.

Staff recommends that the committee: "Approve" \$2.6 million in one-time "swing space" funding associated with the refurbishment of the Historic Library and Courts Building. **ACTION: Committee Approved (3-0).**

C. Public Library Foundation and other Local Assistance Programs.

1. Public Library Foundation (PLF). The Governor's Budget proposes to *reduce* the amount of funding available for the PLF by ten percent (or \$1.4 million), bringing total funding in

2008-09 to \$12.9 million. This program provides core operational assistance to local libraries and is used to support library staffing; maintain hours of operation; develop and expand library-based programs such as after-school reading programs and homework assistance centers; and purchase books and materials.

At its peak (in 2000-01), the state appropriated \$56.9 million to the Public Library Foundation. Since then, local libraries have experienced a rapid decline in support for the program, equating to an approximate 75 percent reduction over six years.

Statute dictates that in order for a local library to receive funding from this program the library must maintain the same level of local funding as was provided in the prior year; thus any reductions to library spending by local governments would cause them to be disqualified from receiving money from the Public Library Foundation. As such, the committee may wish to consider either a full or partial waiver of this Maintenance-of-Effort requirement.

Staff recommends the Governor's funding proposal be "Approved as Budgeted", and that the committee staff work with the State Library to examine options related to waiving the Public Library Foundation local Maintenance-of Effort requirements. **ACTION: Committee Held Open.**

2. Other Local Assistance Programs. As noted in the chart on Page 3 of this document, the remainder of the Local Assistance programs administered by the State Library (including the Civil Liberties Public Education Program; California Newspaper Project; California Library Services Act/Transaction-Based Reimbursements; and the California English Acquisition and Literacy Program) are slated to be reduced by ten percent. It is important to note that both the Transaction-Based Reimbursement Program and the English Language/Literacy Program receive federal matching funds. The Administration indicates that it is currently in the process of working with the State Library to request a waiver from the federal government for the minimum state matching funds requirement. *Without a federal waiver, the state faces a loss of approximately \$1.8 million in federal funds.*

Staff recommends: While these programs have great merit, the current condition of the General Fund necessitates program reductions. Thus, staff recommends that the committee "approve" the reductions proposed for the Civil Liberties Public Education Program as well as the California Newspaper Project. **ACTION: Committee Held Open.**

Further, staff recommends that the committee: "hold open" funding for both the English Language/Literacy Program and the Transaction-Based Reimbursement Program, pending additional information regarding the status of obtaining a federal waiver. **ACTION: Committee Held Open.**

III. CALIFORNIA STUDENT AID COMMISSION (Item 7980)

Student Aid Commission				
Budget Summary (includes Gov. budget balancing reductions)				
<i>(Dollars in Millions)</i>				
	2007-08	2008-09	Change	
	Revised	Proposed	Amount	Percent
Expenditures				
<u>State Operations</u>	\$15.8	\$14.6	\$-1.2	-7.7%
<u>Cal Grant programs</u>				
Entitlement	\$664.7	\$773.9	\$109.2	16.4%
Competitive	117.1	57.5	-59.6	-50.9%
Pre-Entitlement	0.5	0.2	-0.3	-68.8%
Cal Grant C	7.9	7.9	—	-0.5%
<i>Subtotals—Cal Grant</i>	<i>\$790.2</i>	<i>\$839.5</i>	<i>\$49.3</i>	<i>6.2%</i>
APLE ^a	\$40.7	\$40.6	-\$0.1	-0.4%
Graduate APLE	0.4	0.4	—	—
National Guard APLE	0.2	0.3	0.1	48.5%
State Nursing APLE – faculty	—	0.2	0.2	—
State Nursing APLE – state facilities	—	0.1	0.1	—
Law enforcement scholarships	0.1	0.1	—	—
Cal-SOAP	6.4	5.7	-0.7	-10.0%
Cash for College Program	—	0.2	0.2	—
Other Grant Programs (including: Chafee; Child Development Teacher; and Byrd Scholarship programs)	19.5	19.5	—	—
<i>Sub Total: Financial Aid Programs</i>	<i>\$857.5</i>	<i>\$906.6</i>	<i>\$49.1</i>	<i>5.7%</i>
Grand Totals	\$873.3	\$921.3	\$48.0	5.5%
Funding Sources				
General Fund	\$842.9	\$890.5	\$47.6	5.7%
Federal Trust Fund	10.6	11.0	0.4	3.1%
Reimbursements	19.8	19.8	—	—
^a Assumption Program of Loans for Education.				

The Governor's 2008-09 Budget proposes a total of \$921.3 million in expenditures from all funding sources (\$890.5 million General Fund) for the California Student Aid Commission. While this proposal reflects a net \$48 million or a 5.5 percent increase above estimated current-year expenditures the Governor does propose to eliminate a key component of the Cal Grant program: the Competitive Cal Grant Program, which results in \$57.4 million in savings.

Staff notes that, at the March 13, 2008 hearing of the full Senate Committee on Budget and Fiscal Review, the committee had a substantial discussion of the impact of the Governor's Cal Grant proposals, in particular, the Governor's proposal to phase-out the Competitive Cal Grant proposal. Given that prior hearing, issues related to the Cal Grant program, are not slated for discussion at this time.

Other adjustments to the Student Aid Commission's budget include a \$1.6 million reduction to the state operations budget of the Commission and a \$637,000 reduction to the California Student Opportunity and Access Program (Cal-SOAP). The Governor's proposal further includes minimal *baseline* adjustments to the various loan assumption programs (APLE; State Nursing APLE-faculty; and State Nursing APLE-State Facilities). Partially offsetting these reductions is a net \$1 million increase to address operational issues related to the sale of EdFUND. Federal Funds (\$200,000) are provided to support the Cash for College Program, which had previously been funded with EdFUND dollars.

In addition, the Governor proposes to issue 7,200 new Assumption Program of Loans for Education (APLE) warrants in 2008-09, this represents a *decrease* of 800 awards (10 percent) from the amount authorized in the current year.

A. Status Report on the Pending Sale of EdFUND (*Department of Finance will provide an update*). Current law (Chapters 182 and 184; Statutes of 2007) authorizes the Director of Finance, in consultation with the State Treasurer to sell (or enter into an alternative financial arrangement of a sale) the state student loan guarantee program (EdFUND).

Background. Operating under California statute, EdFUND is a nonprofit "auxiliary" organization of the California Student Aid Commission which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students do not "pay" for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

Colleges and universities which offer student loan programs have a choice between a variety of FFELP "guarantors" (EdFUND is one of several guaranty agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission's request to statutorily establish EdFUND, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guaranty marketplace.

B. Transitional Issues Related to EdFUND Sale. Since the inception of EdFUND, the Student Aid Commission and EdFUND have shared a variety of administrative and selective programmatic functions and costs, in order to achieve better economies of scale. With the pending sale of EdFUND, a portion of these activities will need to come back "in house". As such, the Governor is proposing to *augment* the Commission's budget by \$2 million and 10.5 positions to account for the workload and related staff that will need to be "reclaimed" by the Commission. Further complicating matters, are the remaining 20 civil service employees that are on the Student Aid Commission's payroll, but were assigned to work at EdFUND, the bulk of which are long-time civil servants who are performing functions directly related to processing student loans.

Partially off-setting the above-noted increase is a reduction of \$1 million related to elimination of the Commission's Federal Policy and Programs Division. Given that the Commission's oversight of EdFUND will terminate with its sale, the Department of Finance has determined that this division is no longer necessary. However, the Budget Bill does contain provisional language allowing for the Commission to retain this division and related funding in the event that the sale of EdFUND is not completed before the end of the current fiscal year. **ACTION: Committee Held Open.**

C. Assumption Program of Loans for Education (APLE). The Governor's budget authorizes 7,200 new APLE loan assumption warrants (a decrease of 800 from the current year, reflecting the Administration's proposal to reduce programs by ten percent across-the-board).

In past years, both the Department of Finance and the LAO have noted that the APLE program has been underutilized. According to the LAO, approximately 10 percent of APLE warrants go unused. Previously, DOF has cited this underutilization as a reason to restructure the program and set-aside warrants for the exclusive use of UC and CSU to attract math and science teachers. Thus, the proposed reduction in the number of warrants could be viewed as a "correction" to adjust for the demand for the program.

However, staff notes that the reasons for the programs underutilization remain unclear and may be attributable to myriad statutory set-asides coupled with a difficult to administer program. Rather than further constricting the number of awards, the committee way wish to request that the policy committee examine this issue and work to address the systemic causes of underutilization in the APLE program.

Staff recommends that the committee hold this issue "open" pending the May Revision and the receipt of additional information related to the underutilization of APLE program warrants. **ACTION: Committee Held Open.**

D. California Student Opportunity and Access Program (Cal-SOAP). The Governor's budget authorizes \$5.7 million in funding for the Cal-SOAP program, a decrease of \$637,000 from the current year. Cal-SOAP is administered by the Student Aid Commission and provides financial aid outreach through regionally-coordinated consortia. Previously funded with dollars

from EdFUND, Cal-SOAP's budget declined from \$8.6 million to the current-year level of \$6.4 million.

As part of its April Finance Letter revision process, the Department of Finance is proposing to shift funding for Cal-SOAP *from* the General Fund *to* federal funds (due to an increase in dollars available under the federal College Access Challenge Grant); set-aside \$1 million for public awareness and outreach activities related to career technical education; and require the Commission to work with the California Department of Education and the California Community Colleges Chancellor's Office in determining the usage of this \$1 million.

Staff notes that, among other issues, it remains unclear if Cal-SOAP is the appropriate entity to conduct the outreach activities requested by the Department of Finance, and thus recommends that the committee hold this issue "open" pending further discussion. **ACTION: Committee Held Open.**

IV. CALIFORNIA POSTSECONDARY EDUCATION COMMISSION (Item 6420)

Governor's 2008-09 CPEC Budget Proposal				
<i>(Dollars in Thousands)</i>				
	2007-08 Budgeted	2008-09 Proposed	Change	
			Amount	Percent Change
CPEC				
General Fund	\$2,209	\$2,005	-\$204	-9.2%
Federal Funds	9,032	9,038	5	0.5
Reimbursements	3	3	--	--
Totals	\$11,244	\$11,046	-\$199	-1.8%

The Governor's budget proposal for the California Postsecondary Education Commission (CPEC) makes several baseline adjustments and then reduces this "workload" budget by the Administration's proposed ten percent across-the-board cut.

In light of the reduced level of funding the Administration proposes for CPEC, the Governor's Budget proposes to *prioritize* CPEC's various statutory responsibilities by calling attention to three specific functions in Budget Bill Language and establishing these functions as priorities. This proposal is virtually identical to the prioritization language the Administration included in its 2007-08 proposal.

Lastly, in the face of this unallocated reduction, staff notes that the California Postsecondary Commission, which has the statutory authority to set the compensation levels for its Executive Director, recently opted to increase the Executive Director's salary by two percent; taking his current \$165,000 salary to \$168,300. While statute dictates that the Commission take into account the salary of directors of other state's higher education coordinating bodies, staff notes that a salary "survey" should not be the principle factor in determining compensation levels. Rather, performance, not just of the Executive Director, but of CPEC as a whole, and the ability of the organization to absorb such salary increases should also be determining factors. While the percentage increase is relatively minor, funds for this raise are not explicitly provided in the Governor's Budget and will only exacerbate the impact of CPEC's unallocated reduction.

Prioritization of CPEC Responsibilities.

The Governor's Budget proposal includes language delineating the following three priorities as being the *highest* for CPEC: (1) conducting all reviews and recommendations of the need for new institutions for public higher education; (2) conducting all reviews and recommendations of the need for new [academic] programs within the public higher education segments; and (3) serving as the designated state education agency to carry out federal educational programs, as required in statute. When queried about its position on the inclusion of these "priorities" in the Budget Bill, CPEC has expressed its intent to carry out *all* of its statutory requirements, regardless of the amount of funding appropriated.

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

Staff finds that the Administration's proposal to "prioritize" CPEC's functions begs the larger question of CPEC's role in state government. This question that has been explored many times in the past five years, as illustrated by the following timeline:

- *May 14, 2002*, Governor Davis proposes to eliminate almost all General Fund support for CPEC at the May Revision. The Legislature stepped in and restored a portion of the reduction and called for the Legislative Analyst's Office (LAO) to convene a workgroup to develop recommendations for CPEC's statutory mission.
- *Spring of 2002*, the Legislature's Joint Committee on the Master Plan for Education proposes replacing CPEC with a new "California Education Commission" and moving many of CPEC's responsibilities to the Office of the Governor.
- *January 2003*, the LAO completes its examination of CPEC's statutory workload in comparison with the fiscal resources it has available, and determines that CPEC is unable to effectively carry out a number of its statutory functions.
- *January 10, 2003*, Governor Davis proposes reducing CPEC's funding by an additional \$1.4 million, leaving only three General Fund positions. The LAO recommends support of the Governor's proposal.

- *May 14, 2003*, Governor Davis proposes to consolidate CPEC, the Student Aid Commission, and the Bureau for Private Postsecondary and Vocational Education into a single Administration body. Contents of the proposal were included in Assembly Bill 655 (Liu), which was held on the Senate Appropriations Committee Suspense file.
- *July 2003*, Final Budget Act includes the restoration of General Fund support for CPEC (\$1.9 million).
- *January 2005*, Governor Schwarzenegger's California Performance Review (CPR) recommends eliminating CPEC and transferring its functions to a new *Division of Higher Education and Financial Aid* within the Governor's Secretary for Education's Office.
- *January 2007*, Governor Schwarzenegger proposes Budget Bill Language to prioritize CPEC's statutory responsibilities. Budget subcommittee rejects language and defers to the policy committee process.
- *January 2008*, Governor Schwarzenegger reintroduces Budget Bill Language to prioritize CPEC's statutory responsibilities.

Staff recommends that the committee "hold open" the above-noted issues, pending further discussion of CPEC's mission and the condition of the General Fund. **ACTION: Committee Held Open.**

V. PROPOSED CONSENT

Staff recommends "approval" of the following items: **ACTION: Committee Approved (3-0).**

1. Item 6120-011-0001 Support, California State Library. *April Finance Letter; Redirection of Federal Funds* (Issue 487) -\$168,000
2. Item 6120-011-0020 State Law Library, California State Library. Payable from State Law Library Special Account. \$706,000
3. Item 6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. \$7,115,000
4. Items 6120-011-3085 Support, California State Library. *April Finance Letter; Add Item to Appropriate Funds for Mental Health Research Activities* (Issue 488) \$169,000
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16. Item 7980-495 Reversion, California Student Aid Commission.

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

Tuesday, April 15, 2008
1:30 p.m.
Room 113, State Capitol
(Outcomes)
Issue 4 – Page 16

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6110	California Department of Education	
Issue 2	Federal Funds – Update	Page 7
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Issue 4	April Letters – Various Federal Funds Items (Consent)	Page 12
Issue 5	Federal Funds - Title I Set-Aside Funds & School Improvement Grants	Page 17
Issue 6	Federal Funds – Title VI – State Assessments	Page 23
Issue 7	CALPADS – Update & LAO Savings Proposal	Page 24
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Issue 9	State-Mandated Local Costs – Annual Payments	Page 30
Issue 10	State Mandated Local Costs – New Mandates	Page 32

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

ISSUE 1: Alternative COLA Calculations for K-12 Schools and Community Colleges

DESCRIPTION: The current index used to calculate cost-of-living adjustments (COLAs) for K-12 schools and community colleges is the state and local government price deflator. Beginning in 2008-09, the Governor proposes to switch the current COLA index to a modified version of the California Consumer Price Index for Wage Earners and Clerical Workers. The LAO agrees with the need for an alternative, but recommends modifying the current K-14 COLA index to focus more heavily on projected compensation cost increases.

BACKGROUND: The state budget provides annual COLAs to most Proposition 98 K-12 and community college programs to offset the costs of inflation. For most K-12 programs (all revenue limit programs and most categorical programs), COLAs are statutorily required. According to the LAO, COLAs are not statutorily provided for community colleges, but are typically provided for apportionments (general purpose funds) and some categorical programs based upon the K-12 COLA rate. In 2007-08, the K-12 COLA rate was budgeted at 4.5 percent, which resulted in **\$2.1 billion** in new ongoing funds for K-12 schools and **\$263.7 million** for community colleges.

Current COLA Index. The current index used to calculate COLA for K-12 education and community colleges is the state and local government price deflator (GDPSL). This index is calculated by the federal government to reflect changes in costs experienced by state and local governments. The GDPSL includes the following components, summarized by the LAO:

- **Employee Compensation** - salaries and benefits for government employees.
- **Services** - utilities and contracted services, such as financial, professional, and business services.
- **Structures/Gross Investments** - capital outlay, construction and deferred maintenance.
- **Durable Goods** - books, tools, and equipment.
- **Nondurable Goods** - gasoline, office supplies, and food.

GOVERNOR'S BUDGET: The Governor proposes to switch the COLA index from the current GDPSL to a modified version of the California Consumer Price Index for Wage Earners and Clerical Workers. The Governor proposes to make this change beginning in 2008-09. The Governor's January budget estimated the COLA rate under current law (GDPSL) at 4.94 percent; under the Governor's alternative, the COLA rate is estimated at 3.65 percent.

LAO ANALYSIS:

Problems with Existing K-12 COLA Index. The LAO has two major concerns with the existing COLA index (GDPSL):

- 1. The current COLA index does not reflect the typical expenses for K-12 schools.** Schools typically spend about 85 percent of their annual budget on employee salaries and benefits. However, employee compensation comprises approximately 56 percent of the current COLA index. In contrast, the current index provides greater weight for physical structures (construction and deferred maintenance) and durable goods (books, tools, and equipment) than are typical for K-12 schools. (As a reminder: school construction costs are financed at the state level through bond funds, which have their own inflation adjustments.)

Current COLA Not Reflective of Typical School Expenses		
	Share of Average School Expenditures	"Weight" in K-12 COLA Calculation
Employee compensation	83%	56%
Services and nondurable goods	14	35
Structures and durable goods	3	17
Income ^a	—	-8
Totals	100%	100%

^a Some government agencies receive income from activities such as charging tuition or fees. This income offsets costs in other areas.

- 2. Current Index Out of Sync with Employee Compensation; Two Components of Current Index Fueling Recent Growth.** The LAO has analyzed existing K-12 COLA with a particular focus on those components that cause the index to grow. The LAO notes that the increased amounts that districts are paying for employee compensation has not matched the existing COLA rate of growth inherent in the existing COLA calculation. As indicated in the figure below, the growth rate for employee compensation was 3.3 percent in 2004-05, while the K-12 COLA rate was 2.4 percent. In that year, the K-12 COLA did not keep pace with employee compensation costs. In contrast, in 2006-07 the K-12 COLA was 5.9 percent, while employee compensation grew by 3.9 percent.

The K-12 Cost-of-Living Adjustment (COLA) and Its Underlying Components					
Annual Growth Rates	2004-05	2005-06	2006-07	2007-08	2008-09 ^a Estimate
K-12 COLA	2.4%	4.2%	5.9%	4.5%	5.4%
Underlying Components					
Employee compensation	3.3%	3.0%	3.9%	4.1%	4.3%
Services	2.6	3.7	5.4	3.8	4.2
Structures	2.5	6.6	7.7	6.5	5.9
Nondurable goods	4.4	11.8	14.0	6.0	9.9

^a Based on LAO projections. The Governor's budget projected a K-12 COLA of 4.9 percent for 2008-09, but recently released fourth quarter 2007 data indicate the annual COLA rate likely will be higher.

As indicated in the chart, the K-12 COLA nearly doubled between 2004-05 and 2007-08. This increase was fueled by significant increases in the rates for structures and durable goods. Specifically, growth rates for structures and durable goods more than doubled between 2004-05 and 2007-08 -- even though expenses of this nature comprise a small share of K-12 school expenditures. While employee compensation costs, which comprise 85 percent of school expenses, grew overall during this period, they grew at a much smaller rate.

Concerns with Governor's Proposal. The LAO believes the new COLA index proposed by the Governor focuses on cost increases experienced by school employees (at a consumer level) rather than those of the school district (as the employer). Specifically:

- **The CPI Measures Changes in Consumer Prices.** The United States Consumer Price Index (CPI) measures changes in the prices consumers in urban areas pay for a fixed "market basket" of goods and services. The CPI-W, proposed by the Governor, is a subset of the CPI that focuses on spending for urban consumers who are employed in clerical or wage occupations.
- **Administration's Proposal Based on CA CPI-W.** The Governor's proposed change for the K-14 COLA would use an unweighted version of the CA CPI-W reflecting consumer prices in California's two largest urban areas—Los Angeles and San Francisco. State economists use data from the two regions to calculate a state-specific urban price index, known as the CA CPI-W.
- **Administration Believes CA CPI-W Better Measure of School Costs.** Because employee salaries are the largest expenditure category for both K-12 school districts and community colleges, the Administration suggests *employees'* inflationary pressures (increases in their own costs of living) are what drive most of *schools'* inflationary pressures. Therefore, according to the Administration, a measure reflecting employees' consumer costs is a more appropriate COLA than the GDPSL.
- **Proposed Index Does Not Reflect Employer Cost Pressures.** The CA CPI-W focuses exclusively on consumer costs, therefore it may be influenced by cost increases that have no bearing on schools' operational expenses. For example, housing costs make up around 43 percent of the CPI-W market basket. While changes in housing and rental prices have a large effect on the CA CPI-W, these changes have little *direct* effect on school costs. In contrast, the CA CPI-W does not include certain employer-driven costs schools might incur, such as increased costs of employee benefits (health care and retirement), which make up one-fifth of the average school's budget.

LAO ALTERNATIVE: The LAO recommends that the Legislature reject the Administration's proposal. Instead, the LAO recommends the Legislature modify the current K-14 COLA index (GDPSL) to focus on employee compensation cost components. The LAO recommends that this change take effect in 2008-09. According to the LAO, this alternative is simple and transparent and reflects more accurately the

actual cost increases that K-12 schools and community colleges actually face. Specifically, the LAO raises the following issues in support of their proposal:

- **Employee Compensation Component Most Reflective of School Costs;**
- **Other Costs Make Up Relatively Small Share of School Budgets;**
- **National Index Provides More Independent Reflection of Cost Increases;**
- **Maintain Methodology and Timing of Current Index.**

LAO Cost Comparisons COLA Calculation Options. In comparing the costs of the current COLA calculation and the two alternative proposals, the LAO makes the following findings:

- **Costs of Existing COLA Rate Higher Than Alternatives in Recent Years.** Over the past four years (2004–05 through 2007–08), the state paid approximately \$8.3 billion to fund COLAs for K–14 education. Had the K–12 COLA been calculated over the same time period using the Governor's proposed index or our alternative, the costs would have been less—\$5.4 billion or \$6.9 billion, respectively. This is because the existing COLA rate has been notably higher than the two proposed alternatives in recent years.
- **Existing COLA Rate Expected to Be High Again in 2008-09.** As indicated below, the LAO projects the current law COLA (GDPSL) will continue to be higher than the Governor's or LAO alternatives 2008-09. The figure shows that providing COLAs at the current statutory rate of 5.4 percent to the K–14 programs that typically receive them would cost the state approximately \$3 billion in 2008-09. In contrast, estimates are lower for both the Governor's proposed index and our alternative—4.4 percent (revised) and 4.3 percent, respectively—each resulting in a cost of around \$2.4 billion.

Comparing 2008-09 COLA Costs Under Each Option			
<i>(Dollars in Millions)</i>			
	Current Law	Governor's Proposal	LAO Alternative
COLA Rate^a	5.43%	4.40%	4.27%
COLA Costs:			
K-12 revenue limits ^b	\$1,943	\$1,574	\$1,528
K-12 categoricals ^c	729	591	573
Community colleges ^d	341	276	268
Totals	\$3,013	\$2,441	\$2,369

^a Based on updated data. The Governor's budget estimated a current law K-12 COLA rate of 4.94 percent and CA CPI-W rate of 3.65 percent.

^b Includes revenue limits for both K-12 districts and county offices of education.

^c Cost for K-12 programs that typically receive an annual COLA.

^d Includes apportionments and categoricals that typically receive a COLA.

- **Because COLA Rate Likely Will Not Matter in 2008-09, the Time Is Right to Make a Change.** Neither the Governor's proposal to base the K-12 COLA on the CA CPI-W nor the LAO alternative is likely to have an immediate effect in the budget year. This is because K-14 education programs may not receive a COLA in 2008-09. (Neither the Governor's proposed budget nor the LAO alternative include COLAs.) As a result, the budget year seems the ideal time to switch to a better measure.

COMMENTS/RECOMMENDATIONS:

Agreement on Concerns with Existing COLA Calculation. Both the Governor and LAO have concerns with the existing K-12 COLA Calculation (GDPSL) because it is heavily weighted by costs that do not affect schools and community colleges.

Implementation of New COLA Calculation. Both the Governor and LAO recommend that their alternative to the current COLA index take effect in 2008-09. The LAO suggests this is an ideal time for a change since a COLA may not be provided to K-12 schools and community colleges in 2008-09.

Changes to COLA Calculations Would Affect Revenue Limit Deficit Factor. The Governor does not propose to provide a COLA for K-12 programs in 2008-09, but does propose to create a deficit factor for K-12 revenue limits. In this way, revenue limit funding levels would be restored in the future. The Legislature is not required to create a deficit factor for revenue limits when no COLA is provided. However, if the Legislature chooses to provide a deficit factor, changes to the existing K-12 COLA calculation would have an effect on the costs of the deficit factor. Under the current K-12 COLA, the revenue limit deficit factor would reflect \$1.9 billion in costs. The deficit factor would reflect \$1.6 billion under the Governor's alternative and \$1.5 billion under the LAO alternative COLA calculation.

QUESTIONS:

1. *What is the Administration's view of the LAO's alternative COLA proposal, which would modify the current K-12 COLA index to focus on employee compensation?*

ISSUE 2: Federal Funds Overview

DESCRIPTION: According to the latest reports from the federal government, California is estimated to receive **\$6.4 billion** in federal funds for K-12 education in 2008-09. The California Department of Education (CDE) will provide an overview on federal funding for our state.

BACKGROUND: The LAO has prepared the following table that reflects federal funds estimates from the U.S. Department of Education (USDE) to California for FFY 2008, which coincides with the state 2008-09 fiscal year.

Federal Funding for K-12 Education California's Allocation (In Millions)	Estimated 2007-08	Budgeted 2008-09	Change From 2007-08	
			Amount	Percent
No Child Left Behind (NCLB) Programs				
Title I				
Title I Basic	\$1,643.5	\$1,696.4	\$52.9	3.2%
School Improvement	16.6	61.8	45.2	272.3
Reading First	137.0	49.0	-88.0	-64.2
Even Start	9.5	7.2	-2.3	-24.2
Migrant	126.9	29.0	2.1	1.7
Neglected and Delinquent	2.5	2.5	—	—
Impact Aid	53.6	65.2	11.6	21.6
Advanced Placement	3.1	3.1	—	—
Title II				
Improving Teacher Quality	\$331.2	\$333.4	\$2.2	0.7%
Mathematics and Science Partnerships	23.6	21.9	-1.7	-7.2
Educational Technology	32.8	30.5	-2.3	-7.0
Title III				
Language Acquisition	\$169.1	\$177.1	\$8.0	4.7%
Title IV				
Safe and Drug-Free Schools	\$41.5	\$35.2	-\$6.3	-15.2%
21st Century After School	127.7	132.0	4.3	3.4
Title V				
State Grants for Innovative Programs	\$12.1	—	-\$12.1	-100.0%
Title VI				
State Assessments	\$33.4	\$33.4	—	—
Rural and Low-Income Schools	1.2	1.3	\$0.1	8.3%
Small, Rural School Achievement	6.0	6.1	0.1	1.7
Non-NCLB Programs				
Homeless Children and Youth	\$7.7	\$7.6	-\$0.1	-1.3%
Cal-Serve/Service America	1.8	1.8	—	—
Special Education	1,242.9	1,257.8	14.9	1.2
Vocational and Adult Education	140.8	137.4	-3.4	-2.4
Charter Schools	32.6	48.0	15.4	47.2
Child Nutrition	1,647.7	1,644.8	-2.9	-0.2
Child Development	557.3	559.7	2.4	0.4
Totals	\$6,402.1	\$6,442.2	\$40.1	0.6%

The amounts above reflect FFY 2008 funding contained in the Labor, HHS, and Education Appropriations Bill signed by the President on December 26, 2007 (P.L. 110-161). Attachment A summarizes federal grants for the FFY 2001-2007, provided by the USDE on March 6, 2008. The Governor's January budget does not reflect these amounts since federal estimates for the final appropriations measure for federal fiscal year (FFY) 2008 were not available until March.

While federal funds to California grew between \$60 million and \$154 million annually between FFY 2001 and 2005, this trend reversed in FFY 2006 and FFY 2007 when funds for our state dropped by approximately **\$154 million and \$73 million respectively**.

In FFY 2008, federal funds are estimated to *increase* again -- by \$40.1 million overall above the FFY 2007 level. The largest *increases* include Title I Basic Grants – the largest federal grant program for our state – that will grow by **\$52.9 million** (3.2 percent). In addition, the new School Improvement program will provide **\$45.2 million** in additional funding for NCLB accountability activities in California, above the **\$16.6 million** provided for the first year of funding in 2007-08. Charter School funding will increase by **\$15.4 million** (47.2 percent) and Special Education will grow by **\$14.9 million** (1.2 percent). In sharp contrast, federal funding for the Reading First program will *decrease* by **\$88.0 million** (64.2 percent).

COMMENTS/RECOMMENDATIONS: Staff has identified a number of federal programs that warrant further discussion by the Subcommittee. These programs include:

- Title I -- Set-Aside Funds & School Improvement Grants
- Reading First
- Title II – Teacher Quality Grants
- Migrant Education and Title III English Language Instruction
- Special Education
- Title VI -Student Assessment

Some of these programs are covered later in the Subcommittee agenda today--Title I – Set-Aside Funds and School Improvement Grants and Title VI – Student Assessments. The remaining federal programs listed above will be added to the April 29th hearing agenda because CDE has not been able to provide final data on program expenditures and carryover funds available for some of these programs. This information is critical to making final decisions for federal programs, which allows the Legislature to maximize the use of federal funds and to avoid the loss of federal funds through reversion.

CDE is currently working to determine the status of carryover funding for the Title II program, Title III English Language Instruction program, and the Special Education program. Staff is particularly interested in the status of carryover funds for Title III and Special Education programs that were vetoed by the Governor in 2007-08. These funds have not been accounted for by CDE. A partial list of these program vetoes is provided below:

Title III –English Language Instruction

- **Technical Assistance and Monitoring of English Learners in Alternative Schools, Courts Schools and Division of Juvenile Justice Schools.** The budget provided \$1,600,000 and 4.0 positions to CDE to monitor and provide technical assistance to alternative, county court, and Division of Juvenile Justice schools serving English learners. These one-time funds would be provided over a three-year period and intended to build local capacity for better serving youth being shifted from DJJ to county programs.
- **English Learner Best Practices Pilot Program.** The budget provided \$1,000,000 for an evaluation of the English Learner Best Practice Pilot Program established pursuant to the requirements of Chapter 561, Statutes of 2006 (AB 2117). The 2006-07 budget provided \$20 million in one-time funds for the program. The Governor reduced funding for the evaluation by \$500,000.
- **Effective Communication with Non-English Speaking Parents.** The budget provided \$50,000 for an evaluation to ensure that LEAs are employing methods to ensure effective and timely oral communication with non-English-speaking parents.

Special Education Funds:

- **Technical Assistance and Monitoring of Students with Disabilities in Alternative Schools, Courts Schools and Division of Juvenile Justice Schools.** The budget eliminated a \$1,050,000 legislative augmentation to expand special education focused monitoring and technical assistance services in alternative, county court, and Division of Juvenile Justice schools.
- **Best Practices for Students with Specific Learning Disabilities.** The budget deleted a \$400,000 legislative augmentation to create an advisory committee and perform a best practices study that would assist local education agencies in implementing evidence-based practices intended to assist students with specific learning disabilities to improve academically.
- **Independent Evaluation of the Dispute Resolution Services.** The budget eliminated a \$150,000 legislative augmentation to provide an independent evaluation of the special education dispute resolution services provided by the Office of Administrative Hearings.

ISSUE 3: Federal Funds Reporting –LAO Proposal

DESCRIPTION: The LAO recommends that the Legislature require CDE to report annually on federal funding. This action would promote transparency and improve the timeliness of information and would allow the Legislature to consider all options and priorities when making budget and program decisions.

BACKGROUND: The federal government appropriates funds to California for a variety of programs—each with unique requirements on how the funds can be expended and when they will revert if unspent. Currently, CDE is responsible for tracking federal funds appropriations, expenditures, and carryover by year and by program. The CDE is also responsible for adhering to the federal requirements for each “pot” of funding. For each of the programs, CDE needs to track prior- and current-year carryovers as well as budget appropriations. The CDE provides information about federal funds to the Department of Finance and Legislature upon request.

LAO ANALYSIS: The LAO makes a number of findings about federal funding information available to the Legislature for purposes of developing the annual budget for K-12 education:

Current Approach Results in Delays, Inconsistencies, and Extra Administrative Burden. Because only CDE officially tracks the many pots of federal funds, others involved in the K–12 budget process must rely on CDE for updates on available monies. Without a regular reporting cycle for this information, all other interested parties must make ad hoc requests for information. This situation puts a burden on CDE as it often answers the same question multiple times each year. The lack of a regular reporting cycle also results in delays and inconsistency in information for various decision makers (who may ask for information at different times and then have trouble reconciling different answers).

Lack of Transparency Results in Less Effective Decision Making. Without formal dissemination of consistent information, all decision makers do not have a complete picture of information as they begin budget deliberations. For example, only CDE knows the carryover balances for each program. Occasionally, this lack of transparency about available carryover has resulted in federal funds going unspent and reverting to the federal government.

LAO RECOMMENDATIONS: The LAO recommends that the California Department of Education provide the Administration and the Legislature with two annual reports on federal funding—a three-year budget summary and a summary of carryover balances. To maximize efficient use of federal funds, we recommend both reports be produced prior to annual budget deliberations. Specifically, these two new reports include:

Report on Actual Expenditures and Budgeted Appropriations Would Help Inform Budget Process Up Front. The LAO recommends that the Legislature require CDE to provide a three-year picture of federal funds, by program, no later than January 15 of

each year. For each type of activity (state operations, state level activity, local assistance, or capital outlay), this budget summary should include: (1) actual expenditures for the prior year, (2) a revised estimate of current-year expenditures, and (3) the budget-year appropriation. Although too late to be helpful to the Administration in preparing its budget proposal, the January 15 deadline would help ensure more accurate information is disseminated—as the federal budget should be enacted and information distributed to the states by that time. In addition, the January 15 deadline would ensure the Legislature has timely information before beginning its budget deliberations. This deadline also allows for timely current-year corrections.

Report on Available Carryover Would Enable Timely Response and Minimize Reversions. The LAO recommends an annual report of carryover amounts and potential reversion dates for each pot of federal funds (by program and fiscal year) be provided by November 1 of each year. We believe this report could be provided earlier than the three-year budget summary report because it does not rely on recent passage of the federal budget. The somewhat earlier deadline for this report would benefit the Administration in its budget development as well as the Legislature in its budget deliberations. The deadline would also facilitate timely actions to deal with monies in danger of reverting.

COMMENTS/RECOMMENDATION:

Staff supports the LAO's proposal to require annual reporting by CDE on federal funds available for appropriation. As described by the LAO, these reports would reduce overall workload for CDE, provide more consistent information to all parties, better inform decision makers by helping them consider all budget and program options, and allow for timely corrective action to avoid reverting federal dollars.

Staff recommends that the Subcommittee request the LAO to work with staff from CDE, DOF, and the Legislature on the development of specific statutory language for their proposal. Staff further recommends that the Subcommittee consider this language at their April 29th hearing.

ISSUE 4: April Finance Letters – Federal Funds – State Operations and Local Assistance Items (Consent Items)

DESCRIPTION: The Department of Finance (DOF) proposes the following changes to the Governor’s January budget for various federally funded state operations and local assistance programs budgeted within the California Department of Education. These revisions are proposed by the April 1st budget amendment letter (April Letter) from the Department of Finance. These issues are considered technical adjustments to update budget appropriation levels so they match the latest federal estimates and utilize funds consistent with current programs and policies.

1. Items 6110-001-0001 and 6110-001-0890, State Operations, Translation of Parental Notification Documents (Issue 406). It is requested that this item be increased by \$385,000 federal Title III carryover funds. The carryover is a result of a delay in establishing a prioritized list of documents to translate. The State Department of Education (department) will use these funds to complete the initial translations authorized with one-time funds in fiscal year 2007-08. Local educational agencies (LEAs) will have access to the documents through an online clearinghouse.

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

X. Of the funds appropriated in this item, \$385,000 is available to the State Department of Education on a one-time basis for the cost of translating into languages other than English state prototype documents. The department shall contract with appropriate translators or translator services to translate these documents. The department shall post all documents translated as a result of the appropriation referenced in this provision on its existing Internet-based electronic clearinghouse system of state and locally-translated parental notification documents.

2. Items 6110-001-0001 and 6110-001-0890, State Operations, Education Technology Administration (Issue 407). It is requested that language in this item be amended to conform with a reduction of \$404,000 Federal Trust Fund for administration of the Education Technology Program. The Governor’s Budget reduced federal funds for state operations by \$11.0 million because the base appropriation level exceeded the amount of federal funds available to the state. Included within the reduction was \$404,000 that should have been earmarked for administration. Therefore, only a language change is necessary.

It is requested that Provision 7 of Item 6110-001-0890 be amended as follows to conform to this action:

“7. Of the funds appropriated in this item, ~~\$1,470,000~~ \$1,066,000 shall be used for administration of the Enhancing Education Through Technology Grant Program. Of this amount:

(a) \$150,000 is available only for contracted technical support and evaluation services.”

3. Item 6110-102-0890, Local Assistance, Learn and Serve America Program (Issue 164). It is requested that this item be ~~decreased~~ increased by ~~\$10,000~~ \$11,000 Federal Trust Fund to align the appropriation for the Learn and Serve America Program with available federal funds. The program provides grant funding to K-12 schools, community-based organizations, and higher education institutions to facilitate service-learning projects. These funds support school-community partnerships, training and technical assistance resources, as well as the collection and dissemination of research, effective practices, curricula, and service learning program models.

4. Item 6110-103-0890, Local Assistance, Robert C. Byrd Honors Scholarship Program (Issues 646 and 647). It is requested that this item be decreased by \$161,000 Federal Trust Fund, which includes a decrease of \$174,000 to align the appropriation with available federal funds and an increase of \$13,000 to reflect the availability of one-time carryover funds. These funds will be used to promote student excellence and achievement by awarding higher education scholarships on the basis of academic merit to students who show promise of continued academic excellence.

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

X. Of the funds appropriated in this item, \$13,000 is provided in one-time carryover funds to support the existing program.

5. Item 6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 416). It is requested that this item be decreased by \$322,000 federal Title I Neglected and Delinquent Children funds to align the appropriation with available federal funds. LEAs will use these funds for services to educate neglected and delinquent or incarcerated youth.

6. Item 6110-136-0890, Local Assistance, Title I Basic Program, McKinney-Vento Homeless Children Education Program, and Title I Even Start Program (Issues 412, 413, and 414).

It is also requested that this item be increased by \$34,459,000 federal Title I Basic Program funds, which includes an increase of \$15,207,000 to align the appropriation with available federal funds and an increase of \$19,252,000 to reflect the availability of one-time carryover funds. LEAs will use these funds for services to assist economically-disadvantaged students. (Issue 412)

It is also requested that this item be increased by \$1,215,000 Title I McKinney-Vento Homeless Children Education funds, which includes a decrease of \$118,000 to align the appropriation with available federal funds and an increase of \$1,333,000 to reflect the availability of one-time carryover funds. LEAs will use these funds to provide services to homeless students. (Issue 413)

It is also requested that this item be decreased by \$3,007,000 Title I Even Start funds, which includes a decrease of \$4,507,000 to align the appropriation with available federal funds and an increase of \$1.5 million to reflect the availability of one-time carryover funds. LEAs will use these funds for services to improve the educational opportunities of low-income families and for a unified literacy program that integrates early childhood education and parenting education. (Issue 414)

It is also requested that provisional language be added to require the department to allocate all carryover funds in this item on a per-pupil basis by October 1, 2008. The purpose is to allocate funding in a timely manner so that LEAs can use the funds effectively and promptly to improve student performance for these vulnerable populations.

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

X. Of the funds appropriated in Schedule (1), \$19,252,000 is provided in one-time carryover funds to support the existing program.

X. Of the funds appropriated in Schedule (2), \$1,333,000 is provided in one-time carryover funds to support the existing program.

X. Of the funds appropriated in Schedule (4), \$1,500,000 is provided in one-time carryover funds to support the existing program.

~~X. The State Department of Education shall allocate all carryover funds in this item on a per pupil basis by October 1, 2008, to all eligible service providers. Local educational agencies shall use these funds to supplement, but not supplant, one-time base services authorized by law.~~

7. Item 6110-137-0890, Local Assistance, Rural/Low-Income School Program (Issue 415). It is requested that this item be increased by \$152,000 federal Title VI Rural/Low-Income School funds, which includes an increase of \$85,000 to align the appropriation with available federal funds and an increase of \$67,000 to reflect the availability of one-time carryover funds. LEAs will use these funds for services to improve instruction and achievement for children in rural and low-income schools by supporting activities such as teacher recruitment and retention, professional development, educational technology projects, and parental involvement activities.

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

X. Of the funds appropriated in this item, \$67,000 is provided in one-time carryover funds to support the existing program.

8. Item 6110-156-0890, Local Assistance, Adult Education Program (Issue 165). It is requested that this item be ~~decreased~~ increased by ~~\$420,000~~ \$300,000 Federal Trust Fund to align the appropriation with available federal funds. The Adult Education and Family Literacy Act provides federal funds to supplement adult basic skill programs, high school completion programs, and programs that enable adults to become more employable, productive, and responsible citizens. Local programs provide specific instruction to adults in the areas of adult literacy, English as a second language, citizenship, vocational literacy, family literacy, elementary basic skills, high school basic skills, literacy for homeless adults, and literacy for incarcerated adults.

9. Item 6110-183-0890, Local Assistance, Safe and Drug Free Schools Program (Issues 648 and 649). It is requested that this item be decreased by \$4,196,000 Federal Trust Fund, which includes a decrease of \$5,796,000 to align the appropriation with available federal funds and an increase of \$1.6 million to reflect the availability of one-time carryover funds. These funds will be used to support programs that prevent violence in and around schools and prevent the illegal use of alcohol, tobacco, and drugs.

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

X. Of the funds appropriated in this item, \$1,600,000 is provided in one-time carryover funds to support the existing program.

10. Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issues 084 and 085). It is requested that this item be decreased by \$591,000 Federal Trust Fund, which includes a decrease of \$2,091,000 to align the appropriation with available federal funds and an increase of \$1.5 million to reflect the availability of one-time carryover funds. This program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support for mathematics and science teachers.

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

X. Of the funds appropriated in this item, \$1,500,000 is provided in one-time carryover funds to support the California Mathematics and Science Partnership Program.

11. Item 6110-240-0890, Local Assistance, Advanced Placement Test Fee Waiver Program (Issue 650). It is requested that this item be increased by \$561,000 Federal Trust Fund to align the appropriation with available federal funds. These funds will be used by LEAs to reduce Advanced Placement test fees for low-income students.

RECOMMENDATION: *Staff recommends* approval of the DOF April Letter proposals listed in items 1-11 above, including staff revisions highlighted for items 3, 6, and 8. The revisions to items 3 and 8 provide a correction to the April Letter. The revision to item 6 strikes new requirements for allocating funds for three federal

programs. All of the items above are considered technical adjustments, which align available federal funds with existing programs. No issues have been raised for any of these items.

OUTCOME: Approve staff recommendation. Vote: 3-0.

ISSUE 5. Federal Funds --Title I Set-Aside Funds & School Improvement Grants (6110-001-0001/0890 & 6110-134-0890)

DESCRIPTION: The Governor’s January budget and April Finance Letter propose \$189.7 million in 2008-09 for improvement of schools and local education agencies (LEAs) in program improvement under the No Child Left Behind Act (NCLB). The Governor’s proposals provide an additional \$142 million for school improvement programs above the level of funding currently provided in 2007-08. The Governor proposes to appropriate these funds – on a one-time basis – for 97 LEAs facing corrective action in 2007-08, an estimated 50 additional LEAs facing corrective action in 2008-09, and LEAs with schools in the 5th year of program improvement and beyond. The Governor’s program improvement plan for LEAs facing corrective actions reflects the plan recently recommended by the California Department of Education, and approved by the State Board of Education.

BACKGROUND: The No Child Left Behind Act (NCLB) authorizes two programs that provide funding to states for schools and local education agencies (LEAs) to improve the teaching and learning of children failing, or most at-risk of failing, to meet the state academic standards. These programs include (1) Title I Set-Aside Funding for School Improvement, which allows states to utilize four percent of their Title I Basic Grants for school improvement; and (2) the new School Improvement Funding Grant.

GOVERNOR’S PROPOSALS: The Governor’s January budget and April Finance Letter proposals provide an additional \$142 million for school improvement programs above the level of funding currently provided in 2007-08, as indicated by the table below. Of this amount, \$125.7 million is provided from ongoing federal grants and \$64 million is provided from one-time carryover funds.

Federal School Improvement Funding Sources <i>(In Thousands)</i>	One-Time	Ongoing	Total 2008-09
Title I Set-Aside Funds:			
2008 Title I Set-Aside		\$ 65,206	\$ 65,206
Carryover (reverts 08)	\$18,170		18,170
Carryover (reverts 09)	29,188		29,188
School Improvement Grant:			
2008 Improvement Grant		60,492	60,492
2007 Improvement Grant	16,620		16,620
Total	\$63,978	\$125,698	\$189,676

The Governor's proposals provide an additional \$142 million for school improvement programs above the level of funding currently provided in 2007-08.

The LAO has summarized the components of the Governor's budget proposals for utilizing the \$190 million in Title I school improvement funds available in 2008-09:

State School Improvement Activities <i>(In millions)</i>			
Expenditures	2007-08 Estimated	2008-09 Proposed	Description
Statewide Systems of School Support (S-4) (Set-Aside)	\$10	\$10	Funds 11 COE serving as Regional Offices of District and School Support (RSDSS) that provide technical assistance to PI LEAs and LEAs with schools in PI. (Sec. 52059)
School Corrective Action (Set-Aside)	20	0	Provides Title I II/USP state-monitored schools with \$75,000 (elementary and middle schools) to \$100,000 (high schools) for purposes of contracting with at SAIT and \$150 per-student to for implementation of corrective actions. (52055.54)
LEAs entering PI: Planning (Set-Aside)	17	17	Provides LEAs entering PI with \$50,000 base grant plus \$10,000 per Title I school to revise and implement LEA plan. (Sec. 52055.57)
PI LEAs entering Corrective Action (Carryover)	0	47	Provides 97 LEAs entering corrective action in 2007-08 with \$20.99 per pupil with \$50,000 for small districts. Provides 44 LEAs (Tier 1&2) an additional \$250,000 for DAITs. Sets aside \$2 million for state operations.
PI LEAs entering Corrective Action (Set-Aside)	0	38	Provides above funding rates to 50 LEAs expected to enter corrective actions in 2008-09.
LEAs w/ Schools in Program Improvement Year 5+	0	78	Competitive grants for districts with PI Year 5+ schools (104 districts with 304 PI Year 5+ schools eligible.) No budget detail available.
Total	\$47	\$190	

Governor’s Corrective Action Plan for LEAs in the Third Year of Program Improvement

The Department of Education has identified 97 LEAs – 96 school districts and one county office of education – that are in their third year of program improvement and, under the provisions of NCLB, are facing corrective actions. The Governor recommends the following tiered approach for these LEAs in corrective action. This approach is intended to tie the strength of the corrective actions to the relative level of need faced by the LEA.

Tier	Sanction	Funding	Districts
Tier 1: Intensive Intervention	Implement a new curriculum, amend LEA Plan SBE-assigned DAIT Additional monitoring and reporting Possible additional corrective actions as determined by CDE and SBE	\$250,000 plus \$20.99 per-pupil	7 districts
Tier 2: Moderate Intervention	Implement a new curriculum, amend LEA Plan LEAs allowed to select DAIT in consultation with County Office	\$250,000 plus \$20.99 per-pupil	37 districts
Tier 3: Light Intervention	Implement a new curriculum, amend LEA Plan Access technical assistance to analyze LEA needs	\$20.99 per-pupil	45 districts
Other	Implement a new curriculum, amend LEA Plan Target student groups responsible for failure of LEA to make Adequate Yearly Progress (AYP) targets	\$20.99 per-pupil	8 districts

April Finance Letters:

1. 6110-001-0001/0890. State Operations, Federal School Improvement Grant Program (Issue 567). It is requested that this item be increased by \$378,000 federal Title I School Improvement Grant (SIG) funds for 4.0 positions to support the new SIG program. The SIG program will provide funds to LEAs with schools in program improvement or corrective action that demonstrate the greatest set of academic challenges and the greatest commitment to raising student achievement. These positions would establish a competitive grant process, review applications, award funds, and monitor progress. Expenditure of these funds is proposed to be contingent upon final approval of specific program criteria by the State Board of Education.

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

X. Of the funds appropriated in this item, \$378,000 and 4.0 positions are provided to support workload for the federal School Improvement Grant (SIG) program. Expenditure of these funds is contingent upon approval of SIG local educational agency and school site selection and participation criteria by the State Board of Education at or after the May 2008 board meeting.

2. Item 6110-134-0890, Local Assistance, Title I Set Aside Funds.

Align Appropriation with Available Federal Funds. (Issue 564). It is requested that this item be decreased by \$10,794,000 federal Title I Set Aside funds to align the appropriation with available federal funds. LEAs will use these funds for services to improve low-income student academic performance.

2. Item 6110-134-0890, Local Assistance, Title I Set Aside Funds Establish the Federal Title I School Improvement Grant (Issue 566).

It is also requested that Schedule (7) be added to appropriate ~~\$77,113,000~~ \$78,082,000 federal Title I School Improvement Grant (SIG) funds for grants to LEAs. Of this amount, \$16,620,000 reflects the availability of one-time carryover funds. The SIG program will provide funds to LEAs with schools in program improvement or corrective action that demonstrate the greatest set of academic challenges and the greatest commitment to raising student achievement. The department submitted an application and received approval from the U.S. Department of Education for the expenditure of these funds; however, approval of specific program criteria by the State Board of Education is still pending.

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

(7) 10.30.004 – School Improvement Grant.....~~77,113,000~~ 78,082,000

X. The funds appropriated in Schedule (7) shall be available for requirements as specified in the federal No Child Left Behind Act of 2001 (20 U.S.C. Sec. 6303(g)) and are contingent upon approval of local educational agency and school site selection and participation criteria by the State Board of Education after April 1, 2008.

X. Of the funds appropriated in Schedule (7) of this item, \$16,620,000 is provided in one-time carryover funds to support the program.

3. Item 6110-134-0890, Local Assistance, Title I Set Aside Funds. Shift Funding from Schoolsite to Local Educational Agency Corrective Action Activities (Issue 571).

It is also requested that \$20.0 million be shifted from Schedule (3) to Schedule ~~(5)~~ (6), (to eliminate funding for Immediate Intervention/Underperforming Schools Program (II/USP) corrective action activities and provide funding to LEAs for federal No Child Left Behind corrective action and technical assistance activities. Although the II/USP ended in 2004-05, a handful of schools have not exited the program and continue to

receive grants of \$150 per-pupil to implement improvement plans prepared by external evaluators. Instead, it is requested that these funds support the State Board of Education's action to impose corrective action and technical assistance activities on 97 LEAs that recently received federal No Child Left Behind (NCLB) corrective action status. This shift will: (1) eliminate funding for a program that has been replaced by other state and federal programs, (2) improve the nexus between NCLB funding and its requirements, and (3) establish baseline funding for current and future corrective action LEAs.

It is further requested that Provision (3) be deleted as follows to conform to this action:

~~“3. The funds appropriated in Schedule (3) shall be made available to provide \$150 per pupil pursuant to Section 52055.54 of the Education Code in a school that is managed in accordance with paragraph (3) of subdivision (b) of Section 52055.5 of the Education Code or that contracts with a school assistance and intervention team pursuant to subdivision (a) of Section 52055.51 of the Education Code.”~~

CDE ISSUES: The Governor’s proposal reflects the program improvement plan reflected by the California Department of Education (CDE) and adopted by the State Board of Education in March. CDE is concerned about the possible reversion of **\$18.2 million** in Title I Set-Aside Funds that must be spent by September 30, 2008, to avoid reversion.

LEGISLATIVE PROPOSALS:

SB 606 (Perata). Corrective Actions for Local Education Agencies (LEAs) in Program Improvement. This bill appropriates a total of \$47 million in federal Title I funds for a new program to address 97 LEAs that are in their third year Program Improvement under NCLB and facing corrective actions. Of this amount, \$45 million is allocated directly to LEAs; \$1.2 million is provided to CDE for state administration; and \$800,000 is provided for an independent evaluation. In addition, the bill:

- creates a uniform statutory process for the Superintendent to make recommendations on corrective actions for LEAS in program improvement,
- allows the State Board to retain its authority to approve or deny the Superintendent’s recommendations,
- includes the Superintendent’s recommendations in an annual report to the LAO, DOF, and the Legislature,
- limits LEAS from receiving more than one corrective action during a three year period,
- requires districts to be accessed and evaluated by a District Assistance and Intervention Team prior to receiving a trustee,
- delineates the role of a trustee as having stay and rescind authority only over areas that have been specified in the LEA’s self assessment,
- provides guidance for the Superintendent in developing criteria to measure LEA growth over the course of their participation, and

- creates an appeal process for LEAs that have been assigned a District Assistance and Intervention Team and the ability to terminate their contract if the DAIT is not performing their contractual obligations.

LAO ANALYSIS/RECOMMENDATIONS: In evaluating the Governor's proposal for addressing programs improvement for LEAs, the LAO generally supports investments in state/regional infrastructure activities to assist schools and LEAs; advocates for a coherent program improvement plan for schools and LEAs that base relative funding on relative need, i.e. a tiered approach. The LAO does not support direct funding for school sites.

COMMENTS: The Governor's proposed January budget and April Letter proposals for expending Title I Set-Aside Funds and School Improvement Grants for LEAs in program improvement requires both budget and policy consideration by the Legislature. Implementation of any new program will require legislation, and given the size and scope of current proposals, such legislation will benefit from policy committee review. On the funding side, it will be important for the Legislature to appropriate approximately \$18.2 million in federal Set-Aside Funds that the Department of Education estimates will revert if not expended by September 30, 2008. The Governor's proposal provides one-time funds for LEA corrective actions, which allows ongoing funds to be redirected to a new group of LEAs each year. However, the Legislature will need to make sure that carryover funds and ongoing funds available in 2008-09 are expended in a manner that allows options for providing funding for new groups of LEAs facing corrective action each year.

ISSUE 6. Federal Funds - Title VI – State Assessment Funding (6110-001-0001/0890 & 6110-113-0890)

DESCRIPTION: The Governor proposes to increase federal local assistance funds for statewide student assessments by \$3.9 million in 2008-09. This action is intended to offset the proposed reduction of \$9.3 million in General Funds, which is part of the Governor's Budget Balancing Reductions.

BACKGROUND: Federal Title VI funds are authorized under the No Child Left Behind Act. These funds are available to states to support the development of the additional state assessments and standards required by NCLB, or if the state has already developed standards and assessments, funds are available for the administration of those assessments or for other activities related to ensuring that the state's schools and local education agencies are accountable for results.

GOVERNOR'S PROPOSALS: The Governor's January budget and April Letter proposals propose a \$3.9 million increase to Title VI funds for state assessment programs. This includes a \$986,000 reduction to align the appropriation with available federal funds and an increase of \$4.9 million in one-time carryover funds. The Governor intends this increase as an offset to the proposed Budget Balancing Reduction of \$9.3 million in the General Fund state assessment budget item.

April Letter:

1. **Item 6110-113-0890, Local Assistance, Title VI Flexibility and Accountability (Issues 562 and 563).** It is requested that this item be increased by \$3,927,000 federal Title VI State Assessment funds, which includes a decrease of \$986,000 to Schedule (4) to align expenditure authority with available federal funds and an increase to Schedule (4) of \$4,913,000 to reflect the availability of one-time carryover funds. Title VI federal funds are used to develop and implement statewide testing programs such as the Statewide Testing and Reporting Program, the High School Exit Examination, and the English Language Development Test for K-12 public 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), \$4,913,000 is provided in one-time carryover funds to support the existing program.

COMMENTS: The Governor proposes an increase of \$3.9 million in Title VI federal funds for student assessments in 2008-09. The Governor also proposes a \$9.3 million reduction in General Funds for student assessments in 2008-09, as a part of his Budget Balancing Reductions. These one-time federal funds are intended by the Governor to partially offset the effects of the Governor's General Fund reduction in 2008-09. If the Subcommittee does not adopt the Governor's General Fund reductions, the state assessment program will be over-budgeted by \$3.9 million. These funds could be appropriated for other one-time purposes under Title VI, including a one-time offset for state General Fund assessment expenditures in 2008-09.

ISSUE 7: California Longitudinal Pupil Achievement Data System – LAO Proposal

DESCRIPTION: The Governor’s Budget proposes to spend **\$10.9 million** from various funds for the development and administration of the California Longitudinal Pupil Achievement Data System (CALPADS) in 2008-09. The Legislative Analyst’s Office (LAO) supports this level of funding for CALPADS, but recommends maximizing federal funds available for these expenditures in 2008-09. Specifically, the LAO recommends that the Legislature use **\$3.2 million** in federal Title VI funds in lieu of **\$3.2 million** in General Fund (non-Proposition 98) proposed by the Governor for CALPADS in 2008-09. The California Department of Education will provide an update of CALPADS implementation.

BACKGROUND: Current law, established by SB 1453 (2002) and SB 257 (2003), requires that CDE contract for the development of a statewide data system to collect, maintain, and report longitudinal student assessment and other data required to meet federal NCLB reporting requirements, to evaluate education programs, and to improve student achievement. This system is known as California Longitudinal Pupil Achievement System (CALPADS). Senate Bill 1453 and SB 257 identify five basic goals for the state’s longitudinal data system:

- To provide school districts and CDE access to data necessary to comply with federal NCLB reporting requirements;
- To improve evaluation of education progress and investments over time;
- To provide LEAs with information that can be used to improve pupil achievement;
- To provide an efficient, flexible, and secure means of maintaining longitudinal statewide pupil level data; and
- To promote good data management practices for pupil data systems and issues.

CALPADS is envisioned as the foundation of California's K-12 education data system. It will maintain longitudinal, individual-level data including student demographic, program participation, grade level, enrollment, course enrollment and completion, discipline, state assessment, teacher assignment, and other data required to meet state and federal reporting requirements. Education data will be linked longitudinally using a unique, non-personally identifiable Statewide Student Identifier.

CALPADS Implementation. A chronology of major activities related to the CALPADS project is displayed in the table below. On September 12, 2007, CDE submitted a Special Project Report (SPR) to the Department of Finance (DOF) for approval. The SPR provided the DOF with all updated cost estimates, the selected proposed solution, and all changes to the project since approval of the Feasibility Study Report (FSR). DOF approved the SPR in October, the Legislature was notified as required by Budget Control Section 11.0, and the contract was awarded in late December 2007. Work on the contract began in January 2008. According to CDE, CALPADS implementation is scheduled to begin in April 2009 and wrap-up in June 2010.

CDE has prepared the following update on CALPADS project and system development.

Project Development

Project Stage	Start	Completed	Approved/Released
Feasibility Study Report (FSR)	April 2004	August 2004	
FSR Submission 2	January 2005	April 2005	June 2005 – Conditional
Supplemental Report to FSR	June 2005	October 2005	November 2005
Request for Proposal (RFP)	December 2005	June 2006	September 2006
Final Bids Submission/Evaluation	April 2007	May 2007	June 2007
Final Bid Cost Opening		June 2007	
Special Project Report	July 2007	September 2007	November 2007
Section 11	November 2007	December 2007	December 2007
Contract Commences	January 2008		

System Development*

Project Stage	Start	Completed	Approved/Released
Phase 1: Project Initiation	January 2008	May 2008	
Phase 2: Design, Development, Conversion, Testing	April 2008	April 2009	
Phase 3: Pilot User Acceptance Test (UAT)	December 2008	July 2009	
Phase 4: System Implementation	April 2009	June 2010	
Phase 5: Warranty and Maintenance	July 2010	June 2011	
<i>*Projected dates</i>			

CALPADS Costs. The Special Project Report, approved by the Department of Finance in December 2007, provides an updated cost plan for CALPADS as presented below.

<i>Dollars in Millions</i>	05-06	06-07	07-08	08-09	09-10	10-11	11-12	TOTAL
Cost Type:								
One-Time	.560	.675	4.8	9.1	8.9	.050	--	24.2
Ongoing	-	.043	.085	1.04	1.6	7.6	8.1	18.4
Total Budget	.560	.717	4.9	10.1	10.5	7.7	8.1	42.6
Fund Source:								
General Fund	-	-	1.9	9.4	10.2	7.5	8.0	36.9
Redirection	.438	.149	.149	.466	.387	.149	.149	1.9
Reimbursement	-	-	-	-	-	-	-	-
Federal Funds	.122	.568	.881	-	-	-	-	1.6
Special Funds	-	-	-	-	-	-	-	-
Grant Funds	-	-	2.0	.248	-	-	-	2.2
Other Funds	-	-	-	-	-	-	-	-
Total Budget	.560	.717	4.9	10.1	10.5	7.7	8.1	42.6

Source: October 12, 2007 CALPADS SPR (Special Project Report), Submission 2. Approved by Department of Finance in December 2008.

The 2005 Feasibility Study Report for CALPADS estimated total costs of approximately \$17.0 million for CALPADS project development and implementation. Pursuant to the Special Project Report, these costs -- plus the first warranty and maintenance years -- are now estimated at **\$42.6 million**. While the Special Project Report assumes that the General Fund will cover \$36.9 million of these costs, the Governor's 2008-09 budget proposal maximizes other funding sources and limits General Fund to \$3.2 million. The LAO makes further recommendations that would eliminate any need for General Funds in 2008-09. CDE will provide a full status report on the CALPADS implementation timetable, including an update on costs.

GOVERNOR'S BUDGET PROPOSAL: CALPADS funding is subject to appropriations approved as a part of the annual state budget. The Governor's budget proposes a total of **\$10.9 million** in state, federal and other funds for CALPADS in 2008-09. As summarized by the table below, the largest sources of funding include \$5.3 million from the Teleconnect Fund, \$3.2 million in state General Funds, \$1.9 million in federal funds, and \$.6 million in federal Institute of Education Sciences (IES) funds.

Item	GF	Title VI	IES	Tele-Connect Fund	Total 2008-09	Purpose
6110-001-0001	\$1,021,000				\$1,021,000	state ops
6110-001-0001	\$2,181,000				\$2,181,000	one-time purchases
6110-001-0349				\$5,336,000	\$5,336,000	vendor contract
6110-001-0890		\$1,768,000	\$606,000		\$2,374,000	state ops and other project costs
TOTAL	\$3,202,000	\$1,768,000	\$606,000	\$5,336,000	\$10,912,000	

LAO ANALYSIS/RECOMMENDATIONS:

The LAO recommends approval of the **\$10.9 million** in funding for CALPADS in 2008-09. LAO notes that this level of funding is consistent with the expenditure plan outlined in the CALPADS contract, which was signed in late December 2007.

However, the LAO recommends that the Legislature maximize available federal funds for CALPADS in 2008-09 in order to save state General Funds, given the state's current budget shortfall. Specifically, the LAO recommends that the Legislature approve the April Letter to increase this item by \$3.9 million and create a new Schedule (7) for this amount. Additionally, the LAO recommends provisional language clarifying that \$3.2 million of the amount in Schedule (7) is for use in 2008-09 and the remainder of the amount in this schedule is to be carried over for CALPADS in 2009-10.

The \$3.2 million in additional federal Title VI funds proposed by the LAO are available from two sources -- \$2.5 million in ongoing savings for the STAR programs (presented in

the previous agenda item) and \$700,000 in additional funds that are not yet scheduled in the Governor's Budget.

The LAO considers federal Title VI funds to be an appropriate funding source for CALPADS. As authorized under the No Child Left Behind Act, the Title VI program provides funding to states to support the development of the additional state assessments and standards required by NCLB, or if the state has already developed standards and assessments, funds are available for the administration of those assessments or for other activities related to ensuring that the state's schools and local education agencies are accountable for results.

COMMENTS/RECOMMENDATIONS:

Maximizing Federal Funds Good Idea. Staff supports the LAO recommendation to redirect available federal Title VI funds savings to CALPADS in order save state General Fund appropriations in 2008-09. In the face of the state's General Fund shortfall, it is important to maximize federal funds and other non-General Fund sources for CALPADS development and implementation over the next few years. If additional federal funds are needed to eliminate the \$3.2 million in General Fund appropriations proposed by the Governor, it may be possible to redirect additional, available Title VI carryover funds for CALPADS.

CALPADS –High Priority. It is important to keep CALPADS on track even in the midst of the state budget shortfall to avoid any further delays in implementation. The development of student data that can produce longitudinal student performance data, including student graduation and dropout data, is a high priority for the Legislature, as well as the Governor and the Superintendent of Public Instruction.

One-Year Dropout Data Available Soon. CDE has collected two years of fall enrollment data, which reflect Statewide Student Identifiers (SSDs). The department plans to release a one-year dropout rate using this new data by the end of April.

CDE Proposal of LEA Support: CDE continues to support new Proposition 98 funding to support LEA activities related to maintaining SSIDs, collecting and reporting student and teacher level data to CALPADS, and using CALPADS and local data for decision making to increase student achievement. In 2006-07, the Subcommittee provided \$15 million for this purpose as a part of the 2006-07 budget. These funds were eliminated as a part of final budget negotiations. In 2007-08, the Subcommittee provided \$65.0 million in one-time funds over a three-year period for LEA data support. This funding was also eliminated in final budget actions.

ISSUE 8: Statewide Testing and Reporting System -- LAO Proposal (Item 6110-113-0001 & 6110-113-0890)

DESCRIPTION: The Legislative Analyst's Office (LAO) recommends that the Legislature eliminate the norm-referenced portion of the Standardized Testing and Reporting (STAR) program for a total savings of \$2.3 million 2008-09 and \$2.5 million in 2009-10 and beyond.

BACKGROUND: The 2007-08 budget provides \$117 million in state and federal funds to the Department of Education for a number of statewide student assessment programs, including the STAR program. (Attachment B provides a full listing and description of each of these assessments.) These funds are appropriated through the annual budget for the purpose of (1) reimbursing school districts for their local costs of administering the tests, and (2) paying for the statewide costs of developing and maintaining these tests.

The STAR program was created by legislation passed in 1997. In 2004, the STAR program was reauthorized until July 1, 2011, for students in grades 3-11 and until June 30, 2007, for 2nd grade students. SB 80 (Committee on Budget and Fiscal Review) continued the 2nd grade test as a part of the overall STAR program until June 30, 2011.

The two most commonly administered tests in the STAR program are the California Standards Tests (CSTs) --a standards-aligned test -- and the California Achievement Test Sixth Edition Survey (CAT/6 Survey) -- a norm-referenced test. Under the standards aligned test (CST), students in grades 2-11 take at least two tests each year in math and English Language Arts. In addition, students in grades 3 and 7 take the national norm-referenced test (CAT/6 Survey) in both math and English Language Arts.

The STAR program also includes two tests for English learners -- the Standards-based Tests in Spanish (STS), which is a standards based test for students in grades 2-7, and the Aprenda 3, a norm-referenced test for students in grades 8-11. In addition, the STAR program includes two tests for students with disabilities -- the California Modified Assessment (CMA) and the California Alternate Performance Assessment (CAPA).

GOVERNOR'S BUDGET: The Governor's Budget proposes to continue statewide student assessment programs -- including the STAR program -- in 2008-09. The Governor's Budget proposes a total of \$107.4 million for these programs in 2008-09. Of this amount, \$31.3 million is provided from federal Title VI funds and \$76.1 million is provided from state General Funds (Proposition 98). The \$76.1 million in General Funds reflects a \$9.3 million unallocated reduction proposed as a part of the Governor's Budget Balancing Reductions in 2008-09.

Of the \$107.4 million for all statewide student assessments, the Governor proposes a total of \$70.7 million for the STAR program in 2008-09. This amount includes \$8.6 million in federal Title VI funds and approximately \$62.3 million in state General Funds. (The General Fund amount does not reflect the unallocated reduction for all student assessments proposed by the Governor in 2008-09.)

LAO ANALYSIS/RECOMMENDATIONS: The LAO believes that the norm-referenced test no longer serves a critical statewide purpose. Norm-referenced tests are not aligned to our state's curriculum standards. While the STAR program originally included only norm-referenced tests for students in grades 2-11, in 2004-05, the STAR norm-referenced test was scaled back to grades 3 and 7. Since the early 2000s, the STAR program has relied upon the standards-based tests, which are a better measure of student progress per the LAO.

The LAO notes concerns about losing a norm-referenced test that provides information on how well California students compare to other states. However, the LAO suggests that the federally sponsored National Assessment of Educational Progress (NAEP) – provides comparisons to national standards. The NAEP assesses a sample of 4th and 8th grade students in each state, and includes reports for demographic subgroups including English learners and students with disabilities.

For these reasons, the LAO recommends eliminating the STAR norm-reference test currently administered to students in grades 3 and 7 in California. The LAO believes this action will save the state \$2.5 million in 2008-09. In terms of testing time, the LAO estimates that this action will save 2.5 hours of student testing time in 3rd grade and 3.0 hours in the 7th grade. According to the LAO, this would reduce student's testing time by approximately 30 percent for most students in 3rd and 7th grades.

CDE Savings Estimates: The total costs for the norm-referenced test are approximately \$2.5 million in 2007-08. If the test were eliminated, CDE has indicated that not all of this amount could be saved in 2008-09. According to CDE, an estimated \$200,000 in contract costs would need to continue in 2008-09 only. This translates into total savings of \$2.3 million in 2008-09 and \$2.5 million in 2009-10 and beyond.

COMMENTS/RECOMMENDATIONS: Staff supports the LAO's recommendation to eliminate the norm-referenced test, currently administered in grades 3 and 7, as a part of the STAR program effective in 2008-09. This action will result in savings of \$2.3 million in 2008-09 and \$2.5 million in 2009-10 and beyond. In addition, the LAO estimates that this action will save 2.5 hours of student testing time in 3rd grade and 3.0 hours in the 7th grade – an estimated 30 percent reduction in testing time for these students.

In 2004-05 the Subcommittee voted to scale back the norm-referenced test from grades 2-11 to grades 3 and 7 only. This action recognized the declining value of the norm-referenced tests as the standards aligned assessments became fully implemented, but retained assessments for two grades in order to continue some national comparisons. Since that time, the state has come to rely on the standards-based tests even more, as measured its weights within the STAR program. In addition, the NAEP tests provide data that compares California students to nationally-normed standards. While NAEP only tests a sample of California students annually, it provides subgroup data for all the demographic subgroups included in California's norm-referenced test.

ISSUE 9: Education Mandates –Annual Payments (6110-295-0001)

DESCRIPTION: The Governor proposes to continue the practice of deferring payments for annual education program mandate claims in 2008-09. This practice arose in recent years as a means to achieve short-term budget savings. The annual cost of education mandates is estimated at approximately **\$180 million** for K-12 schools. The LAO recommends that the Legislature fully fund the estimated costs of state-mandated local programs in 2008-09 because these costs are part of the education funding base for K-12 education.

BACKGROUND: Beginning in 2001-02, funding for education mandate programs costs basically stopped, and payments were deferred to future years or suspended. This action was taken to reduce expenditures given the fiscal circumstances that year and in subsequent years. By deferring reimbursement of mandate claims, the state does not eliminate obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account. The LAO estimates that the state paid \$48.6 million in interest on the unpaid mandates through 2002-03, the latest figure available.

Governor’s Budget Proposal: The Governor proposes to defer payments for the annual costs of 38 mandated education programs for K-12 school districts and county offices of education in 2007-08. The Governor retains a total of \$38,000, (or \$1,000 for each of these mandates), however the Governor proposes to defer the remaining estimated \$180 million in annual payments for these mandates in 2008-09. This continues the practice in recent years of deferring or suspending annual mandate payments to achieve short term budget savings.

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

LAO Mandated Cost Estimates: According to the LAO, the outstanding mandate balance for K-12 education will total **\$430 million** by the end of 2008-09. This amount reflects unpaid claims from the deferral of annual mandate payments in prior years and the \$180 million in 2008-09.

In addition, school districts have submitted claims of \$560 million for four mandates that are now in the approval process with the Commission on State Mandates. In total, the LAO estimates that school districts would have almost \$1 billion in unpaid mandate claims on file with the state at the end of 2008-09.

LAO Recommendation: The LAO recommends that the Legislature fully fund the annual estimated costs of state-mandated local costs in the 2008-09. Under current law, this requires the Legislature to add an additional \$180 million for the ongoing costs of reimbursable state-mandated local programs. Under the Governor’s proposal, which

changes the timing of mandate payments to reflect the amount claimed by districts in 2006-07, the LAO recommendation would add an additional \$165 million in 2008-09.

In most previous analyses, the LAO has consistently recommended restoration of funding for annual, ongoing education program mandates in order to reduce “education credit card” debt.

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

Comments: Staff agrees with the LAO recommendation in concept to fund \$180 million in annual K-12 mandate payments in 2008-09, because failure to make these payments contributes to future education debt that the state must pay with interest. While the Governor’s budget provides cash savings in 2008-09, the costs do not go away. Obligations will build and place a call on new education funds when the economy recovers. For this reason, staff recommends that the Subcommittee give high priority to paying for the annual costs of state-mandated local programs when it takes final actions following May Revise.

ISSUE 10: Education Mandates – New Mandates

DESCRIPTION: In fulfillment of their statutory responsibility, the LAO has reviewed two new education mandates included in the Commission on State Mandates annual report of new mandates. These two mandates include: teacher assessments pursuant to the Stull Act and the California High School Exit Exam. The LAO does not recommend approval of these new mandates, but makes other recommendations related to these new mandates. These two mandates are not listed in the Governor’s 2008-09 annual mandate claims budget item.

BACKGROUND: The LAO was given responsibility for reviewing and commenting on newly identified mandates pursuant to Chapter 1124, Statutes of 2002 (AB 3000 - Committee on Budget). Pursuant to this responsibility, the LAO has reviewed two new education mandates that were approved by the Commission on State Mandates in their 2007 report of newly identified mandates.

These two new mandates, as summarized below, include: teacher assessments pursuant to the Stull Act and the California High School Exit Exam (CAHSEE). The Commission on State Mandates estimates costs for these mandates would total \$200.2 million through 2007-08. Annual costs for these mandates are estimated by the Department of Finance to total \$29.7 million beginning in 2008-09.

New Mandates Approved by the Commission on State Mandates in 2007			
<i>(In Millions)</i>			
Mandate	Requirement	Accrued Costs Through 2007-08	Estimated Cost in 2008-09
Teacher Evaluations – Stull Act	Evaluate teacher performance in specific areas.	\$165.8	\$22.0
California High School Exit Exam (CAHSEE)	Administer state exam to students beginning in 10 th grade.	37.4	7.7
Totals		\$200.2	\$29.7

LAO ANALYSIS/RECOMMENDATIONS: The LAO has reviewed the Stull Act teacher evaluation and CAHSEE mandates approved by the Commission on State Mandates. The LAO has provided analysis and recommendations for each of these new mandates in their 2008-09 Budget Analysis. In summary, the LAO does not recommend approval of these mandates at this time. Instead, the LAO recommends a number of other actions to the Legislature related to these new mandates, including the following:

Recognize Offsetting Savings for Stull Act Teacher Evaluations. The LAO recommends the Legislature adopt trailer bill language requesting the Commission on State Mandates to review its decision on the Stull Act to identify possible offsetting savings.

Reconsider the Need for Stull Act Teacher Evaluation Mandates. The LAO recommends the Legislature review the need for the Stull Act mandates as part of a comprehensive review of K-12 teacher policies.

Develop Unit Costs for New Testing Mandates. The LAO recommends the Legislature add trailer bill language directing the Commission on State mandates to reconsider the parameters and guidelines for the Standardized Testing and Reporting and California High School Exit Examination mandates. The LAO also recommends language directing the State Controller to propose a reasonable reimbursement methodology for the two mandates based on “cost profiles” of a representative sample of school districts.

COMMENTS:

ATTACHMENT A

U.S. Department of Education, Grants to States, California FFY 2001-2009

<http://www.ed.gov/about/overview/budget/statetables/09stbystate.pdf>

ATTACHMENT B

California Assessment System 2007–08, California Department of Education

<http://www.cde.ca.gov/ta/tg/sa/documents/calassesssys0708.pdf>

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



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

Agenda
April 22, 2008
1:30 p.m. - Room 113

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

ISSUE 1: Office of the Secretary of Education – State Operations

DESCRIPTION: The Governor proposes two major budget changes for the Office of the Secretary of Education (OSE) in 2008-09. The Governor proposes a **\$351,000** decrease to the OSE General Fund budget as a part of his Budget Balancing Reductions for all state agencies. In addition, the Governor proposes to consolidate funding for the State Board of Education within OSE. This proposed consolidation would shift **\$1.6 million** in funding for the State Board from the California Department of Education to OSE.

BACKGROUND: The Secretary of Education, a member of the Governor’s Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation. While OSE has not been established in statute, it has operated for a number of years in an advisory role for the Administration.

The Office of the Secretary is funded annually through two separate budget items. Half of the OSE’s budget appropriation is contained in its main support item (0558-001-0001); the other half of its appropriation is provided through the Governor’s Office of Planning and Research (0650-011-0001).

GOVERNOR’S BUDGET: The Governor’s budget proposes **\$3.7 million** for OSE in 2008-09, an increase of \$1.6 million above the 2007-08 budget. Of total funding proposed, \$3.5 million is General Fund and \$273,000 is provided through reimbursements.

Summary of Expenditures (Dollars in thousands)	Positions			Expenditures		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
	13.0	17.5	25.1	\$2,058	\$2,3238	\$3,700
Funding						
General Fund				\$1,794-	\$1,973	\$3,427
Reimbursements				264	355	273
Total				\$2,058	\$2,328	\$3,700

In addition to a number of baseline adjustments, the Governor’s budget includes two major budget changes:

- 1. State Board Staffing.** The Governor’s January budget proposes to consolidate the administrative staff of the State Board of Education with the Office of the Secretary. This proposal involves a shift of **\$1,576,000** and **7.6 positions** for the State Board from the California Department of Education budget to OSE in 2008-09. This includes one position assigned to the State Board for statutory oversight of charter

schools approved by the Board. According to OSE, the idea behind this proposal is to develop more policy coherence between the State Board and OSE. In addition, there is interest in building more streamlined processes for policy formulation and development.

2. **Budget Balancing Reductions.** The Governor's budget includes an unallocated reduction of **\$351,000** for the OSE budget in 2008-09. This equates to a ten percent reduction to OSE's General Fund budget, which includes the proposed shift of State Board staff. Without the State Board shift, the unallocated reductions would equal \$200,000.

LAO ANALYSIS/RECOMMENDATIONS: The LAO recommends action to move toward the governance structure for OSE and the State Board, as recommended by the K-12 Master Plan report. The LAO will provide more detailed recommendations at the Subcommittee hearing.

COMMENTS:

Administration No Longer Pursuing the State Board Staffing Shift. The Administration has informed legislative staff that it is no longer pursuing the proposal to shift the State Board staff to OSE. While the Administration does not plan to officially rescind their proposal, they request that the Legislature take action to reject the Governor's January budget proposal and restore the funding structures for the State Board and OSE contained in the 2007-08 budget. The Administration does not plan to include this budget change as a part of their May Revise proposals.

Legislative Options for Consolidating or Eliminating OSE. While it is no longer being pursued by the Administration, the proposal to shift funding for the State Board and OSE does raise the possibility of consolidation of OSE and State Board staff that would result in the elimination of duplicative staff and General Fund savings for the state. Of the \$3.7 million proposed for OSE in 2008-09, the Governor provides approximately \$2.1 million to continue the operations of OSE and \$1.6 million for State Board operations.

Currently, OSE has 18 authorized positions; the State Board has 8 authorized positions. Vacancy rates for both agencies have fluctuated significantly in recent years. Currently, 16 of OSE's 18 authorized positions are filled (2 vacancies) and 2 of the State Board's 8 authorized positions are currently filled (6 vacancies). Under the Governor's original consolidation proposal, funding at OSE would have been available for support of the State Board. Given the high vacancies at the State Board and OSE and given some initial interest in combining their functions by the Administration, it may be possible to consolidate functions for the two entities and reduce funding. Savings associated with persistently vacant positions at both entities could total approximately **\$1.0 million** in 2008-09.

Given the state budget shortfall, the Legislature could also consider elimination of OSE. The office does not administer education program nor does it provide direct program, policy, or budget oversight to other state education departments or agencies. OSE has never been established statutorily. Total elimination of OSE would generate approximately **\$2.1 million** in General Fund savings. Alternatively, the Legislature could consider reducing direct funding to OSE of approximately **\$1.0 million** and retaining **\$1.0 million** in remaining funding for the Office of Planning and Research for education policy.

RECOMMENDATION: *Staff recommends* that the Subcommittee hold off on action on the OSE budget until after May Revise.

6110 California Department of Education

ISSUE 2: State Operations – CDE Headquarters (6110-001-0001/0890)

DESCRIPTION: The Governor proposes a ten percent unallocated reduction for the California Department of Education (CDE) state operations budget as a part of his Budget Balancing Reductions. This reduction equates to a **\$5.6 million** unallocated reduction in 2008-09 for CDE headquarters staff. In addition, the Governor proposes a number of smaller adjustments for headquarters staff and operations – primarily staffing increases and decreases – in 2008-09 that are included in the Governor’s January budget and a Department of Finance April Finance Letter. CDE will update the Subcommittee on plans to implement the Governor’s unallocated reduction and its impact on the department’s operations. The department will also summarize other state operations adjustments proposed by the Governor in 2008-09.

BACKGROUND:

California Department of Education Authorized Positions and State Operations Funding			
	06-07	07-08	Proposed 08-09
Authorized Positions			
Headquarters	1,575.3	1,583.9	1,582.0
State Special Schools	1,007.4	1,008.4	1,008.4
Total before Salary Savings	2,582.7	2,592.3	2,590.4
Funding			
CDE Headquarters			
General Fund	52,147,000	55,395,000	50,399,000
Federal Fund	162,161,000	160,883,000	152,481,000
Other (Restricted)	33,784,000	36,392,000	39,653,000
Total	248,092,000	252,670,000	242,533,000
Percent General Fund	21%	22%	21%
Percent federal	65%	64%	63%
CDE State Special Schools			
Proposition 98 GF	44,533,000	45,759,000	41,406,000
Non-Proposition 98 GF	39,323,000	40,587,000	38,371,000
Federal Fund			
Other	6,054,000	6,176,000	6,337,000
Total	89,910,000	92,522,000	86,114,000
CDE Headquarters & State Special Schools			
General Fund	136,003,000	141,741,000	130,176,000
Federal Fund	162,161,000	160,883,000	152,481,000
Other	39,838,000	42,568,000	45,990,000
Total	338,002,000	345,192,000	328,647,000

Except for 2008-09, data are current-year estimates (middle column) from the Governor's Budget.

GOVERNOR'S BUDGET:

Budget Balancing Reductions. As a part of the Governor's Budget Balancing Reductions (BBRs), the Governor proposes a **\$5.6 million** reduction for CDE headquarters staffing and operating expenses. This equates to a ten percent reduction to the General Fund budget for CDE headquarters budget. CDE headquarters staff administer state education programs and provide program support to local education agencies. As proposed by the Governor, the Superintendent of Public Instruction would have discretion to allocate this reduction.

Governor's Budget – Other CDE Staffing Proposals. The Governor January budget and April Letter propose the following adjustments for the Department of Education:

General Fund Adjustments:

- **Shift Funding and Staff for State Board of Education to Office of the Secretary (OSE).** Shifts \$1,567,000 in state General Funds and 8.0 positions for the State Board of Education to OSE. This issue is fully described in the OSE item of this Subcommittee agenda. The Administration is no longer pursuing this proposal.
- **School Districts of Choice.** Provides \$131,000 in state General Funds for 1.0 position to meet reporting requirements required as part of the sunset extension of the Districts of Choice program enacted by SB 80 (Chapter 174; Statutes of 2007). This measure mandated new reporting and evaluation requirements. Districts must report data and information about student inter-district transfers. CDE must now collect, analyze, and post information about inter-district transfers and must also prepare a comprehensive evaluation study of transfer options for students.
- **Anti-Discrimination Monitoring.** Provides \$40,000 in state General Funds for 0.3 position to implement the requirements of AB 394 (Chapter 566, Statutes of 2007). This measure requires CDE to assess local education agencies -- as part of the department's existing monitoring process -- for compliance with specific anti-discrimination and harassment policies and procedures to protect students, and to display specific discrimination and harassment prevention information on their website.
- **Math and Reading Professional Development Program – English Learners.** Provides \$109,000 in state General Funds to continue and make permanent 1.0 position to administer the provisions of SB 472 (Chapter 524; Statutes of 2006). This measure authorizes an English Learner component to the Math and Reading Professional Development program. The 2006-07 Budget Act added \$25 million

in ongoing funding for this program. The current position within CDE is authorized until June 30, 2008.

- **Career Technical Education Website Development and Maintenance.** Provides \$100,000 in state General Funds for 1.0 limited-term position to implement AB 597 (Chapter 529, Statutes of 2007). This measure requires CDE to create a comprehensive, easy to access, user-friendly website with information about Career Technical Education opportunities and programs available in the state.
- **Reading Language Arts Adoption.** Provides \$102,000 in General Funds to provide support for the 2008 Reading Language Arts instructional materials adoption.

Federal Funds Adjustments:

- **Child Care - Alternative Payment Monitoring.** Provides \$742,000 in federal Child Development funds for 7.0 positions to meet new federal audit requirements for the Improper Payments Information Act, which became effective October 1, 2007.
- **Teacher Data System.** Provides \$231,000 in federal Title II funds for 2.0 limited-term positions related to development of the California Longitudinal Teacher Integrated Data System (CALTIDES). These limited-term positions would be available for one year only.
- **California High School Exit Exam (CAHSEE).** Provides \$103,000 in federal Title VI funds for 1.0 position to monitor changes to CAHSEE pursuant to AB 347 (Chapter 526, Statutes of 2007). This measure implemented a settlement agreement in the *Valenzuela v. O'Connell* lawsuit by requiring school districts to provide intensive instruction and services for two additional, consecutive years to pupils who have not passed the high school exit examination by the end of twelfth grade. According to CDE, this position will facilitate the administration of the new exam requirements, communicate with local education agencies, prepare bill analyses and State Board of Education items, and help to monitor the CAHSEE contractor for compliance.
- **Child Nutrition and Information and Payment System (CNIPS).** Provides \$1,874,000 in federal Child Nutrition funds to extend 7.2 limited-term positions for one additional year. CNIPS is an information technology system used to administer four United States Department of Agriculture (USDA) programs, including School Nutrition, Child and Adult Care Food, Summer Food, and Food Distribution. Delays in software contract approval and design complexities have delayed implementation of the project by one year.

DOF April Letter Requests:

- **Federal School Improvement Grant Program (Issue 567).** Requests \$378,000 in federal Title I School Improvement Grant (SIG) funds for 4.0 positions to support the new SIG program. The SIG program will provide funds to LEAs with schools in program improvement or corrective action that demonstrate the greatest set of academic challenges and the greatest commitment to raising student achievement. These positions would establish a competitive grant process, review applications, award funds, and monitor progress. Expenditure of these funds is proposed to be contingent upon final approval of specific program criteria by the State Board of Education.
- **Federal Child and Adult Care Food Program (Issue 643).** Requests an increase of \$172,000 in Federal Child Nutrition Funds to establish 2.0 positions to improve the department's compliance monitoring and technical assistance for the federal Child and Adult Care Food Program. This program provides funding to licensed child care centers, adult day care centers, and organizations that sponsor day care homes to ensure participants receive nutritionally-adequate meals and snacks. Recently, the federal government found an increasing number of sponsors that are seriously deficient in their administration of the program. As a result, the U.S. Department of Agriculture and Congress have imposed new financial management requirements on sponsors and additional oversight responsibilities for the department.

CDE STAFFING ISSUES: There are a number of positions 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.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee delay approval of the Governor's proposals for CDE state operations until after May Revise to coordinate with actions for General Fund Proposition 98 local assistance programs and actions on federal programs.

Staff further recommends that the Subcommittee request CDE to develop a general plan for implementing the **\$5.6 million** in unallocated reductions proposed by the Governor and provide that plan to the Subcommittee prior to May Revision.

ISSUE 3. State Operations – State Special Schools (6110-001-0001, 6110-005-0001, 6110-006-0001)

DESCRIPTION: The Governor proposes to reduce the General Fund budget for the State Special Schools by a total of **\$9.2 million** in 2008-09, as a part of his Budget Balancing Reductions. This amount includes a **\$5.1 million** reduction in Proposition 98 General Funds and **\$4.2 million** in Non-98 General Funds. The State Special Schools will describe their specific plan for implementing the Governor’s unallocated reduction and assess its impact.

BACKGROUND: These schools are administered by the California Department of Education. The State Special Schools include the California Schools for the Deaf in Fremont and Riverside and the California School for the Blind in Fremont. Students attending State Special Schools are served in residential or day programs. The two Schools for the Deaf provide instructional programs to approximately 927 deaf students and the California School for the Blind provides instructional programs for approximately 89 blind, visually-impaired, and deaf-blind students in 2007-08.

State Special School Enrollments	2004-05	2005-06	2006-07	2007-08
School for the Deaf, Riverside	484	449	430	443
School for the Deaf, Fremont	473	490	485	484
School for the Blind, Fremont	85	88	85	89
TOTAL	1,042	1,027	1,000	1,016

In addition, the State Special Schools include three State Diagnostic Centers regionally located in Fresno, Fremont, and Los Angeles. These centers administer assessment to approximately 1,500 students per year and provide training to 31,000 educators annually. Approximately 250 assessments occur annually at the three centers; the remaining 1,250 are considered “field” assessment, which take place within local education agencies.

GOVERNOR’S BUDGET: The Governor's budget proposes total General Fund support of **\$78.8 million** for the state’s three special schools and three diagnostic centers in 2008-09. Of this amount, **\$41.4 million** is provided by Proposition 98 General Funds and **\$37.4 million** is provided by Non-98 General Funds. There are currently a total of 1,080 authorized positions for the special schools and diagnostic centers.

Governor’s Budget Balancing Reductions. The Governor proposes to reduce the General Fund budget for the State Special Schools by a total of **\$9.2 million** in 2008-09, as a part of his Budget Balancing Reductions. This amount includes a **\$5.1 million** reduction (10.9 percent) for Proposition 98 General Fund appropriations and **\$4.2 million** (10 percent) for Non-98 General Fund appropriations in 2008-09.

CDE/STATE SPECIAL SCHOOLS ISSUES: The State Special Schools has developed a specific plan for implementing the Governor's \$9.2 million unallocated reduction. According to their plan, the Governor's reduction will result in the elimination of 68.5 positions at the State Special Schools and Diagnostic Centers. Specifically, the Governor's reduction will require layoff of 26.5 filled positions, elimination of 36.5 vacant positions and demotion of 5.5 other positions. A summary of these position reductions is provided below:

- 17 Teachers
- 11.5 Teaching Specialists
 - 1 Teaching Supervisor
- 11 Teaching Assistants
 - 2 School Counselors
 - 1 Supervising Nurse
- 0.5 Physician
 - 1 Security Guard
 - 1 Night Attendant
- 13 Dormitory Counselors
 - 2 Supervising Dormitory Counselors
 - 2 Office Technicians

Unlike local assistance programs, the Governor did not build a workload budget for the Special Schools that included a 4.9 percent cost-of-living adjustment (COLA) for programs prior to applying the ten percent reduction. However, the Special Schools did receive a ~~4.9~~ 2.0 percent price increase for their programs and compensation adjustments for their employees.

LAO ANALYSIS/RECOMMENDATIONS: The LAO suggests looking into federal special education carryover funds to backfill the Governor's proposed reduction, which they believe is an allowable use of federal funds.

COMMENTS/RECOMMENDATIONS: *Staff does not recommend* support for the Governor's **\$9.2 million** unallocated reduction because it results in direct reductions of instruction and support services for students at the State Special Schools. While the State Special Schools has developed a plan for implementing the Governor's reductions, staff does not support that plan, which specifies reductions to instructional staff and other student support personnel. Instead, *staff recommends* that the Subcommittee consider the State Special Schools as a local assistance program in considering budget reductions because the State Special Schools provide direct instruction and support to students.

Staff further recommends that the Subcommittee delay action on the **\$9.2 million** unallocated reduction proposed by the Governor in 2008-09 for the State Special Schools

in order to explore other savings options for the State Special Schools that do not affect the instruction and support for students attending the State Special Schools. Specifically, *staff recommends* that the LAO evaluate the possibility of savings associated with reducing field assessments conducted by the State Diagnostic Centers for local schools districts or charging local districts for the costs of providing those assessments.

Staff also supports the LAO's suggestion to explore the availability of federal funds to backfill the Governor's proposed reductions.

ISSUE 4. State Special Schools -- Capital Outlay (6110-301-0660)

DESCRIPTION: The Governor proposes three capital outlay projects for the State Special Schools. The Governor requests a total of **\$36.4 million** in new funding for these projects. All projects will be funded with lease-revenue bonds. These bonds will be financed with state General Funds -- appropriated to the California Department of Education -- once the projects are completed.

BACKGROUND: The State Special Schools has six facilities under its jurisdiction: three residential schools and three diagnostic centers. The residential schools include the Schools for the Deaf in Riverside and Fremont and the School for the Blind in Fremont. The State Diagnostic Centers are regionally located in Fresno, Fremont, and Los Angeles. These state facilities comprise a total of 960,000 gross square feet on 176 acres of land.

GOVERNOR'S BUDGET: The Governor's January 10 budget proposes two new capital outlay projects for the State Special Schools. These projects involve funds for renovation of athletic facilities at two of the State Special Schools, as follows:

1. **Athletic Complex, California School for the Deaf, Fremont.** Requests **\$14,371,000** to renovate the football field and surrounding track and to add athletic locker room space at the California School for the Deaf, Fremont. The project includes the addition of an artificial turf football/soccer field, synthetic running track, field access, raised bleachers, press box, concession and restroom facilities, storage, equipment, fencing, parking, athletic locker rooms, stadium field lighting, drinking faucets, sideline team benches, and cable for the public address system and scoreboard.

2. **Athletic Complex, California School for the Deaf, Riverside.** Requests **\$17,123,000** to design and construct an athletic complex at the California School for the Deaf, Riverside to ensure the safety of participants and spectators and maximize the use of the files available for interscholastic sports, physical education classes, school functions, and recreational activities for residential students. The complex will be utilized for different sporting events including soccer, baseball, softball, track and field, football, and intramural activities for all students. The complex will improve accessibility, safety and convenience for those attending and participating by adding bleachers, lighting, restrooms, concession stand, electronic scoreboard with message boards, drinking fountains, storage, security, fencing, and accessible pathways.

DOF April Letter. The April DOF Letter requests the reappropriation of \$8,146,000 approved in the 2006-07 Budget Act and an augmentation of \$4,912,000 for the Kitchen and Dining Hall Renovation at the California School for the Deaf, Riverside. The total estimated cost at the end of the preliminary plan phase increases to \$13,670,000 with this augmentation. The April Letter request is provided below:

3. **Kitchen and Dining Hall Renovation, California School for the Deaf, Riverside.** Requests that Item 6110-301-0660 be increased by **\$4,912,000** to augment

the construction phase for the Kitchen and Dining Hall Renovation project at the California School for the Deaf, Riverside. During the design phase, it was determined that the project scope would need to include: (1) extra bathroom facilities in order to meet state plumbing codes and (2) redesign of the kitchen layout to prevent contamination of food during preparation and serving.

LAO ANALYSIS/RECOMMENDATIONS: The LAO has several concerns with the Governor's three capital outlay requests for the State Special Schools. With respect to the athletic complex and football field projects, the LAO is concerned about the high costs associated with the projects and will be exploring lower-cost alternatives that would focus on making the athletic fields safe place for students. In addition, the LAO will investigate the possibility of developing partnerships with local schools and cities to share facilities for athletic events.

The LAO will also investigate whether it would be more cost-effective to build a new kitchen/dining complex rather than continuing with the kitchen/dining project renovation project.

The LAO will be visiting project sites at the State Special Schools to evaluate the Governor's capital outlay proposals and develop recommendations to the Subcommittee.

COMMENTS/RECOMMENDATION: *Staff recommends* that the Subcommittee hold off on action on the Governor's capital outlay proposals for the State Special Schools until after May Revise in order to receive additional information and recommendations from the LAO and to better align capital outlay decisions – which carry long-term General Fund costs -- with the most current fiscal information for the state.

6360 Commission on Teacher Credentialing

ISSUE 5: Commission on Teacher Credentialing – State Operations and Local Assistance

DESCRIPTION: The Governor’s budget for the Commission on Teacher Credentialing (CTC) estimates healthy fund balances for the two major special funds that support the CTC – the Test Development and Administration Account and the Teacher Credentials Fund in 2008-09. The Governor proposes increases for three state operations programs funded through these special funds or federal funds. As a part of his Budget Balancing Reductions, the Governor also proposes a **\$4.3 million reduction** to three Proposition 98 General Fund local assistance programs administered by CTC. The CTC will provide background on the Governor’s proposals; an update on special fund balances and credential workload; and present alternative savings proposals to the Governor’s reductions for local assistance programs.

BACKGROUND: The Commission on Teacher Credentialing (CTC) is responsible for the following:

- Issuing credentials, permits, certificates, and waivers to qualified applicants;
- Enforcing standards of practice and conduct for license applicants and holders;
- Developing standards and procedures for the preparation and licensure of school teachers and school service providers;
- Evaluating and approving teacher and school service provider preparation programs; and
- Developing and administering competency exams and performance assessments.

The CTC currently receives approximately 270,000 applications annually for approximately 200 different types of credentials, emergency permits, and credential waivers.

GOVERNOR’S BUDGET: The Governor’s Budget proposes **\$56.7 million** for the CTC’s budget in 2008-09.

Commission on Teacher Credentialing: Summary of Expenditures by Fund			
<i>(Dollars in Thousands)</i>	Actual 2006-07	Estimated 2007-08	Proposed 2008-09
General Fund, Proposition 98	31,034	35,881 ^{1/}	35,881 ^{2/}
Teacher Credentials Fund	15,323	15,273	15,366
Test Development and Administration Account	4,602	4,265	5,091
Reimbursements	903	248	398
Total Expenditures (All Funds)	\$51,862	\$55,667	\$56,736

1/ This reflects a reduction of \$4.0 million for the Special Session reductions. It is important to note this reduction did not impact the programs reduced. 2/ This reflects the proposed \$4.0 million reduction included in the Governor’s Budget for the proposed 10 percent across-the-board reduction.

In total, the Governor’s Budget proposes to expend \$20.4 million from CTC’s two special funds -- the Teacher Credentials Fund and the Test Development and Administration Account – in 2008-09.

The Governor’s budget proposes **\$35.9 million** from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Assignment Monitoring Program. This amount includes the **\$4.3 million** reduction for these programs proposed by the Governor in 2008-09 as a part of the Budget Balancing Reduction. (A similar reduction was enacted for these programs in 2007-08, as a part of AB 4xxx, which was passed during special session earlier this year.)

Summary of Credential Workload. The CTC currently receives more than **270,000 applications** for credentials and credential waivers. As indicated below, the number of applications has continued to increase in recent years. In 2007-08, CTC is experiencing an increase of 5 percent in the application volume from FY 2006-07.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Est. 2007-08	Est. 2008-09
Credential Applications Received	215,954	239,501	250,701	235,327	233,164	240,159	254,892	267,637	264,153
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,561	2,561	2,561
Total	223,819	247,419	255,845	238,154	235,566	242,159	257,453	270,198	266,714
Credential Processing Staff*	82.1	83.2	77.4	71.2	60.6	65.2	66.8	75.9	69.1
Credential Fees	\$55	\$55							

*Certification Assignment and Waivers Division Staff

Elimination of Credentialing Backlog: There is currently no backlog in application processing. In recent years, the Legislature and Administration provided additional resources to CTC to address a credentialing backlog. In May 2006 the workload hit an all time high of 80,000 pending paper applications. In 2006-07, the backlog was substantially reduced and in 2007-08 the backlog has been eliminated.

Of total applications, 54 percent are being processed on-line within 10 working days. The other 46 percent of applications are processed within the required 50 working day processing time. AB 469 (Horton), 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 new processing time within the newly required 50 day limit.

Credential Staffing Changes: In 2006-07 the four (4) Consultant level positions from the Professional Services Division were bifurcated to seven (7) lower level positions and

transferred to the Certification, Assignment and Waivers Division to address the credentialing backlog. Now that the credentialing workload is aligned with the required processing times, at the end of FY 2007-08 this transfer is scheduled to expire and the four (4) positions will return to the Professional Services Division to address the on-going accreditation workload.

Healthy Fund Balances Estimated. The Governor's budget projects positive, healthy fund balances for CTC's two special funds in 2008-09. The budget estimates that the fund balance for the Teacher Credentials Fund will total \$5.1 million in 2007-08, assuming seven percent growth from 2007-08. The CTC will continue to monitor the estimates and will update the projections as necessary. The budget also estimates that the fund balance for the Test Development and Administration Account will total \$3.1 million in 2007-08.

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

GOVERNOR'S 2008-09 BUDGET PROPOSALS:

1. **Budget Balancing Reductions.** The Governor January budget proposes a **\$4.3 million** reduction for three General Fund (Proposition 98) local assistance programs administered by CTC. The Governor proposes ten percent reductions for each of these programs, as follows:

- Alternative Certification Program (\$3.5 million)
- Paraprofessional Teacher Training Program (\$855,000)
- Teacher Assignment Monitoring Program (\$34,000)

COMMENTS: The CTC has proposed an alternative reduction plan which yields a total of **\$5.9 million** in 2008-09. This provides additional General Fund savings of approximately \$1.6 million in 2008-09. These reductions reflect natural savings – associated with alignment of funding with program enrollment. CTC estimates savings of \$5,213,000 for the Alternative Certification and \$689,000 for the Paraprofessional Teacher Training Program. The CTC recommends no reductions for the Teacher Assignment Monitoring program.

Staff recommends approval of the CTC's alternative budget reduction proposal of **\$5.9 million**. This action would provide additional savings of approximately **\$1.6 million** in 2008-09 beyond the Governor's Budget, without reducing program services.

OUTCOME: Approve CTC alternative budget. Vote: 3-0.

2. **Budget Adjustments – Teacher Data System.** The Governor’s January budget proposes an increase of **\$398,000** in federal Title II funds for continued development of the California Teachers Integrated Data System (CALTIDES) in 2008-09. This proposal would provide **\$248,000** in ongoing funding for **2.5 positions** to staff the CTC based upon the approved Feasibility Study Report approved by the Department of Finance in May 2006. The proposal would also provide **\$150,000** in one-time funds for temporary help staff to convert information on lifetime credential holders from microfilm to electronic media. This information is a part of CTC’s existing database that will be utilized by CALTIDES.

COMMENTS: Staff recommends approval of Governor’s Budget.

OUTCOME: Approve as Budgeted. Vote: 2-1.

3. **Budget Adjustments – California Formative Assessment and Support System for Teachers (CFASST).** The Governor’s January budget proposes \$900,000 in expenditure authority from the Test Development and Administration Account (TDAA) in both 2008-09 and 2009-10 for the review and continued development of the state’s formative teacher assessment system – CFASST. This assessment system is used for the Beginning Teacher Support and Assessment (BTSA) program. This work will be performed under contract with local education agencies. This project is intended to improve the CFASST in response to concerns identified by the BTSA evaluation completed in 2007.

COMMENTS: Staff recommends approval of Governor’s Budget.

OUTCOME: Approve as Budgeted. Vote: 3-0.

4. **April Budget Adjustments – Validity Studies and Examination Development.** As reflected in the Department of Finance April Letter, the Governor proposes to increase the expenditure authority of the Test Development and Administration Account by **\$350,000** to support teacher examination validation studies and examination development activities. Current law requires the CTC to ensure that teacher exams are valid and aligned with the state’s academic content standards and frameworks. These teacher exams include the California Basic Educational Skills Test, California Subject Matter Examinations for Teachers, and Reading Instruction Competence Assessment.

COMMENTS: Staff recommends approval of Governor’s Budget.

OUTCOME: Approve as Budgeted. Vote: 3-0.

SUMMARY OF STAFF COMMENTS/RECOMMENDATIONS: In summary, staff recommends that the Subcommittee approve the Governor's Budget for the three CTC *state operations* proposals outlined above (Items 2, 3 & 4). The Governor's three state operations proposals are funded either through CTC special funds or federal funds and do not affect the state General Fund.

In addition, *staff recommends* the Subcommittee not approve the Governor's **\$4.3 million** in reductions for CTC's three Proposition 98 *local assistance* programs in 2008-09 and instead approve the CTC's alternative reductions for these programs (Item 1). The CTC's alternative reductions for two programs would save **\$5.9 million** in 2008-09, or \$1.6 million more than the Governor's proposal without reducing program services.

ISSUE 6: School Facilities – LAO Proposals

DESCRIPTION: The Legislative Analyst's Office (LAO) has concerns with the Governor's Strategic Growth Plan for K-12 school facilities. Specifically, the LAO believes the Governor's plan fails to address underlying data issues and problems with the state bond Financial Hardship Program. The LAO also believes that while the Governor's plan would make significant improvements to facilities programs for charter schools, additional changes would be beneficial. The LAO will present their findings and recommendations on these issues to the Subcommittee.

BACKGROUND:

Governor's Strategic Growth Plan: As a part of the Governor's Strategic Growth Plan, the Administration proposes to place **\$11.6 billion** in new state general obligation bonds for K-12 education facilities before the voters in 2008 and 2010.

Governor's Proposed Bond Measures for K-12 Education			
(In Billions)			
	2008	2010	Totals
School Facilities Program:			
New construction	\$4.4	\$2.3	\$6.8
Modernization	—	0.8	0.8
Charter schools	1.0	1.0	2.0
Career technical education	1.0	1.0	2.0
Totals	\$6.4	\$5.2	\$11.6
Detail may not total due to rounding.			

As a part of his 2008 bond proposal, the Governor also makes several changes to the current bond program. As summarized by the LAO, these changes include:

Fewer Specific Types of Projects Funded. As shown in the figure above, the Governor's 2008 and 2010 bond proposals provide funding for fewer specific types of facility projects than Proposition 1D. Neither the 2008 nor 2010 measures would provide funding for overcrowded schools and environmentally friendly (or "green") schools. In addition, the proposed ballot measure for 2008 would provide no funding for modernization of school facilities. School districts

have been applying for modernization funds at much lower rates than expected; leaving a significant amount of the \$3.3 billion provided by Proposition 1D unspent. As of January 30, 2008, only \$591 million in modernization funds had been “reserved” by local school districts.

Changes to Charter School Programs. The Governor's bond proposal also includes various changes to the current program for charter school construction, as well as the Charter School Facility Grant Program that provides funding for rent and lease costs. These changes include:

- **Additional Options With Regards to Holding Title.** The Governor's bond proposal would allow another local government entity besides a school district—such as a city, county, or county board of education—to own title of a charter school facility. In addition, if a charter school is unable to find a local government agency to agree to hold title to the facility, the charter school may hold title. In such cases, the state would be able to recover the property if the school’s charter was revoked or if the charter school was unable to pay back its loan from the state
- **Gives Preference to Low-Performing Districts.** Under the current charter school bond program, charter schools are given priority if they are in an overcrowded district, a low-income area, are operated by a nonprofit group, or utilize existing school district facilities. The Governor proposes to eliminate the preference for schools in overcrowded districts and would instead include a preference for charter schools in low-performing school districts.
- **More Flexibility for Charter School Facility Grant Program.** The Governor proposes to apply some of the flexibility of the federal State Charter School Facilities Incentive Grants Program to the state Charter School Facility Grant Program. In addition to using funds for lease costs, charter schools would be able to use the funds for debt service or mortgage payments related to construction of new facilities.

Creates a Small High School Pilot Program. The Governor proposes a new pilot program to fund the construction of small high schools. The pilot would provide \$20 million from prior-year bond funds to districts who are proposing to build a small high school. The pilot program would require districts to cover only 40 percent of project costs. It is intended to fund a group of schools that is representative of the state.

Changes State/Local Share. The Governor also proposes to change the state/local share for new construction projects. Beginning with the 2008 bond allocations, districts would be required to pay 60 percent of new construction projects, compared to the 50 percent that they must currently cover. (Given the bond would not include funding for modernization projects, the district share of those projects—40 percent—would be unchanged.)

LAO ANALYSIS/RECOMMENDATIONS: In their analysis of the 2008-09 budget, the LAO makes the following findings and recommendations about the Governor's Strategic Growth Plan as they relate to K-12 school facilities programs:

Create a School Facilities Data System. The LAO recommends the state build a school facilities data system that provides information on age, capacity, and cost of school facilities. This would enable the Legislature to determine the amount of bond funding needed to meet the needs of K–12 schools in the future.

More specifically, the LAO recommends that the Office of Public School Construction (OPSC) develop and maintain the database, using bond funds to cover associated costs, as it now does for other administrative activities. To encourage widespread participation, the Legislature could require school districts to provide this needed facility data as a condition of receiving funds through the state's Deferred Maintenance Program. To help ensure data is collected only when likely to be needed for making state bond decisions, the LAO recommends requiring reporting only every odd-numbered year.

The LAO makes the following findings about the need for school facility data:

- ***Significant Funds Remain From Prior Bonds.*** According to the LAO, a significant amount of prior-year bond funds remains unspent. The SFP program has over \$8 billion in available funds -- funds that have not been set aside for any school district. An additional \$3.9 billion in funds have been approved for specific school district projects but remain unspent because the district has not entered into a construction contract. Given the bulk of this funding is in programs that have struggled to spend all fund reservations, it is quite likely some of this funding will eventually go unused, as districts have their grant awards rescinded.
- ***Virtually None of Proposition 1D Funds Has Been Allocated.*** Per the LAO, virtually all of the bond funds authorized by Proposition 1D (\$7.33 billion) remain unallocated and unspent as of December 2007. Although applications have been submitted for the various programs in Proposition 1D, the State Allocation Board (SAB) has not yet approved them. Given the amount of time required to review and approve projects, it may be premature to approve additional K–12 bonds at this time.
- ***Lack of Data on School Facilities.*** The LAO finds that there is a lack of data to determine the amount of funding that is needed to meet the facility needs of K–12 schools. The state does not currently collect comprehensive district data on school capacity, making an estimate of overall statewide facility needs difficult. School districts are required to provide enrollment and capacity data when they apply for new construction funding, but they are not required to update this information in years when they do not apply for new construction grants. Thus, the state has no good measure of overall district capacity. Similarly, districts are required to provide information on the age of their facilities when applying for modernization funding. However, they are not required to provide this information for all facilities, and the information is not updated in future years.

- ***Lack of Data on Facility Costs.*** The LAO believes the state also lacks good data on the cost of constructing K–12 facilities. Data from a recent report by the Macias Consulting Group for the SAB contains some information on construction costs, but it does not provide district–specific information on the planning costs, such as architectural and design costs. The Office of Public School Construction (OPSC) does conduct close–out audits for all school projects that receive state funding. However, the purpose of these audits is to ensure that schools have complied with the rules and regulations of the SFP. Because the audit process can be very time-consuming, districts often provide only enough information to show that they have complied with program requirements.

Improve Financial Hardship Program. The LAO recommends the state consider an alternative approach to assessing financial hardship that focuses on the local revenue sources available to the district.

More specifically, the LAO recommends the Legislature set reasonable expectations of what a district should contribute, without looking at specific account balances. This approach would look at two indicators of district resources—the assessed value of property within the district and the amount of revenues from developer fees—to determine an expected district contribution. The state would provide hardship funding if the costs of construction projects exceeded the expected district contribution. This approach would be more equitable—expecting all districts to contribute but linking their contribution to objective measures of their property values. Such an approach also would reduce incentives for school districts to incur short–term debt merely to appear needy. In addition, it would neither penalize financially needy districts that have good reasons for saving up capital outlay resources, nor create incentives for clever accounting practices that advantage some districts at the expense of other districts.

In making this recommendation, the LAO provides the following information:

- ***Funding Available for Hardship.*** Approximately 15 percent of funds provided by the School Facilities Program for new construction and modernization projects are provided through the state’s financial hardship program, which provides funding for school districts that are determined unable to provide their matching share of project costs. Since the beginning of the School Facility program in 1998, the state has provided, on average, almost \$300 million a year for the financial hardship program.
- ***Recent Study Highlights Problems with Hardship Program.*** The LAO raises findings from a recent State Allocation Board study that highlights fundamental problems with the Financial Hardship Program. The study -- conducted by the Macias Consulting Group -- found that many school districts that applied for financial hardship for new construction and modernization projects were taking on short-term debt and temporarily transferring funds out of their capital outlay accounts to appear financially needy. Such action allowed them to qualify for additional state funding and reduce or eliminate their local share. Any funding

provided to school districts for financial hardship cannot be provided for additional facility projects. The Governor, however, does not propose any changes to address these issues.

Make Further Improvements to the Charter Schools Facilities Programs. While the Governor's proposals would make significant improvements to the system, additional changes could be made to further improve facilities programs for charter schools. In addition to approving many of the Governor's proposals, the LAO recommends the Legislature explore three other options: (1) providing more resources to per-pupil grant programs rather than increasing bond funds; (2) expanding eligibility for the Charter School Facility Grant Program; and (3) as a condition of participating in the School Facilities Program, requiring local school districts to provide charter schools with proceeds from local bonds.

The LAO believes the Governor's charter school proposals are moving in the right direction. Schools, for example, should be better able to construct their own facilities if they are able to hold title. In addition, the flexibility provided in the Charter School Facility Grant program would provide another avenue for schools to build new facilities outside of the Charter School Facility Program, while still providing support to schools that are renting and leasing facilities. The Legislature, however, could make additional changes to further improve charter school facilities programs. The LAO discusses these changes below:

- ***Provide Ongoing Per-Pupil Grants Rather Than Additional Bond Funding.*** The LAO finds that because of the high risks that charter schools face, leasing facilities is generally a more attractive option than building a new school. As a result, the LAO recommends that the Legislature consider providing additional funding for per-pupil grants rather than authorize additional bond funds for new construction. For example, rather than providing \$1 billion in bond funds for new charter school facilities (as proposed by the Governor for the 2008 bond), the Legislature could provide an equivalent annual amount in per-pupil grants. Paying off debt service for \$1 billion in general obligation bonds typically requires annual payments of approximately \$65 million per year for the next 30 years. The state could provide this funding through the Charter School Facility Grant Program, with the flexibility proposed by the Governor to allow schools to use these grant funds for new facilities. This funding could be provided using the annual budget process.
- ***Expand Participation in the Charter School Facility Grant Program.*** With an increase in ongoing funds for the Charter School Facility Grant Program, the Legislature could expand eligibility to charter schools that are not located in low-income areas. The state could allow all charter schools not housed in district facilities to be eligible for the program, with priority given to charter schools located in low-income areas, low-performing or overcrowded districts, and schools undertaking renovation projects. The Legislature would need to amend current law to change the eligibility criteria.

- ***Require Districts to Provide Charter Schools With Local Bond Funds.*** In order to improve the ability of charter schools to raise funds for construction projects, the state could amend current law and require school districts to set aside a share of local general obligation bonds for K-12 facilities that is equivalent to the share of students living in the district who attend charter schools. Charter schools could use their local share to participate in the CSFP. This also would enable charter schools to have an available source of revenue to pay for site acquisition and design costs prior to receiving state funds.

1760 Department of General Services
6110 California Department of Education

ISSUE 7: Charter School Facility Grant Program – 6110-220-0001

DESCRIPTION: The Governor proposes an increase of **\$16.0 million** in ongoing Proposition 98 funding for the Charter Schools Facility Grant program in 2008-09. The Governor’s proposal continues funding at the 2007-08 level of \$18.0 million, reduced by 10.9 percent as a part of the Governor’s Budget Balancing Reductions. However, the Governor proposes to provide ongoing instead of one-time Proposition 98 funding for the program. In the past, this program has been funded with one-time funds from the Proposition 98 Reversion Account.

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

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

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

Program Growth: When the program was first funded in 2002-03, a total of 95 charter schools statewide were eligible for the program, reflecting total student ADA of 10,930. According to the Department of Education, charter school enrollments are increasing at approximately 15 percent a year, so the number of qualifying charter schools and students eligible for facility grants will continue to grow in the future. The number of ADA funded by the program has grown from 10,930 in 2002-03 to 32,072 in 2006-07. With only 95 qualifying schools in 2002-03, an estimated 134 schools qualify for the program in 2007-08.

Program Funding: While funding for the program is subject to annual budget act

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

According to the Department of Education, the \$9.0 million appropriated in the 2006-07 budget, as pro-rated to cover 2005-06 costs, provides funding for approximately 57 percent of eligible charter school facility reimbursement need. For 2007-08, \$18.0 million was provided, which is expected to fully fund, i.e., provide 75 percent funding to all 134 qualifying schools.

Funding History: SB 740 contained intent language that the Charter School Facility Grant program be funded at the level of \$10 million a year for the 2001-02, 2002-03, and 2003-04 years, which translates to a total of \$30 million. Funds for the program were first appropriated in 2001-02 at the \$10 million level, but were later eliminated as a part of mid-year budget reductions since the program was going to run on a reimbursement basis and funds were not needed until 2002-03.

The program continues to be forward funded, so that budget year funds pay for current year expenditures. A total of \$61.4 million has been appropriated for the program over the last six years, although only \$56.7 million has actually been expended for the program due to the reversion of \$4.7 million in 2002-03 funds.

Charter School Facility Grant Program * (In Millions)	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Total
Previous Appropriations	\$10.0**	\$7.7	\$7.7	\$9.0	\$9.0	\$18.0	\$61.4
Previous Funds Expended	\$5.3**	\$7.7	\$7.7	\$9.0	\$9.0	\$18.0	\$56.7

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

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

Governor’s Budget Proposal. The Governor proposes to provide \$16.0 million to continue funding the Charter School Facilities Grant Program in 2008-09. The Governor’s proposal continues funding at the 2007-08 level of \$18.0 million, reduced by 10.9 percent as a part of the Governor’s Budget Balancing Reductions. However, the Governor proposes to discontinue the use of one-time, Proposition 98 Reversion Account funds for the program. The \$16.0 million proposed by the Governor will cover 2007-08 facility reimbursements for 134 qualifying charter schools. The Governor’s 2006-07 budget provided \$9 million in one-time Proposition 98 funding for the program; this level of funding was doubled in 2007-08 in order to provide funding at the 75 percent rate per the intent of SB 740.

LAO ANALYSIS/RECOMMENDATIONS: The LAO has provided a variety of options for the Legislature to consider in setting the level of funding for the Charter School Facility Grant Program in the previous years. As a part of their 2008-09 budget analysis, the LAO is taking a different look at this program and recommending that the Legislature consider expanding eligibility for this program in lieu of providing state bond funds for the program. This issue was discussed in the previous agenda item.

COMMENTS/RECOMMENDATIONS: The intent of SB 740 was to provide three years of funding at \$10 million per year, or \$30 million, for the Charter School Facilities Grant program. The Governor proposes a sixth actual year of funding for the program in 2008-09, and adds another \$16.0 million to the \$56.7 million that has been provided for the program since its inception.

The Governor also proposes to discontinue the practice of appropriating one-time funds from the Proposition 98 Reversion Account for this program. The Administration views this as an ongoing program, reflecting a strong commitment to charter schools.

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

If the Subcommittee supports continued funding for this program as an ongoing program, *staff recommends* that the Subcommittee reconsider the rate of funding authorized by SB 740 in anticipation of continued growth for the program. SB 740 set funding at \$750 per student ADA or 75 percent of total facility expenditures submitted, whichever is less.

The 2007-08 budget provided \$18.0 million for the Charter School Facility Grant Program, which doubled funding of \$9.0 million provided in 2006-07, and funds program grants at the full 75 percent rate of reimbursement. At the \$9.0 million level in 2006-07, grant awards were prorated downward to 57 percent of eligible charter school facility grant reimbursements.

If the Subcommittee supports ongoing funding for the program, *staff recommends* that the Subcommittee consider the option of providing grant funding at the 50 to 60 percent rate, consistent with state funding shares under the School Facilities Program. This would require approximately \$11 million to \$12 million for the Charter Schools Facility Grants program in 2008-09, instead of the \$16 million proposed by the Governor. More importantly, funding at this rate would reduce future costs pressures resulting from charter school enrollment growth and allow more charter schools to be funded if new, ongoing Proposition 98 funds for the program are limited due to the state budget shortfall.

ISSUE 8: School Facilities Program – Fiscal Services Staffing

DESCRIPTION: The Governor proposes **\$740,000** and **7.0 new Fiscal Services positions** for the Office of Public School Construction (OPSC) within the Department of General Services. This proposal would be funded through state school facility bond funds. This request includes 6.0 permanent positions and 1.0 limited term positions to conduct audits under the School Facilities Program (SFP) and to establish an integrated audit information system required under an Executive Order issued by the Governor in 2007. The Administration believes additional positions are needed to address the large backlog of aging SFP audits. **Senate Budget Subcommittee 4 has heard this issue and is holding it open pending recommendations from Subcommittee 1.**

BACKGROUND:

Under the direction of the State Allocation Board (SAB), OPSC administers the functions of various school facilities and building acts (most recently, the Leroy F. Greene School Facilities Act of 1998) through which school districts establish eligibility for funding from statewide bond measures for school facility construction. The SAB approves and apportions funds for projects of eligible schools districts which are certified by the OPSC as compliant with applicable statutory prerequisites.

Over the past ten years, the voters have passed four statewide bonds that provided funding for school facilities. The following table displays funds authorized for each bond along with the amounts awarded and disbursed as of January 31, 2008:

Bond	Authorized Funds*	Awarded to Date*	Disbursed to Date*
Prop 1D (2006)	\$7,350,000	\$903,813	\$475,997
Prop 55 (2004)	\$10,015,500	\$9,342,087	\$6,653,444
Prop 47 (2002)	\$11,400,000	\$11,284,811	\$9,675,482
Prop 1A (1998)	\$6,700,000	\$6,648,081	\$6,647,663
TOTAL	\$35,465,500	\$28,178,792	\$23,452,586

(*dollars in thousands)

SFP Construction Process. The current process for construction under the SFP can take more than nine years to go from application to apportionment, from funding to expenditure, and finally from the beginning to the end of the audit process (project closeout). The following table shows where the OPSC estimates each of the school facilities bonds in terms of the progression from fund apportionment to final closeout.

	Prop 1A (1998)	Prop 47 (2002)	Prop 55 (2004)	Prop 1D (2006)
Duration of Bond Fund Apportionments	11/1998 to 10/2002	11/2002 to 12/2006	03/2004 to 05/2008*	12/2006 to 08/2011*
# of Projects Not Yet Apportioned* (\$ Amount)	0	8 (\$0.1 billion)	67 (\$0.7 billion)	2,215 (\$6.4 billion)
# of Projects Apportioned, But Not Closed (\$ Amount)	331 (\$2.5 billion)	2,117 (\$8.4 billion)	2,407 (\$9.1 billion)	615 (\$0.9 billion)
# of Projects Closed (\$ Amount)	2,126 (\$4.2 billion)	1,496 (\$2.9 billion)	111 (\$0.2 billion)	0
Closeout Period*	4/2000 to 3/2011	5/2003 to 5/2015	10/2005 to 10/2016	5/2008 to 1/2020

(*estimated)

OPSC Projected Audit Workload. According to OPSC, state regulations (Title 2 California Code of Regulations Section 1859.106) require OPSC to audit project expenditures of school districts within two years of receipt of the final expenditure report from the district. According to the regulations, the audit is conducted to ensure that districts are meeting statutory requirements with regard to their projects as well as assure that the district complied with all site acquisition guidelines.

According to OPSC, the bulk of the audit and closeout workload will hit in the next ten years. For example, OPSC indicates that its current audit workload of 1,400 projects worth \$7 billion is anticipated to grow in FY 2008-09 to 2,000 audits—a 43 percent increase. In the long-term, over the next eight years, OPSC projects that the audit workload will increase to approximately 8,000 projects, more than doubling the total of 3,400 from the previous eight years.

In anticipation of this increased workload, OPSC is requesting 7.0 additional auditor positions to augment the existing 35.0 positions in the Auditing Services Section of the OPSC.

Audit Standards. According to OPSC, since 2000, OPSC Fiscal Services staff has recovered nearly half a billion dollars from school districts that have not complied with the various laws and regulations that govern the SFP. However, concerns have been raised by the field with regard to the consistency of the standards by which these audits are conducted since OPSC does not have published or adopted audit standards. With clear audit guidelines and audit training for staff, the SFP audit program would better ensure that bond awards are being spent appropriately.

Governor's Executive Order Regarding the Establishment of an Automated and Integrated Audit Information System. According to OPSC, under the Governor's Executive Order S-02-07 the OPSC is required to establish an automated and integrated audit information system to provide better accountability and web accessibility to project information for all SFP projects. Executive Order S-02-07 sets forth the Administration's

plan to audit all 2006 General Obligation Bond expenditures and make the audit findings available to the public via the internet.

LAO ANALYSIS/RECOMMENDATION: The LAO recommends that the 6.0 ongoing Fiscal Services positions requested by the Governor to address the audit backlog be funded on a limited-term basis. The Legislature could assess the backlog level before these positions expire and reconsider whether ongoing positions are needed.

The LAO does not believe there is need for additional positions on an ongoing basis. The LAO notes that of the 35 audit positions currently in OPSC, 8 of them currently work on financial hardship reviews. The LAO further notes there is currently a workgroup that will provide recommendations to the SAB to improve the financial hardship program. (LAO is a member of the workgroup). One goal of the workgroup is to streamline the financial hardship process. If the process is streamlined within the next few years, then some of those positions could be redirected to work on audits and the limited-term positions would expire. If the financial hardship process is not streamlined, then the limited-term positions could be made permanent.

COMMENTS/RECOMMENDATIONS:

Staff supports the LAO's recommendation to approve all 7.0 Fiscal Services positions for OPSC on a limited-term (two-year) basis to reduce the audit backlog establish and to establish an integrated audit information system.

For this reason, *staff recommends* that Subcommittee 1 recommend that Subcommittee 4 adopt the LAO's plan to approve the 7.0 Fiscal Services positions for OPSC on a *limited-term (two-year) basis*.

QUESTIONS:

1. *What is DOF's position on the LAO's recommendation to establish the 7.0 new audit positions for OPSC on a limited-term basis and reevaluate the need for ongoing positions in the future?*
2. *Can OPSC clarify their audit process and specify which laws and regulations were not complied with and how many districts have been found to be in non-compliance?*
3. *How does OPSC plan to implement the Executive Order to automate and integrate their existing audit information system? Will this new system reduce the need for ongoing audit staff?*

OUTCOME: Held open for action at the Subcommittee's May 13th hearing.

ISSUE 9: School Facilities – Emergency Repair Program Staffing

DESCRIPTION: The Governor proposes **\$217,000** in state General Funds and **2.0 ongoing positions** to process review and approve grants to school districts pursuant to the Emergency Repair Program (ERP). This program was established pursuant to the *Williams v. California* lawsuit settlement in 2004. The Governor also requests that audits for the ERP program be shifted to the county offices of education and funded through an ongoing appropriation in the budget for *Williams* monitoring and oversight. **Senate Budget Subcommittee 4 has heard this issue and is holding it open pending recommendations from Subcommittee 1.**

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

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

Chapter 704/Statutes of 2006 authorizes a grant-based ERP program, rather than a reimbursement-based program. Districts can now apply for funding for specific projects before undertaking the actual repair work. The new grant-based program became operational at the beginning of 2007-08. According to the SAB, the grant-based program has made it much easier for schools to access funding for emergency repairs, since school districts are no longer required to pre-pay for these projects. These changes have substantially increased the number of project requests received and approved by the ERP.

Funding History: The Governor's budget currently provides no new funding for the ERP program in 2008-09. The state has made **\$292 million** available for the ERP since 2005-06, including a recent appropriation of \$100 million for 2007-08 from AB 4XXX, which was enacted as a part of the recent special session.

Annual expenditures for the ERP total are summarized below. As of March 26, 2008, the State Allocation Board has approved a total of **\$167.8 million** for ERP projects. The ERP has a total of **\$124.3 million** in remaining funds available for expenditure. According to the LAO, there are approximately **\$380 million** worth of applications pending approval and the LAO estimates that the ERP will run out of funds by October 2008.

Expenditures from ERF	
Year	Amount
2005-06	\$3.5 million
2006-07	\$36.6 million
2007-08 (As of 3/26/08)	\$127.7 million
Total	\$167.8 million
<i>Remaining Fund Balance</i>	<i>\$124.3 million</i>

Staffing Need. According to the Office of Public Construction (OPSC), each of the 2,230 schools that were eligible for the ERP as of July 1, 2007, will file 2.5 ERP applications over the course of the next three years, resulting in 5,125 ERP applications over that time period, or 1,708 applications annually.

OPSC estimates that there are currently approximately 1,400 ERP applications on its workload list and that the average processing time per application is approximately 160 days (this is above the OPSC's goal of 90 to 120 days).

OPSC further states that this projected workload would ordinarily justify 8.0 positions; however OPSC is conservatively requesting 2.0 positions to address increased ERP applications.

Shift of Audit Function: The Governor's budget also proposes to shift ERP audits to the county offices of education as a part of the monitoring they already provide for instructional materials and staffing requirements of the *Williams* settlement agreement. The Governor's 2008-09 budget provides **\$8.9 million** in ongoing funding for county offices for the monitoring and oversight activities they currently provide and adds budget bill language requiring counties to provide audits of ERP projects. This level of funding reflects a continuation of the \$10 million appropriated in 2007-08, reduced by 10.9 percent pursuant to the Governor's Budget Balancing Reductions.

LAO ANALYSIS/RECOMMENDATION: The LAO recommends that the decision to fund the 2.0 additional positions for ERP requested by the Governor should be made after the Legislature decides how much funding to provide for the program in 2008-09. If the Legislature provides only \$100 million in the budget year, or provides no additional funds, then the ERP will run out of funds and additional positions would not be necessary in the budget year. However, if the Legislature were to provide a significant amount of funds so that there was little chance the program would run out of funds, then the LAO would recommend adding the positions.

COMMENTS:

Need for General Fund Positions Not Likely in 2008-09. The Governor's budget currently provides no funding for the ERP program in 2008-09. If the Governor proposes additional funding at May Revise, it is likely only \$100 million will be needed, since Proposition 98 Reversions estimates will probably not be large enough in 2008-09 to require a higher level of funding. In nine months, the ERP program has approved nearly \$130 million in ERP projects. This figure will be much higher by the end of the year. If the Governor provides \$100 million for the program in 2008-09, the number of projects that would be approved and funded should not be any higher than the workload for 2007-08. In this case, additional positions would not be needed. As new General Fund positions --given the state significant budget shortfall -- these positions do not appear justified in 2008-09.

Alternative Schools and State Special Schools Ineligible for ERP Grants. The Emergency Repair Program makes funds available for schools in the lowest three deciles of the Academic Performance Index (API). In order to be eligible, decile 1-3 schools must have valid API scores. This definition excludes most of the state's 1,000 alternative schools, serving between 225,000 to 300,000 students per year, from eligibility for these program funds. While two of the State Special Schools are ranked in decile 2 of the API, they are also excluded from ERP.

Staff suggests that Subcommittee 1 recommend to Subcommittee 4 approval of the LAO plan for the 2.0 ERP positions requested by the Governor. Per the LAO plan, if the Legislature provides only \$100 million in the budget year, or provides no additional funds, then the ERP will run out of funds and additional positions would not be necessary in the budget year. However, if the Legislature were to provide a significant amount of funds so that there was little chance the program would run out of funds, then the LAO would recommend adding the positions.

Staff also suggests that Subcommittee 1 recommend to Subcommittee 4 rejection of the Governor's proposal to shift the audit function for the ERP program to the county offices of education. The LAO does not support this shift for a number of reasons, including concerns about local mandated costs. Subcommittee staff questions whether county office staff would have the expertise to conduct these project audits.

OUTCOMES:

- (1) **Recommend to Subcommittee No. 4 to approve ERP positions as proposed by the Governor. Vote: 3-0.**
- (2) **Recommend to Subcommittee No. 4 to reject Governor's proposal to shift the ERP audit functions to the county offices of education. Vote: 3-0.**

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

Tuesday, April 29, 2008
1:30 p.m.
Room 113, State Capitol

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ISSUE 1: Office of the Secretary of Education – State Operations

DESCRIPTION: The Governor proposes two major budget changes for the Office of the Secretary of Education (OSE) in 2008-09. The Governor proposes a **\$351,000** decrease to the OSE General Fund budget as a part of his Budget Balancing Reductions for all state agencies. In addition, the Governor proposes to consolidate funding for the State Board of Education within OSE. This proposed consolidation would shift **\$1.6 million** in funding for the State Board from the California Department of Education to OSE.

BACKGROUND: The Secretary of Education, a member of the Governor’s Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation. While OSE has not been established in statute, it has operated for a number of years in an advisory role for the Administration.

The Office of the Secretary is funded annually through two separate budget items. Half of the OSE’s budget appropriation is contained in its main support item (0558-001-0001); the other half of its appropriation is provided through the Governor’s Office of Planning and Research (0650-011-0001).

GOVERNOR’S BUDGET: The Governor’s budget proposes **\$3.7 million** for OSE in 2008-09, an increase of \$1.6 million above the 2007-08 budget. Of total funding proposed, \$3.5 million is General Fund and \$273,000 is provided through reimbursements.

Summary of Expenditures (Dollars in thousands)	Positions			Expenditures		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
	13.0	17.5	25.1	\$2,058	\$2,3238	\$3,700
Funding						
General Fund				\$1,794-	\$1,973	\$3,427
Reimbursements				264	355	273
Total				\$2,058	\$2,328	\$3,700

In addition to a number of baseline adjustments, the Governor’s budget includes two major budget changes:

1. **State Board Staffing.** The Governor’s January budget proposes to consolidate the administrative staff of the State Board of Education with the Office of the Secretary. This proposal involves a shift of **\$1,576,000** and **7.6 positions** for the State Board from the California Department of Education budget to OSE in 2008-09. This includes one position assigned to the State Board for statutory oversight of charter

schools approved by the Board. According to OSE, the idea behind this proposal is to develop more policy coherence between the State Board and OSE. In addition, there is interest in building more streamlined processes for policy formulation and development.

2. **Budget Balancing Reductions.** The Governor's budget includes an unallocated reduction of **\$351,000** for the OSE budget in 2008-09. This equates to a ten percent reduction to OSE's General Fund budget, which includes the proposed shift of State Board staff. Without the State Board shift, the unallocated reductions would equal \$200,000.

LAO ANALYSIS/RECOMMENDATIONS: The LAO recommends action to move toward the governance structure for OSE and the State Board, as recommended by the K-12 Master Plan report. The LAO will provide more detailed recommendations at the Subcommittee hearing.

COMMENTS:

Administration No Longer Pursuing the State Board Staffing Shift. The Administration has informed legislative staff that it is no longer pursuing the proposal to shift the State Board staff to OSE. While the Administration does not plan to officially rescind their proposal, they request that the Legislature take action to reject the Governor's January budget proposal and restore the funding structures for the State Board and OSE contained in the 2007-08 budget. The Administration does not plan to include this budget change as a part of their May Revise proposals.

Legislative Options for Consolidating or Eliminating OSE. While it is no longer being pursued by the Administration, the proposal to shift funding for the State Board and OSE does raise the possibility of consolidation of OSE and State Board staff that would result in the elimination of duplicative staff and General Fund savings for the state. Of the \$3.7 million proposed for OSE in 2008-09, the Governor provides approximately \$2.1 million to continue the operations of OSE and \$1.6 million for State Board operations.

Currently, OSE has 18 authorized positions; the State Board has 8 authorized positions. Vacancy rates for both agencies have fluctuated significantly in recent years. Currently, 16 of OSE's 18 authorized positions are filled (2 vacancies) and 2 of the State Board's 8 authorized positions are currently filled (6 vacancies). Under the Governor's original consolidation proposal, funding at OSE would have been available for support of the State Board. Given the high vacancies at the State Board and OSE and given some initial interest in combining their functions by the Administration, it may be possible to consolidate functions for the two entities and reduce funding. Savings associated with persistently vacant positions at both entities could total approximately **\$1.0 million** in 2008-09.

Given the state budget shortfall, the Legislature could also consider elimination of OSE. The office does not administer education program nor does it provide direct program, policy, or budget oversight to other state education departments or agencies. OSE has never been established statutorily. Total elimination of OSE would generate approximately **\$2.1 million** in General Fund savings. Alternatively, the Legislature could consider reducing direct funding to OSE of approximately **\$1.0 million** and retaining **\$1.0 million** in remaining funding for the Office of Planning and Research for education policy.

RECOMMENDATION: *Staff recommends* that the Subcommittee hold off on action on the OSE budget until after May Revise.

6110 California Department of Education

ISSUE 2: State Operations – CDE Headquarters (6110-001-0001/0890)

DESCRIPTION: The Governor proposes a ten percent unallocated reduction for the California Department of Education (CDE) state operations budget as a part of his Budget Balancing Reductions. This reduction equates to a **\$5.6 million** unallocated reduction in 2008-09 for CDE headquarters staff. In addition, the Governor proposes a number of smaller adjustments for headquarters staff and operations – primarily staffing increases and decreases – in 2008-09 that are included in the Governor’s January budget and a Department of Finance April Finance Letter. CDE will update the Subcommittee on plans to implement the Governor’s unallocated reduction and its impact on the department’s operations. The department will also summarize other state operations adjustments proposed by the Governor in 2008-09.

BACKGROUND:

California Department of Education Authorized Positions and State Operations Funding			
	06-07	07-08	Proposed 08-09
Authorized Positions			
Headquarters	1,575.3	1,583.9	1,582.0
State Special Schools	1,007.4	1,008.4	1,008.4
Total before Salary Savings	2,582.7	2,592.3	2,590.4
Funding			
CDE Headquarters			
General Fund	52,147,000	55,395,000	50,399,000
Federal Fund	162,161,000	160,883,000	152,481,000
Other (Restricted)	33,784,000	36,392,000	39,653,000
Total	248,092,000	252,670,000	242,533,000
Percent General Fund	21%	22%	21%
Percent federal	65%	64%	63%
CDE State Special Schools			
Proposition 98 GF	44,533,000	45,759,000	41,406,000
Non-Proposition 98 GF	39,323,000	40,587,000	38,371,000
Federal Fund			
Other	6,054,000	6,176,000	6,337,000
Total	89,910,000	92,522,000	86,114,000
CDE Headquarters & State Special Schools			
General Fund	136,003,000	141,741,000	130,176,000
Federal Fund	162,161,000	160,883,000	152,481,000
Other	39,838,000	42,568,000	45,990,000
Total	338,002,000	345,192,000	328,647,000

Except for 2008-09, data are current-year estimates (middle column) from the Governor's Budget.

GOVERNOR'S BUDGET:

Budget Balancing Reductions. As a part of the Governor's Budget Balancing Reductions (BBRs), the Governor proposes a **\$5.6 million** reduction for CDE headquarters staffing and operating expenses. This equates to a ten percent reduction to the General Fund budget for CDE headquarters budget. CDE headquarters staff administer state education programs and provide program support to local education agencies. As proposed by the Governor, the Superintendent of Public Instruction would have discretion to allocate this reduction.

Governor's Budget – Other CDE Staffing Proposals. The Governor January budget and April Letter propose the following adjustments for the Department of Education:

General Fund Adjustments:

- **Shift Funding and Staff for State Board of Education to Office of the Secretary (OSE).** Shifts \$1,567,000 in state General Funds and 8.0 positions for the State Board of Education to OSE. This issue is fully described in the OSE item of this Subcommittee agenda. The Administration is no longer pursuing this proposal.
- **School Districts of Choice.** Provides \$131,000 in state General Funds for 1.0 position to meet reporting requirements required as part of the sunset extension of the Districts of Choice program enacted by SB 80 (Chapter xxx; Statutes of 2007). This measure mandated new reporting and evaluation requirements. Districts must report data and information about student inter-district transfers. CDE must now collect, analyze, and post information about inter-district transfers and must also prepare a comprehensive evaluation study of transfer options for students.
- **Anti-Discrimination Monitoring.** Provides \$40,000 in state General Funds for 0.3 position to implement the requirements of AB 394 (Chapter 566, Statutes of 2007). This measure requires CDE to assess local education agencies -- as part of the department's existing monitoring process -- for compliance with specific anti-discrimination and harassment policies and procedures to protect students, and to display specific discrimination and harassment prevention information on their website.
- **Math and Reading Professional Development Program – English Learners.** Provides \$109,000 in state General Funds to continue and make permanent 1.0 position to administer the provisions of SB 472 (Chapter 524; Statutes of 2006). This measure authorizes an English Learner component to the Math and Reading Professional Development program. The 2006-07 Budget Act added \$25 million

in ongoing funding for this program. The current position within CDE is authorized until June 30, 2008.

- **Career Technical Education Website Development and Maintenance.** Provides \$100,000 in state General Funds for 1.0 limited-term position to implement AB 597 (Chapter 529, Statutes of 2007). This measure requires CDE to create a comprehensive, easy to access, user-friendly website with information about Career Technical Education opportunities and programs available in the state.
- **Reading Language Arts Adoption.** Provides \$102,000 in General Funds to provide support for the 2008 Reading Language Arts instructional materials adoption.

Federal Funds Adjustments:

- **Child Care - Alternative Payment Monitoring.** Provides \$742,000 in federal Child Development funds for 7.0 positions to meet new federal audit requirements for the Improper Payments Information Act, which became effective October 1, 2007.
- **Teacher Data System.** Provides \$231,000 in federal Title II funds for 2.0 limited-term positions related to development of the California Longitudinal Teacher Integrated Data System (CALTIDES). These limited-term positions would be available for one year only.
- **California High School Exit Exam (CAHSEE).** Provides \$103,000 in federal Title VI funds for 1.0 position to monitor changes to CAHSEE pursuant to AB 347 (Chapter 526, Statutes of 2007). This measure implemented a settlement agreement in the *Valenzuela v. O'Connell* lawsuit by requiring school districts to provide intensive instruction and services for two additional, consecutive years to pupils who have not passed the high school exit examination by the end of twelfth grade. According to CDE, this position will facilitate the administration of the new exam requirements, communicate with local education agencies, prepare bill analyses and State Board of Education items, and help to monitor the CAHSEE contractor for compliance.
- **Child Nutrition and Information and Payment System (CNIPS).** Provides \$1,874,000 in federal Child Nutrition funds to extend 7.2 limited-term positions for one additional year. CNIPS is an information technology system used to administer four United States Department of Agriculture (USDA) programs, including School Nutrition, Child and Adult Care Food, Summer Food, and Food Distribution. Delays in software contract approval and design complexities have delayed implementation of the project by one year.

DOF April Letter Requests:

- **Federal School Improvement Grant Program (Issue 567).** Requests \$378,000 in federal Title I School Improvement Grant (SIG) funds for 4.0 positions to support the new SIG program. The SIG program will provide funds to LEAs with schools in program improvement or corrective action that demonstrate the greatest set of academic challenges and the greatest commitment to raising student achievement. These positions would establish a competitive grant process, review applications, award funds, and monitor progress. Expenditure of these funds is proposed to be contingent upon final approval of specific program criteria by the State Board of Education.
- **Federal Child and Adult Care Food Program (Issue 643).** Requests an increase of \$172,000 in Federal Child Nutrition Funds to establish 2.0 positions to improve the department's compliance monitoring and technical assistance for the federal Child and Adult Care Food Program. This program provides funding to licensed child care centers, adult day care centers, and organizations that sponsor day care homes to ensure participants receive nutritionally-adequate meals and snacks. Recently, the federal government found an increasing number of sponsors that are seriously deficient in their administration of the program. As a result, the U.S. Department of Agriculture and Congress have imposed new financial management requirements on sponsors and additional oversight responsibilities for the department.

CDE STAFFING ISSUES: There are a number of positions 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.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee delay approval of the Governor's proposals for CDE state operations until after May Revise to coordinate with actions for General Fund Proposition 98 local assistance programs and actions on federal programs.

Staff further recommends that the Subcommittee request CDE to develop a general plan for implementing the **\$5.6 million** in unallocated reductions proposed by the Governor and provide that plan to the Subcommittee prior to May Revision.

ISSUE 3. State Operations – State Special Schools (6110-001-0001, 6110-005-0001, 6110-006-0001)

DESCRIPTION: The Governor proposes to reduce the General Fund budget for the State Special Schools by a total of **\$9.2 million** in 2008-09, as a part of his Budget Balancing Reductions. This amount includes a **\$5.1 million** reduction in Proposition 98 General Funds and **\$4.2 million** in Non-98 General Funds. The State Special Schools will describe their specific plan for implementing the Governor’s unallocated reduction and assess its impact.

BACKGROUND: These schools are administered by the California Department of Education. The State Special Schools include the California Schools for the Deaf in Fremont and Riverside and the California School for the Blind in Fremont. Students attending State Special Schools are served in residential or day programs. The two Schools for the Deaf provide instructional programs to approximately 927 deaf students and the California School for the Blind provides instructional programs for approximately 89 blind, visually-impaired, and deaf-blind students in 2007-08.

State Special School Enrollments	2004-05	2005-06	2006-07	2007-08
School for the Deaf, Riverside	484	449	430	443
School for the Deaf, Fremont	473	490	485	484
School for the Blind, Fremont	85	88	85	89
TOTAL	1,042	1,027	1,000	1,016

In addition, the State Special Schools include three State Diagnostic Centers regionally located in Fresno, Fremont, and Los Angeles. These centers administer assessment to approximately 1,500 students per year and provide training to 31,000 educators annually. Approximately 250 assessments occur annually at the three centers; the remaining 1,250 are considered “field” assessment, which take place within local education agencies.

GOVERNOR’S BUDGET: The Governor's budget proposes total General Fund support of **\$78.8 million** for the state’s three special schools and three diagnostic centers in 2008-09. Of this amount, **\$41.4 million** is provided by Proposition 98 General Funds and **\$37.4 million** is provided by Non-98 General Funds. There are currently a total of 1,080 authorized positions for the special schools and diagnostic centers.

Governor’s Budget Balancing Reductions. The Governor proposes to reduce the General Fund budget for the State Special Schools by a total of **\$9.2 million** in 2008-09, as a part of his Budget Balancing Reductions. This amount includes a **\$5.1 million** reduction (10.9 percent) for Proposition 98 General Fund appropriations and **\$4.2 million** (10 percent) for Non-98 General Fund appropriations in 2008-09.

CDE/STATE SPECIAL SCHOOLS ISSUES: The State Special Schools has developed a specific plan for implementing the Governor’s \$9.2 million unallocated reduction. According to their plan, the Governor’s reduction will result in the elimination of 68.5 positions at the State Special Schools and Diagnostic Centers. Specifically, the Governor’s reduction will require layoff of 26.5 filled positions, elimination of 36.5 vacant positions and demotion of 5.5 other positions. A summary of these position reductions is provided below:

- 17 Teachers
- 11.5 Teaching Specialists
 - 1 Teaching Supervisor
- 11 Teaching Assistants
 - 2 School Counselors
 - 1 Supervising Nurse
- 0.5 Physician
 - 1 Security Guard
 - 1 Night Attendant
- 13 Dormitory Counselors
 - 2 Supervising Dormitory Counselors
 - 2 Office Technicians

Unlike local assistance programs, the Governor did not build a workload budget for the Special Schools that included a 4.9 percent cost-of-living adjustment (COLA) for programs prior to applying the ten percent reduction. However, the Special Schools did receive a 4.9 percent price increase for their programs and compensation adjustments for their employees.

LAO ANALYSIS/RECOMMENDATIONS: The LAO suggests looking into federal special education carryover funds to backfill the Governor's proposed reduction, which they believe is an allowable use of federal funds.

COMMENTS/RECOMMENDATIONS: *Staff does not recommend* support for the Governor’s **\$9.2 million** unallocated reduction because it results in direct reductions of instruction and support services for students at the State Special Schools. While the State Special Schools has developed a plan for implementing the Governor’s reductions, staff does not support that plan, which specifies reductions to instructional staff and other student support personnel. Instead, *staff recommends* that the Subcommittee consider the State Special Schools as a local assistance program in considering budget reductions because the State Special Schools provide direct instruction and support to students.

Staff further recommends that the Subcommittee delay action on the **\$9.2 million** unallocated reduction proposed by the Governor in 2008-09 for the State Special Schools

in order to explore other savings options for the State Special Schools that do not affect the instruction and support for students attending the State Special Schools. Specifically, *staff recommends* that the LAO evaluate the possibility of savings associated with reducing field assessments conducted by the State Diagnostic Centers for local schools districts or charging local districts for the costs of providing those assessments.

Staff also supports the LAO's suggestion to explore the availability of federal funds to backfill the Governor's proposed reductions.

ISSUE 4. State Special Schools -- Capital Outlay (6110-301-0660)

DESCRIPTION: The Governor proposes three capital outlay projects for the State Special Schools. The Governor requests a total of **\$36.4 million** in new funding for these projects. All projects will be funded with lease-revenue bonds. These bonds will be financed with state General Funds -- appropriated to the California Department of Education -- once the projects are completed.

BACKGROUND: The State Special Schools has six facilities under its jurisdiction: three residential schools and three diagnostic centers. The residential schools include the Schools for the Deaf in Riverside and Fremont and the School for the Blind in Fremont. The State Diagnostic Centers are regionally located in Fresno, Fremont, and Los Angeles. These state facilities comprise a total of 960,000 gross square feet on 176 acres of land.

GOVERNOR'S BUDGET: The Governor's January 10 budget proposes two new capital outlay projects for the State Special Schools. These projects involve funds for renovation of athletic facilities at two of the State Special Schools, as follows:

1. **Athletic Complex, California School for the Deaf, Fremont.** Requests **\$14,371,000** to renovate the football field and surrounding track and to add athletic locker room space at the California School for the Deaf, Fremont. The project includes the addition of an artificial turf football/soccer field, synthetic running track, field access, raised bleachers, press box, concession and restroom facilities, storage, equipment, fencing, parking, athletic locker rooms, stadium field lighting, drinking faucets, sideline team benches, and cable for the public address system and scoreboard.

2. **Athletic Complex, California School for the Deaf, Riverside.** Requests **\$17,123,000** to design and construct an athletic complex at the California School for the Deaf, Riverside to ensure the safety of participants and spectators and maximize the use of the files available for interscholastic sports, physical education classes, school functions, and recreational activities for residential students. The complex will be utilized for different sporting events including soccer, baseball, softball, track and field, football, and intramural activities for all students. The complex will improve accessibility, safety and convenience for those attending and participating by adding bleachers, lighting, restrooms, concession stand, electronic scoreboard with message boards, drinking fountains, storage, security, fencing, and accessible pathways.

DOF April Letter. The April DOF Letter requests the reappropriation of \$8,146,000 approved in the 2006-07 Budget Act and an augmentation of \$4,912,000 for the Kitchen and Dining Hall Renovation at the California School for the Deaf, Riverside. The total estimated cost at the end of the preliminary plan phase increases to \$13,670,000 with this augmentation. The April Letter request is provided below:

3. **Kitchen and Dining Hall Renovation, California School for the Deaf, Riverside.** Requests that Item 6110-301-0660 be increased by **\$4,912,000** to augment

the construction phase for the Kitchen and Dining Hall Renovation project at the California School for the Deaf, Riverside. During the design phase, it was determined that the project scope would need to include: (1) extra bathroom facilities in order to meet state plumbing codes and (2) redesign of the kitchen layout to prevent contamination of food during preparation and serving.

LAO ANALYSIS/RECOMMENDATIONS: The LAO has several concerns with the Governor's three capital outlay requests for the State Special Schools. With respect to the athletic complex and football field projects, the LAO is concerned about the high costs associated with the projects and will be exploring lower-cost alternatives that would focus on making the athletic fields safe place for students. In addition, the LAO will investigate the possibility of developing partnerships with local schools and cities to share facilities for athletic events.

The LAO will also investigate whether it would be more cost-effective to build a new kitchen/dining complex rather than continuing with the kitchen/dining project renovation project.

The LAO will be visiting project sites at the State Special Schools to evaluate the Governor's capital outlay proposals and develop recommendations to the Subcommittee.

COMMENTS/RECOMMENDATION: *Staff recommends* that the Subcommittee hold off on action on the Governor's capital outlay proposals for the State Special Schools until after May Revise in order to receive additional information and recommendations from the LAO and to better align capital outlay decisions – which carry long-term General Fund costs -- with the most current fiscal information for the state.

6360 Commission on Teacher Credentialing

ISSUE 5: Commission on Teacher Credentialing – State Operations and Local Assistance

DESCRIPTION: The Governor’s budget for the Commission on Teacher Credentialing (CTC) estimates healthy fund balances for the two major special funds that support the CTC – the Test Development and Administration Account and the Teacher Credentials Fund in 2008-09. The Governor proposes increases for three state operations programs funded through these special funds or federal funds. As a part of his Budget Balancing Reductions, the Governor also proposes a **\$4.3 million reduction** to three Proposition 98 General Fund local assistance programs administered by CTC. The CTC will provide background on the Governor’s proposals; an update on special fund balances and credential workload; and present alternative savings proposals to the Governor’s reductions for local assistance programs.

BACKGROUND: The Commission on Teacher Credentialing (CTC) is responsible for the following:

- Issuing credentials, permits, certificates, and waivers to qualified applicants;
- Enforcing standards of practice and conduct for license applicants and holders;
- Developing standards and procedures for the preparation and licensure of school teachers and school service providers;
- Evaluating and approving teacher and school service provider preparation programs; and
- Developing and administering competency exams and performance assessments.

The CTC currently receives approximately 270,000 applications annually for approximately 200 different types of credentials, emergency permits, and credential waivers.

GOVERNOR’S BUDGET: The Governor’s Budget proposes **\$56.7 million** for the CTC’s budget in 2008-09.

Commission on Teacher Credentialing: Summary of Expenditures by Fund			
<i>(Dollars in Thousands)</i>	Actual 2006-07	Estimated 2007-08	Proposed 2008-09
General Fund, Proposition 98	31,034	35,881 ^{1/}	35,881 ^{2/}
Teacher Credentials Fund	15,323	15,273	15,366
Test Development and Administration Account	4,602	4,265	5,091
Reimbursements	903	248	398
Total Expenditures (All Funds)	\$51,862	\$55,667	\$56,736

1/ This reflects a reduction of \$4.0 million for the Special Session reductions. It is important to note this reduction did not impact the programs reduced. 2/ This reflects the proposed \$4.0 million reduction included in the Governor’s Budget for the proposed 10 percent across-the-board reduction.

In total, the Governor’s Budget proposes to expend \$20.4 million from CTC’s two special funds -- the Teacher Credentials Fund and the Test Development and Administration Account – in 2008-09.

The Governor’s budget proposes **\$35.9 million** from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Assignment Monitoring Program. This amount includes the **\$4.3 million** reduction for these programs proposed by the Governor in 2008-09 as a part of the Budget Balancing Reduction. (A similar reduction was enacted for these programs in 2007-08, as a part of AB 4xxx, which was passed during special session earlier this year.)

Summary of Credential Workload. The CTC currently receives more than **270,000 applications** for credentials and credential waivers. As indicated below, the number of applications has continued to increase in recent years. In 2007-08, CTC is experiencing an increase of 5 percent in the application volume from FY 2006-07.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Est. 2007-08	Est. 2008-09
Credential Applications Received	215,954	239,501	250,701	235,327	233,164	240,159	254,892	267,637	264,153
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,561	2,561	2,561
Total	223,819	247,419	255,845	238,154	235,566	242,159	257,453	270,198	266,714
Credential Processing Staff*	82.1	83.2	77.4	71.2	60.6	65.2	66.8	75.9	69.1
Credential Fees	\$55	\$55							

*Certification Assignment and Waivers Division Staff

Elimination of Credentialing Backlog: There is currently no backlog in application processing. In recent years, the Legislature and Administration provided additional resources to CTC to address a credentialing backlog. In May 2006 the workload hit an all time high of 80,000 pending paper applications. In 2006-07, the backlog was substantially reduced and in 2007-08 the backlog has been eliminated.

Of total applications, 54 percent are being processed on-line within 10 working days. The other 46 percent of applications are processed within the required 50 working day processing time. AB 469 (Horton), 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 new processing time within the newly required 50 day limit.

Credential Staffing Changes: In 2006-07 the four (4) Consultant level positions from the Professional Services Division were bifurcated to seven (7) lower level positions and

transferred to the Certification, Assignment and Waivers Division to address the credentialing backlog. Now that the credentialing workload is aligned with the required processing times, at the end of FY 2007-08 this transfer is scheduled to expire and the four (4) positions will return to the Professional Services Division to address the on-going accreditation workload.

Healthy Fund Balances Estimated. The Governor's budget projects positive, healthy fund balances for CTC's two special funds in 2008-09. The budget estimates that the fund balance for the Teacher Credentials Fund will total \$5.1 million in 2007-08, assuming seven percent growth from 2007-08. The CTC will continue to monitor the estimates and will update the projections as necessary. The budget also estimates that the fund balance for the Test Development and Administration Account will total \$3.1 million in 2007-08.

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

GOVERNOR'S 2008-09 BUDGET PROPOSALS:

1. Budget Balancing Reductions. The Governor January budget proposes a **\$4.3 million** reduction for three General Fund (Proposition 98) local assistance programs administered by CTC. The Governor proposes ten percent reductions for each of these programs, as follows:

- Alternative Certification Program (\$3.5 million)
- Paraprofessional Teacher Training Program (\$855,000)
- Teacher Assignment Monitoring Program (\$34,000)

COMMENTS: The CTC has proposed an alternative reduction plan which yields a total of **\$5.9 million** in 2008-09. This provides additional General Fund savings of approximately \$1.6 million in 2008-09. These reductions reflect natural savings – associated with alignment of funding with program enrollment. CTC estimates savings of \$5,213,000 for the Alternative Certification and \$689,000 for the Paraprofessional Teacher Training Program. The CTC recommends no reductions for the Teacher Assignment Monitoring program.

Staff recommends approval of the CTC's alternative budget reduction proposal of **\$5.9 million**. This action would provide additional savings of approximately **\$1.6 million** in 2008-09 beyond the Governor's Budget, without reducing program services.

2. **Budget Adjustments – Teacher Data System.** The Governor’s January budget proposes an increase of **\$398,000** in federal Title II funds for continued development of the California Teachers Integrated Data System (CALTIDES) in 2008-09. This proposal would provide **\$248,000** in ongoing funding for **2.5 positions** to staff the CTC based upon the approved Feasibility Study Report approved by the Department of Finance in May 2006. The proposal would also provide **\$150,000** in one-time funds for temporary help staff to convert information on lifetime credential holders from microfilm to electronic media. This information is a part of CTC’s existing database that will be utilized by CALTIDES.

COMMENTS: Staff recommends approval of Governor’s Budget.

3. **Budget Adjustments – California Formative Assessment and Support System for Teachers (CFASST).** The Governor’s January budget proposes \$900,000 in expenditure authority from the Test Development and Administration Account (TDAA) in both 2008-09 and 2009-10 for the review and continued development of the state’s formative teacher assessment system – CFASST. This assessment system is used for the Beginning Teacher Support and Assessment (BTSA) program. This work will be performed under contract with local education agencies. This project is intended to improve the CFASST in response to concerns identified by the BTSA evaluation completed in 2007.

COMMENTS: Staff recommends approval of Governor’s Budget.

4. **April Budget Adjustments – Validity Studies and Examination Development.** As reflected in the Department of Finance April Letter, the Governor proposes to increase the expenditure authority of the Test Development and Administration Account by **\$350,000** to support teacher examination validation studies and examination development activities. Current law requires the CTC to ensure that teacher exams are valid and aligned with the state’s academic content standards and frameworks. These teacher exams include the California Basic Educational Skills Test, California Subject Matter Examinations for Teachers, and Reading Instruction Competence Assessment.

COMMENTS: Staff recommends approval of Governor’s Budget.

SUMMARY OF STAFF COMMENTS/RECOMMENDATIONS: In summary, staff recommends that the Subcommittee approve the Governor’s Budget for the three CTC *state operations* proposals outlined above (Items 2, 3 & 4). The Governor’s three state

operations proposals are funded either through CTC special funds or federal funds and do not affect the state General Fund.

In addition, *staff recommends* the Subcommittee not approve the Governor's **\$4.3 million** in reductions for CTC's three Proposition 98 *local assistance* programs in 2008-09 and instead approve the CTC's alternative reductions for these programs (Item 1). The CTC's alternative reductions for two programs would save **\$5.9 million** in 2008-09, or \$1.6 million more than the Governor's proposal without reducing program services.

ISSUE 6: School Facilities – LAO Proposals

DESCRIPTION: The Legislative Analyst's Office (LAO) has concerns with the Governor's Strategic Growth Plan for K-12 school facilities. Specifically, the LAO believes the Governor's plan fails to address underlying data issues and problems with the state bond Financial Hardship Program. The LAO also believes that while the Governor's plan would make significant improvements to facilities programs for charter schools, additional changes would be beneficial. The LAO will present their findings and recommendations on these issues to the Subcommittee.

BACKGROUND:

Governor's Strategic Growth Plan: As a part of the Governor's Strategic Growth Plan, the Administration proposes to place **\$11.6 billion** in new state general obligation bonds for K-12 education facilities before the voters in 2008 and 2010.

Governor's Proposed Bond Measures for K-12 Education			
(In Billions)			
	2008	2010	Totals
School Facilities Program:			
New construction	\$4.4	\$2.3	\$6.8
Modernization	—	0.8	0.8
Charter schools	1.0	1.0	2.0
Career technical education	1.0	1.0	2.0
Totals	\$6.4	\$5.2	\$11.6
Detail may not total due to rounding.			

As a part of his 2008 bond proposal, the Governor also makes several changes to the current bond program. As summarized by the LAO, these changes include:

Fewer Specific Types of Projects Funded. As shown in the figure above, the Governor's 2008 and 2010 bond proposals provide funding for fewer specific types of facility projects than Proposition 1D. Neither the 2008 nor 2010 measures would provide funding for overcrowded schools and environmentally friendly (or "green") schools. In addition, the proposed ballot measure for 2008 would provide no funding for modernization of school facilities. School districts

have been applying for modernization funds at much lower rates than expected; leaving a significant amount of the \$3.3 billion provided by Proposition 1D unspent. As of January 30, 2008, only \$591 million in modernization funds had been “reserved” by local school districts.

Changes to Charter School Programs. The Governor's bond proposal also includes various changes to the current program for charter school construction, as well as the Charter School Facility Grant Program that provides funding for rent and lease costs. These changes include:

- **Additional Options With Regards to Holding Title.** The Governor's bond proposal would allow another local government entity besides a school district—such as a city, county, or county board of education—to own title of a charter school facility. In addition, if a charter school is unable to find a local government agency to agree to hold title to the facility, the charter school may hold title. In such cases, the state would be able to recover the property if the school’s charter was revoked or if the charter school was unable to pay back its loan from the state
- **Gives Preference to Low-Performing Districts.** Under the current charter school bond program, charter schools are given priority if they are in an overcrowded district, a low-income area, are operated by a nonprofit group, or utilize existing school district facilities. The Governor proposes to eliminate the preference for schools in overcrowded districts and would instead include a preference for charter schools in low-performing school districts.
- **More Flexibility for Charter School Facility Grant Program.** The Governor proposes to apply some of the flexibility of the federal State Charter School Facilities Incentive Grants Program to the state Charter School Facility Grant Program. In addition to using funds for lease costs, charter schools would be able to use the funds for debt service or mortgage payments related to construction of new facilities.

Creates a Small High School Pilot Program. The Governor proposes a new pilot program to fund the construction of small high schools. The pilot would provide \$20 million from prior-year bond funds to districts who are proposing to build a small high school. The pilot program would require districts to cover only 40 percent of project costs. It is intended to fund a group of schools that is representative of the state.

Changes State/Local Share. The Governor also proposes to change the state/local share for new construction projects. Beginning with the 2008 bond allocations, districts would be required to pay 60 percent of new construction projects, compared to the 50 percent that they must currently cover. (Given the bond would not include funding for modernization projects, the district share of those projects—40 percent—would be unchanged.)

LAO ANALYSIS/RECOMMENDATIONS: In their analysis of the 2008-09 budget, the LAO makes the following findings and recommendations about the Governor's Strategic Growth Plan as they relate to K-12 school facilities programs:

Create a School Facilities Data System. The LAO recommends the state build a school facilities data system that provides information on age, capacity, and cost of school facilities. This would enable the Legislature to determine the amount of bond funding needed to meet the needs of K-12 schools in the future.

More specifically, the LAO recommends that the Office of Public School Construction (OPSC) develop and maintain the database, using bond funds to cover associated costs, as it now does for other administrative activities. To encourage widespread participation, the Legislature could require school districts to provide this needed facility data as a condition of receiving funds through the state's Deferred Maintenance Program. To help ensure data is collected only when likely to be needed for making state bond decisions, the LAO recommends requiring reporting only every odd-numbered year.

The LAO makes the following findings about the need for school facility data:

- ***Significant Funds Remain From Prior Bonds.*** According to the LAO, a significant amount of prior-year bond funds remains unspent. The SFP program has over \$8 billion in available funds -- funds that have not been set aside for any school district. An additional \$3.9 billion in funds have been approved for specific school district projects but remain unspent because the district has not entered into a construction contract. Given the bulk of this funding is in programs that have struggled to spend all fund reservations, it is quite likely some of this funding will eventually go unused, as districts have their grant awards rescinded.
- ***Virtually None of Proposition 1D Funds Has Been Allocated.*** Per the LAO, virtually all of the bond funds authorized by Proposition 1D (\$7.33 billion) remain unallocated and unspent as of December 2007. Although applications have been submitted for the various programs in Proposition 1D, the State Allocation Board (SAB) has not yet approved them. Given the amount of time required to review and approve projects, it may be premature to approve additional K-12 bonds at this time.
- ***Lack of Data on School Facilities.*** The LAO finds that there is a lack of data to determine the amount of funding that is needed to meet the facility needs of K-12 schools. The state does not currently collect comprehensive district data on school capacity, making an estimate of overall statewide facility needs difficult. School districts are required to provide enrollment and capacity data when they apply for new construction funding, but they are not required to update this information in years when they do not apply for new construction grants. Thus, the state has no good measure of overall district capacity. Similarly, districts are required to provide information on the age of their facilities when applying for modernization funding. However, they are not required to provide this information for all facilities, and the information is not updated in future years.

- ***Lack of Data on Facility Costs.*** The LAO believes the state also lacks good data on the cost of constructing K–12 facilities. Data from a recent report by the Macias Consulting Group for the SAB contains some information on construction costs, but it does not provide district–specific information on the planning costs, such as architectural and design costs. The Office of Public School Construction (OPSC) does conduct close–out audits for all school projects that receive state funding. However, the purpose of these audits is to ensure that schools have complied with the rules and regulations of the SFP. Because the audit process can be very time-consuming, districts often provide only enough information to show that they have complied with program requirements.

Improve Financial Hardship Program. The LAO recommends the state consider an alternative approach to assessing financial hardship that focuses on the local revenue sources available to the district.

More specifically, the LAO recommends the Legislature set reasonable expectations of what a district should contribute, without looking at specific account balances. This approach would look at two indicators of district resources—the assessed value of property within the district and the amount of revenues from developer fees—to determine an expected district contribution. The state would provide hardship funding if the costs of construction projects exceeded the expected district contribution. This approach would be more equitable—expecting all districts to contribute but linking their contribution to objective measures of their property values. Such an approach also would reduce incentives for school districts to incur short–term debt merely to appear needy. In addition, it would neither penalize financially needy districts that have good reasons for saving up capital outlay resources, nor create incentives for clever accounting practices that advantage some districts at the expense of other districts.

In making this recommendation, the LAO provides the following information:

- ***Funding Available for Hardship.*** Approximately 15 percent of funds provided by the School Facilities Program for new construction and modernization projects are provided through the state’s financial hardship program, which provides funding for school districts that are determined unable to provide their matching share of project costs. Since the beginning of the School Facility program in 1998, the state has provided, on average, almost \$300 million a year for the financial hardship program.
- ***Recent Study Highlights Problems with Hardship Program.*** The LAO raises findings from a recent State Allocation Board study that highlights fundamental problems with the Financial Hardship Program. The study -- conducted by the Macias Consulting Group -- found that many school districts that applied for financial hardship for new construction and modernization projects were taking on short-term debt and temporarily transferring funds out of their capital outlay accounts to appear financially needy. Such action allowed them to qualify for additional state funding and reduce or eliminate their local share. Any funding

provided to school districts for financial hardship cannot be provided for additional facility projects. The Governor, however, does not propose any changes to address these issues.

Make Further Improvements to the Charter Schools Facilities Programs. While the Governor's proposals would make significant improvements to the system, additional changes could be made to further improve facilities programs for charter schools. In addition to approving many of the Governor's proposals, the LAO recommends the Legislature explore three other options: (1) providing more resources to per-pupil grant programs rather than increasing bond funds; (2) expanding eligibility for the Charter School Facility Grant Program; and (3) as a condition of participating in the School Facilities Program, requiring local school districts to provide charter schools with proceeds from local bonds.

The LAO believes the Governor's charter school proposals are moving in the right direction. Schools, for example, should be better able to construct their own facilities if they are able to hold title. In addition, the flexibility provided in the Charter School Facility Grant program would provide another avenue for schools to build new facilities outside of the Charter School Facility Program, while still providing support to schools that are renting and leasing facilities. The Legislature, however, could make additional changes to further improve charter school facilities programs. The LAO discusses these changes below:

- ***Provide Ongoing Per-Pupil Grants Rather Than Additional Bond Funding.*** The LAO finds that because of the high risks that charter schools face, leasing facilities is generally a more attractive option than building a new school. As a result, the LAO recommends that the Legislature consider providing additional funding for per-pupil grants rather than authorize additional bond funds for new construction. For example, rather than providing \$1 billion in bond funds for new charter school facilities (as proposed by the Governor for the 2008 bond), the Legislature could provide an equivalent annual amount in per-pupil grants. Paying off debt service for \$1 billion in general obligation bonds typically requires annual payments of approximately \$65 million per year for the next 30 years. The state could provide this funding through the Charter School Facility Grant Program, with the flexibility proposed by the Governor to allow schools to use these grant funds for new facilities. This funding could be provided using the annual budget process.
- ***Expand Participation in the Charter School Facility Grant Program.*** With an increase in ongoing funds for the Charter School Facility Grant Program, the Legislature could expand eligibility to charter schools that are not located in low-income areas. The state could allow all charter schools not housed in district facilities to be eligible for the program, with priority given to charter schools located in low-income areas, low-performing or overcrowded districts, and schools undertaking renovation projects. The Legislature would need to amend current law to change the eligibility criteria.

- ***Require Districts to Provide Charter Schools With Local Bond Funds.*** In order to improve the ability of charter schools to raise funds for construction projects, the state could amend current law and require school districts to set aside a share of local general obligation bonds for K-12 facilities that is equivalent to the share of students living in the district who attend charter schools. Charter schools could use their local share to participate in the CSFP. This also would enable charter schools to have an available source of revenue to pay for site acquisition and design costs prior to receiving state funds.

1760 Department of General Services
6110 California Department of Education

ISSUE 7: Charter School Facility Grant Program – 6110-220-0001

DESCRIPTION: The Governor proposes an increase of **\$16.0 million** in ongoing Proposition 98 funding for the Charter Schools Facility Grant program in 2008-09. The Governor’s proposal continues funding at the 2007-08 level of \$18.0 million, reduced by 10.9 percent as a part of the Governor’s Budget Balancing Reductions. However, the Governor proposes to provide ongoing instead of one-time Proposition 98 funding for the program. In the past, this program has been funded with one-time funds from the Proposition 98 Reversion Account.

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

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

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

Program Growth: When the program was first funded in 2002-03, a total of 95 charter schools statewide were eligible for the program, reflecting total student ADA of 10,930. According to the Department of Education, charter school enrollments are increasing at approximately 15 percent a year, so the number of qualifying charter schools and students eligible for facility grants will continue to grow in the future. The number of ADA funded by the program has grown from 10,930 in 2002-03 to 32,072 in 2006-07. With only 95 qualifying schools in 2002-03, an estimated 134 schools qualify for the program in 2007-08.

Program Funding: While funding for the program is subject to annual budget act

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

According to the Department of Education, the \$9.0 million appropriated in the 2006-07 budget, as pro-rated to cover 2005-06 costs, provides funding for approximately 57 percent of eligible charter school facility reimbursement need. For 2007-08, \$18.0 million was provided, which is expected to fully fund, i.e., provide 75 percent funding to all 134 qualifying schools.

Funding History: SB 740 contained intent language that the Charter School Facility Grant program be funded at the level of \$10 million a year for the 2001-02, 2002-03, and 2003-04 years, which translates to a total of \$30 million. Funds for the program were first appropriated in 2001-02 at the \$10 million level, but were later eliminated as a part of mid-year budget reductions since the program was going to run on a reimbursement basis and funds were not needed until 2002-03.

The program continues to be forward funded, so that budget year funds pay for current year expenditures. A total of \$61.4 million has been appropriated for the program over the last six years, although only \$56.7 million has actually been expended for the program due to the reversion of \$4.7 million in 2002-03 funds.

Charter School Facility Grant Program * (In Millions)	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Total
Previous Appropriations	\$10.0**	\$7.7	\$7.7	\$9.0	\$9.0	\$18.0	\$61.4
Previous Funds Expended	\$5.3**	\$7.7	\$7.7	\$9.0	\$9.0	\$18.0	\$56.7

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

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

Governor’s Budget Proposal. The Governor proposes to provide \$16.0 million to continue funding the Charter School Facilities Grant Program in 2008-09. The Governor’s proposal continues funding at the 2007-08 level of \$18.0 million, reduced by 10.9 percent as a part of the Governor’s Budget Balancing Reductions. However, the Governor proposes to discontinue the use of one-time, Proposition 98 Reversion Account funds for the program. The \$16.0 million proposed by the Governor will cover 2007-08 facility reimbursements for 134 qualifying charter schools. The Governor’s 2006-07 budget provided \$9 million in one-time Proposition 98 funding for the program; this level of funding was doubled in 2007-08 in order to provide funding at the 75 percent rate per the intent of SB 740.

LAO ANALYSIS/RECOMMENDATIONS: The LAO has provided a variety of options for the Legislature to consider in setting the level of funding for the Charter School Facility Grant Program in the previous years. As a part of their 2008-09 budget analysis, the LAO is taking a different look at this program and recommending that the Legislature consider expanding eligibility for this program in lieu of providing state bond funds for the program. This issue was discussed in the previous agenda item.

COMMENTS/RECOMMENDATIONS: The intent of SB 740 was to provide three years of funding at \$10 million per year, or \$30 million, for the Charter School Facilities Grant program. The Governor proposes a sixth actual year of funding for the program in 2008-09, and adds another \$16.0 million to the \$56.7 million that has been provided for the program since its inception.

The Governor also proposes to discontinue the practice of appropriating one-time funds from the Proposition 98 Reversion Account for this program. The Administration views this as an ongoing program, reflecting a strong commitment to charter schools.

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

If the Subcommittee supports continued funding for this program as an ongoing program, *staff recommends* that the Subcommittee reconsider the rate of funding authorized by SB 740 in anticipation of continued growth for the program. SB 740 set funding at \$750 per student ADA or 75 percent of total facility expenditures submitted, whichever is less.

The 2007-08 budget provided \$18.0 million for the Charter School Facility Grant Program, which doubled funding of \$9.0 million provided in 2006-07, and funds program grants at the full 75 percent rate of reimbursement. At the \$9.0 million level in 2006-07, grant awards were prorated downward to 57 percent of eligible charter school facility grant reimbursements.

If the Subcommittee supports ongoing funding for the program, *staff recommends* that the Subcommittee consider the option of providing grant funding at the 50 to 60 percent rate, consistent with state funding shares under the School Facilities Program. This would require approximately \$11 million to \$12 million for the Charter Schools Facility Grants program in 2008-09, instead of the \$16 million proposed by the Governor. More importantly, funding at this rate would reduce future costs pressures resulting from charter school enrollment growth and allow more charter schools to be funded if new, ongoing Proposition 98 funds for the program are limited due to the state budget shortfall.

ISSUE 8: School Facilities Program – Fiscal Services Staffing

DESCRIPTION: The Governor proposes **\$740,000** and **7.0 new Fiscal Services positions** for the Office of Public School Construction (OPSC) within the Department of General Services. This proposal would be funded through state school facility bond funds. This request includes 6.0 permanent positions and 1.0 limited term positions to conduct audits under the School Facilities Program (SFP) and to establish an integrated audit information system required under an Executive Order issued by the Governor in 2007. The Administration believes additional positions are needed to address the large backlog of aging SFP audits. **Senate Budget Subcommittee 4 has heard this issue and is holding it open pending recommendations from Subcommittee 1.**

BACKGROUND:

Under the direction of the State Allocation Board (SAB), OPSC administers the functions of various school facilities and building acts (most recently, the Leroy F. Greene School Facilities Act of 1998) through which school districts establish eligibility for funding from statewide bond measures for school facility construction. The SAB approves and apportions funds for projects of eligible schools districts which are certified by the OPSC as compliant with applicable statutory prerequisites.

Over the past ten years, the voters have passed four statewide bonds that provided funding for school facilities. The following table displays funds authorized for each bond along with the amounts awarded and disbursed as of January 31, 2008:

Bond	Authorized Funds*	Awarded to Date*	Disbursed to Date*
Prop 1D (2006)	\$7,350,000	\$903,813	\$475,997
Prop 55 (2004)	\$10,015,500	\$9,342,087	\$6,653,444
Prop 47 (2002)	\$11,400,000	\$11,284,811	\$9,675,482
Prop 1A (1998)	\$6,700,000	\$6,648,081	\$6,647,663
TOTAL	\$35,465,500	\$28,178,792	\$23,452,586

(*dollars in thousands)

SFP Construction Process. The current process for construction under the SFP can take more than nine years to go from application to apportionment, from funding to expenditure, and finally from the beginning to the end of the audit process (project closeout). The following table shows where the OPSC estimates each of the school facilities bonds in terms of the progression from fund apportionment to final closeout.

	Prop 1A (1998)	Prop 47 (2002)	Prop 55 (2004)	Prop 1D (2006)
Duration of Bond Fund Apportionments	11/1998 to 10/2002	11/2002 to 12/2006	03/2004 to 05/2008*	12/2006 to 08/2011*
# of Projects Not Yet Apportioned* (\$ Amount)	0	8 (\$0.1 billion)	67 (\$0.7 billion)	2,215 (\$6.4 billion)
# of Projects Apportioned, But Not Closed (\$ Amount)	331 (\$2.5 billion)	2,117 (\$8.4 billion)	2,407 (\$9.1 billion)	615 (\$0.9 billion)
# of Projects Closed (\$ Amount)	2,126 (\$4.2 billion)	1,496 (\$2.9 billion)	111 (\$0.2 billion)	0
Closeout Period*	4/2000 to 3/2011	5/2003 to 5/2015	10/2005 to 10/2016	5/2008 to 1/2020

(*estimated)

OPSC Projected Audit Workload. According to OPSC, state regulations (Title 2 California Code of Regulations Section 1859.106) require OPSC to audit project expenditures of school districts within two years of receipt of the final expenditure report from the district. According to the regulations, the audit is conducted to ensure that districts are meeting statutory requirements with regard to their projects as well as assure that the district complied with all site acquisition guidelines.

According to OPSC, the bulk of the audit and closeout workload will hit in the next ten years. For example, OPSC indicates that its current audit workload of 1,400 projects worth \$7 billion is anticipated to grow in FY 2008-09 to 2,000 audits—a 43 percent increase. In the long-term, over the next eight years, OPSC projects that the audit workload will increase to approximately 8,000 projects, more than doubling the total of 3,400 from the previous eight years.

In anticipation of this increased workload, OPSC is requesting 7.0 additional auditor positions to augment the existing 35.0 positions in the Auditing Services Section of the OPSC.

Audit Standards. According to OPSC, since 2000, OPSC Fiscal Services staff has recovered nearly half a billion dollars from school districts that have not complied with the various laws and regulations that govern the SFP. However, concerns have been raised by the field with regard to the consistency of the standards by which these audits are conducted since OPSC does not have published or adopted audit standards. With clear audit guidelines and audit training for staff, the SFP audit program would better ensure that bond awards are being spent appropriately.

Governor's Executive Order Regarding the Establishment of an Automated and Integrated Audit Information System. According to OPSC, under the Governor's Executive Order S-02-07 the OPSC is required to establish an automated and integrated audit information system to provide better accountability and web accessibility to project information for all SFP projects. Executive Order S-02-07 sets forth the Administration's

plan to audit all 2006 General Obligation Bond expenditures and make the audit findings available to the public via the internet.

LAO ANALYSIS/RECOMMENDATION: The LAO recommends that the 6.0 ongoing Fiscal Services positions requested by the Governor to address the audit backlog be funded on a limited-term basis. The Legislature could assess the backlog level before these positions expire and reconsider whether ongoing positions are needed.

The LAO does not believe there is need for additional positions on an ongoing basis. The LAO notes that of the 35 audit positions currently in OPSC, 8 of them currently work on financial hardship reviews. The LAO further notes there is currently a workgroup that will provide recommendations to the SAB to improve the financial hardship program. (LAO is a member of the workgroup). One goal of the workgroup is to streamline the financial hardship process. If the process is streamlined within the next few years, then some of those positions could be redirected to work on audits and the limited-term positions would expire. If the financial hardship process is not streamlined, then the limited-term positions could be made permanent.

COMMENTS/RECOMMENDATIONS:

Staff supports the LAO's recommendation to approve all 7.0 Fiscal Services positions for OPSC on a limited-term (two-year) basis to reduce the audit backlog establish and to establish an integrated audit information system.

For this reason, *staff recommends* that Subcommittee 1 recommend that Subcommittee 4 adopt the LAO's plan to approve the 7.0 Fiscal Services positions for OPSC on a *limited-term (two-year) basis*.

QUESTIONS:

1. *What is DOF's position on the LAO's recommendation to establish the 7.0 new audit positions for OPSC on a limited-term basis and reevaluate the need for ongoing positions in the future?*
2. *Can OPSC clarify their audit process and specify which laws and regulations were not complied with and how many districts have been found to be in non-compliance?*
3. *How does OPSC plan to implement the Executive Order to automate and integrate their existing audit information system? Will this new system reduce the need for ongoing audit staff?*

ISSUE 9: School Facilities – Emergency Repair Program Staffing

DESCRIPTION: The Governor proposes **\$217,000** in state General Funds and **2.0 ongoing positions** to process review and approve grants to school districts pursuant to the Emergency Repair Program (ERP). This program was established pursuant to the *Williams v. California* lawsuit settlement in 2004. The Governor also requests that audits for the ERP program be shifted to the county offices of education and funded through an ongoing appropriation in the budget for *Williams* monitoring and oversight. **Senate Budget Subcommittee 4 has heard this issue and is holding it open pending recommendations from Subcommittee 1.**

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

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

Chapter 704/Statutes of 2006 authorizes a grant-based ERP program, rather than a reimbursement-based program. Districts can now apply for funding for specific projects before undertaking the actual repair work. The new grant-based program became operational at the beginning of 2007-08. According to the SAB, the grant-based program has made it much easier for schools to access funding for emergency repairs, since school districts are no longer required to pre-pay for these projects. These changes have substantially increased the number of project requests received and approved by the ERP.

Funding History: The Governor's budget currently provides no new funding for the ERP program in 2008-09. The state has made **\$292 million** available for the ERP since 2005-06, including a recent appropriation of \$100 million for 2007-08 from AB 4XXX, which was enacted as a part of the recent special session.

Annual expenditures for the ERP total are summarized below. As of March 26, 2008, the State Allocation Board has approved a total of **\$167.8 million** for ERP projects. The ERP has a total of **\$124.3 million** in remaining funds available for expenditure. According to the LAO, there are approximately **\$380 million** worth of applications pending approval and the LAO estimates that the ERP will run out of funds by October 2008.

Expenditures from ERF	
Year	Amount
2005-06	\$3.5 million
2006-07	\$36.6 million
2007-08 (As of 3/26/08)	\$127.7 million
Total	\$167.8 million
<i>Remaining Fund Balance</i>	<i>\$124.3 million</i>

Staffing Need. According to the Office of Public Construction (OPSC), each of the 2,230 schools that were eligible for the ERP as of July 1, 2007, will file 2.5 ERP applications over the course of the next three years, resulting in 5,125 ERP applications over that time period, or 1,708 applications annually.

OPSC estimates that there are currently approximately 1,400 ERP applications on its workload list and that the average processing time per application is approximately 160 days (this is above the OPSC's goal of 90 to 120 days).

OPSC further states that this projected workload would ordinarily justify 8.0 positions; however OPSC is conservatively requesting 2.0 positions to address increased ERP applications.

Shift of Audit Function: The Governor's budget also proposes to shift ERP audits to the county offices of education as a part of the monitoring they already provide for instructional materials and staffing requirements of the *Williams* settlement agreement. The Governor's 2008-09 budget provides **\$8.9 million** in ongoing funding for county offices for the monitoring and oversight activities they currently provide and adds budget bill language requiring counties to provide audits of ERP projects. This level of funding reflects a continuation of the \$10 million appropriated in 2007-08, reduced by 10.9 percent pursuant to the Governor's Budget Balancing Reductions.

LAO ANALYSIS/RECOMMENDATION: The LAO recommends that the decision to fund the 2.0 additional positions for ERP requested by the Governor should be made after the Legislature decides how much funding to provide for the program in 2008-09. If the Legislature provides only \$100 million in the budget year, or provides no additional funds, then the ERP will run out of funds and additional positions would not be necessary in the budget year. However, if the Legislature were to provide a significant amount of funds so that there was little chance the program would run out of funds, then the LAO would recommend adding the positions.

COMMENTS:

Need for General Fund Positions Not Likely in 2008-09. The Governor's budget currently provides no funding for the ERP program in 2008-09. If the Governor proposes additional funding at May Revise, it is likely only \$100 million will be needed, since Proposition 98 Reversions estimates will probably not be large enough in 2008-09 to require a higher level of funding. In nine months, the ERP program has approved nearly \$130 million in ERP projects. This figure will be much higher by the end of the year. If the Governor provides \$100 million for the program in 2008-09, the number of projects that would be approved and funded should not be any higher than the workload for 2007-08. In this case, additional positions would not be needed. As new General Fund positions --given the state significant budget shortfall -- these positions do not appear justified in 2008-09.

Alternative Schools and State Special Schools Ineligible for ERP Grants. The Emergency Repair Program makes funds available for schools in the lowest three deciles of the Academic Performance Index (API). In order to be eligible, decile 1-3 schools must have valid API scores. This definition excludes most of the state's 1,000 alternative schools, serving between 225,000 to 300,000 students per year, from eligibility for these program funds. While two of the State Special Schools are ranked in decile 2 of the API, they are also excluded from ERP.

Staff suggests that Subcommittee 1 recommend to Subcommittee 4 approval of the LAO plan for the 2.0 ERP positions requested by the Governor. Per the LAO plan, if the Legislature provides only \$100 million in the budget year, or provides no additional funds, then the ERP will run out of funds and additional positions would not be necessary in the budget year. However, if the Legislature were to provide a significant amount of funds so that there was little chance the program would run out of funds, then the LAO would recommend adding the positions.

Staff also suggests that Subcommittee 1 recommend to Subcommittee 4 rejection of the Governor's proposal to shift the audit function for the ERP program to the county offices of education. The LAO does not support this shift for a number of reasons, including concerns about local mandated costs. Subcommittee staff questions whether county office staff would have the expertise to conduct these project audits.

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



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Gloria Romero

May 6, 2008
1:00 p.m. Room 113
(Please note time change)

Support Budgets:

University of California (6440)
California State University (6610)
California Community Colleges (6870)

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

Governor's 2009-09 Higher Education Budget Proposal
(Dollars in Millions)

	Change <i>(From 2007-08 to Governor's 2008-09 Proposed Budget)</i>				
	2007-08 Revised	2008-09 "Workload Budget" ^a	2008-09 Governor's Budget	Change from Current Year	Percent Change
University of California					
General Fund	\$3,260.7	\$3,494.1	\$3,162.2	-\$98.5	-3.0%
Fee revenue ^b	2,151.5	2,331.3	2,331.3	179.8	8.4%
<i>Subtotals</i>	<i>(\$5,412.2)</i>	<i>(\$5,825.4)</i>	<i>(\$5,493.5)</i>	<i>(\$81.3)</i>	<i>(1.5%)</i>
All other funds	\$12,656.9	\$13,210.1	\$13,210.1	\$553.2	4.4%
Totals	\$18,069.1	\$19,035.5	\$18,703.6	\$634.5	3.5%
California State University					
General Fund	\$2,970.7	\$3,186.0	\$2,873.1	-\$97.6	-3.3%
Fee revenue ^b	1,376.9	1,521.1	1,521.1	144.2	10.5%
<i>Subtotals</i>	<i>(\$4,347.6)</i>	<i>(\$4,707.1)</i>	<i>(\$4,394.2)</i>	<i>(\$46.6)</i>	<i>(1.2%)</i>
All other funds	\$2,598.7	\$2,550.5	\$2,550.5	-\$48.2	-1.9%
Totals	\$6,946.3	\$7,257.6	\$6,944.7	-\$1.6	-0.02%
California Community Colleges					
General Fund ^c	\$4,168.3	\$4,519.4	\$4,034.9	\$-133.4	-3.2%
Prop. Tax	2,051.7	2,196.2	2,196.2	144.5	7.0%
Fee revenue	281.4	289.9	284.4	3.0	1.1%
<i>Subtotals</i>	<i>(\$6,501.4)</i>	<i>(\$7,005.5)</i>	<i>(\$6,515.5)</i>	<i>(\$14.1)</i>	<i>(0.2%)</i>
Other funds ^d	\$269.4	\$257.5	\$257.5	-\$11.9	-4.4%
Totals	\$6,770.8	\$7,263.0	\$6,773.0	\$2.2	0.03%
Grand Totals	\$31,786.2	\$33,556.1	\$32,421.3	\$635.1	2.0%

^a Governor's Workload Budget is defined on Page 3 and is for display purposes only.

^b Assumes fee increases of 7.4 percent for UC and ten percent for CSU.

^c Excludes teacher retirement funds and bond payments and includes State operations for the CCC Chancellor's Office.

^d Excludes other funds maintained in local budgets.

I. Overview of Governor's Budget Proposal (Informational Item). Similar to its approach in other areas of the budget, the Governor's higher education proposal generally reflects 10 percent reductions to estimated General Fund "workload" funding levels. For the University of California (UC) and California State University (CSU), these "workload" levels are consistent with fully-funding the Governor's *Compacts*. For the California Community Colleges (CCC), the "workload" budget includes funding associated with various statutory and customary formulas, including full funding for cost-of-living adjustments (COLA) and funding for enrollment growth of about twice the statutory guideline.

Depending on one's perspective, the proposed cuts to the higher education segments' General Fund support (including Proposition 98) could range anywhere from \$141 million to \$1.1 billion. The \$141 million figure represents the actual dollar decline in base budget funding to the higher education budgets from the current year (2007-08) to 2008-09. The \$1.1 billion figure represents a level of reductions that are based off the Governor's "workload" budget estimates and thus represent an increase from an amount the university systems would have received had, for example, the *compacts* been fully funded, and the Governor's estimates for growth and COLA at the community colleges also been fully funded.

II. Legislative Analyst Proposed Alternative. The Legislative Analyst's Office (LAO) proposes an alternative to the Governor's budget. Rather than starting with a workload level and applying unallocated cuts, the LAO recommends specific augmentations and reductions to the segments' current-year budgets. The primary augmentations in LAO's alternative budget for the segments include General Fund increases for enrollment growth at all three segments averaging about 1.7 percent and funding for nondiscretionary cost increases at UC and CSU averaging about 1.5 percent. The primary reductions include 10 percent cuts in UC and CSU's executive administration budgets, and a reduction in the CCC's economic development program. The LAO recommends against funding faculty or staff salary increases at any of the segments.

Overall, the LAO's alternative budget would provide about \$135 million more General Fund support to the three segments than the Governor's budget proposal. (The LAO would fund this higher level of General Fund support with increased tax revenues that would be generated from other recommendations in its alternative budget.) Further, the LAO alternative budget includes fee increases of 10 percent at UC and CSU, and a \$6 per unit increase at CCC. These fee increases would collectively generate about \$350 million in new revenue for the segments.

Staff recommends that the LAO's alternative budget recommendation be "Held Open" pending the May Revision.

III. Mid-Year Changes to the Community Colleges Budget. The Governor's initial budget proposal was released on January 10, 2008. Since that time, at least two changes have occurred, further underscoring the fluidity of the state's fiscal projections, as well as California's fiscal condition.

A. Actions of Legislature in Special Session (Informational Item). As part of his January proposal, the Governor called for the Legislature to make a series of reductions to

current-year spending. Neither the operations of the UC nor CSU were impacted; however, the Welfare Policy Research Program (which is housed at UC) was reduced on a one-time basis by \$1.5 million.

Proposition 98 funding for K-14 educational programs was reduced in the current year by approximately \$507 million, \$31.1 million of which is attributable to community colleges (the Governor's Budget had recommended a \$40 million reduction to community college apportionments.) Of this \$31.1 million, \$17.8 million in savings was achieved due to the ability of the Chancellor's Office to delay distributing funds for several categorical programs until the 2008-09 fiscal year; the remainder are either savings that had accrued from prior years or are funds that will likely remain unspent by June 30th.

B. Property Tax Revenue Decline in Current Year. For the community colleges, revenues from local property taxes comprise almost one-third of their financial support and are counted as part of the CCC's Proposition 98 funding. Each year, the Annual Budget Act estimates how much revenue will be derived from property taxes to benefit both the community colleges and K-12 education. If actual property tax revenues exceed the amount budgeted, the state reduces the amount of General Fund provided to K-14 education by a like amount (thus, preventing K-14 education from keeping the excess.) When revenues fall short, K-12 school districts are automatically compensated for the loss. However, community colleges do not enjoy a similar protection. When these revenues fail to materialize, colleges are essentially faced with current-year unallocated reductions.

In the current year, actual property tax collections have fallen far below the amount estimated for the 2007-08 budget. According to community college districts, the impact on community colleges could be upwards of \$90 million. The statewide impact (including the impact on K-12 education) remains unclear.

While the community colleges have experienced property tax shortfalls in the past, this situation is unique in two regards. First, prior property tax shortfalls have not been nearly this large (ranging from approximately \$15 to \$25 million). Staff notes that, Assembly Bill 2277 (Eng), which is currently making its way through the legislative process, would appropriate \$80 million to the community colleges from the General Fund to "backfill" the current year property tax loss.

Second, due to reporting errors in the data provided by several counties, the plunge in property tax revenues was not readily apparent to the colleges until after they had made fiscal and academic planning decisions for the Spring term. Thus, the timing of the discovery of the shortfall has substantially limited the range of options colleges have to adjust to the unexpected revenue loss.

Moving forward, staff recommends that the committee work closely with the Department of Finance, the Legislative Analyst, and the Community Colleges Chancellor's Office to construct property tax estimates for the 2008-09 budget that are more accurate, rather than build upon the now suspect assumptions used in the current year. Doing so will help ensure that a similar shortfall situation does not occur for a second year.

IV. Impact of Proposed Reductions at UC, CSU, and Community Colleges. Given that the Governor's Budget proposes that both the UC and CSU reductions be primarily "unallocated" in nature, staff has requested that representatives from the UC and CSU outline how their institutions intend to absorb the budget reductions proposed by the Governor.

However, staff notes that there are primarily four operational areas where UC and CSU have the requisite flexibility to make fiscal changes: (1) employee salaries and wages; (2) student services; (3) enrollments; and (4) student fees. Further, staff notes, even if the budgets of the UC, CSU, and CCC's were to remain "flat" from year-to-year, and the level of educational and student services held constant, there are still a number of mandatory costs, such as the annualized cost of negotiated salary increases; health insurance; maintenance of new space; and energy/utility costs, which are slated to increase and thus would call for additional dollars. Following is a summary of several key decisions that the Legislature and/or the higher education systems will be faced with as we move forward in this budget process.

A. Proposed Fee Increases. While the Governor's Budget does not explicitly increase UC and CSU student fees (this authority is left to the UC Board of Regents and the CSU Board of Trustees) it also does not provide General Fund revenues in lieu of a fee increase. Further, it goes so far as to assume that the UC and CSU will increase the amount of revenue derived from student fees in an amount equivalent to a 7.4 and ten percent increase, respectively, for the majority of the students. Additional fee increases are in store for students in professional degree programs (as discussed later in this agenda). Combined, these fee increases will produce revenues of approximately \$125.8 million dollars for the UC and \$109.8 million for the CSU. The institutions intend to return approximately 33% or \$78 million to financial aid for their students. The net result is approximately \$158 million in new revenue to the UC and CSU systems.

Fee levels for the community college students are determined in statute. The Governor does not presently propose an increase to the current \$20 per unit amount.

The LAO Alternative Budget recommends that both the UC and CSU increase fees by ten percent. Based on the LAO's analysis of the financial need of the student populations, they also advocate for a smaller portion of the revenue being diverted to financial aid. The Analyst believes that the fee revenue will provide sufficient resources to avoid unallocated budget cuts and allow for the UC and CSU to continue meeting their obligations.

Both the UC Board of Regents and the CSU Board of Trustees are slated to take action on proposed fee increases at their respective meetings in May. Staff notes that, for the Legislature to mitigate the proposed fee increases it would require an appropriation of General Fund resources in lieu of a portion of the fee revenue.

Further, the LAO alternative budget recommends that the Legislature should increase fees at the community colleges by \$6 per unit, bringing the total fee level back to the 2006 level of \$26 per unit. Under the LAO's Alternative Budget, this approximately \$80 million in revenue could then be used to offset the Governor's proposed categorical program reductions for the community colleges and increase enrollment growth above the Governor's proposed level.

Resident Undergraduate Fees^a

	<u>CSU</u>			<u>UC</u>		
		<u>Change</u>			<u>Change</u>	
	<u>Amount</u>	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Amount</u>	<u>Percentage</u>
1997-98	\$1,584			\$4,212		
1998-99	1,506	-\$78	-4.9%	4,037	-\$175	-4.2%
1999-00	1,428	-78	-5.2%	3,909	-128	-3.2%
2000-01	1,428	0	0.0%	3,964	55	1.4%
2001-02	1,428	0	0.0%	3,859	-105	-2.6%
2002-03	1,428	0	0.0%	3,859	0	0.0%
2002-03 (mid-year increase)	1,573	145	10.2%	4,017	158	4.1%
2003-04	2,572	999	63.5%	5,530	1,513	37.7%
2004-05	2,916	344	13.4%	6,312	782	14.1%
2005-06	3,164	248	8.5%	6,802	490	7.8%
2006-07	3,199	35	1.1%	6,852	50	0.7%
2007-08	3,521	252	7.9%	7,517	665	9.7%
2008-09 (proposed)	3,797	346	10.0%	8,007	490	6.5%

^a Fees in this chart include both mandatory systemwide fees as well as campus-based fees, which vary by campus. The fee increases discussed in this agenda are limited to increases proposed by the university systems for mandatory systemwide fees. As such, the percent increases may not match the increases proposed by the university systems.

B. Impact on Enrollments. Both university systems are likely to be "overenrolled" in the current year. While these overenrolled students may be paying fees, the system is not receiving General Fund support to educate the students. The UC indicates they are overenrolled by approximately 4,200 full-time equivalent students (FTES); the number of overenrolled students at the CSU is close to 10,000 FTES. At the community colleges, current enrollment numbers indicate that they are fully-enrolled and will likely be over-enrolled by the time the FTES numbers are finalized. As a result, the CCC's expect to fully utilize the funding provided for growth (two percent) in the current-year budget and could potentially be serving as many as 8,700 FTES without state funding.

UC and CSU. In constructing his budget proposal the Governor's first step is to provide UC and CSU with funding for 2.5 percent enrollment growth; he then imposes unallocated cuts that are far larger than the growth augmentations. Given that the Governor's proposed reductions are scored as "unallocated" and each system intends to treat student enrollments differently, moving forward it remains unclear exactly how enrollment levels will change from the current year to 2008-09.

UC indicates it intends to grow at an unspecified rate and "take all eligible students" at the level of funding provided in the Governor's Budget, but that it expects to be paid by the state for the overenrolled students in arrears. However, given UC's academic calendar, should it alter its stated course of action, entering freshman have already been admitted. Thus, the students for whom the promise of a UC education would be broken would be community college transfer students.

CSU intends to employ a different approach and will *reduce* enrollments. Being overenrolled by 10,000 FTES in the current year, CSU indicates a refusal to grow enrollments in the current budget climate. Instead, CSU plans to reduce enrollments, in particular, cutting its overenrolled student population by 7,000 FTES from 10,000 to 3,000 FTES.

Community Colleges. The Governor's Budget construction process for the community colleges worked the same way as that for the UC and CSU. Funding (\$172 million) was first provided for three percent enrollment growth; it was then reduced by \$111 million, thus leaving funding equivalent to one percent available for growth.

Community colleges assert that, given: (1) their enrollment experiences in the current year; (2) budget cuts and fee increases predicted at the UC and CSU; and (3) a lagging economy, enrollment demand will likely increase substantially in the coming year. Like all university systems, the CCC's operate on economies of scale and have some flexibility, on the margin, to accommodate increasing numbers of students. However, unlike its UC and CSU counterparts, CCCs are open access institutions with minimal admission requirements. As a result, reductions in enrollments occur primarily when colleges limit course offerings as well as access to student services, thus making attending a community college both more difficult and less appealing.

Staff recommends that issues related to budget cuts and expected levels of student enrollments be "held open" pending the May Revision.

C. Community College Across-the-Board Reductions. Consistent with the Governor's approach in other areas of the budget, the Administration employs an across-the-board reduction to both the community colleges' General Apportionments as well as each of its 23 categorical programs. The chart below illustrates the reductions proposed by the Administration.

Figure 3					
Major Community College Programs Funded by Proposition 98^a					
<i>(Dollars in Millions)</i>					
	Revised 2007-08	Proposed 2008-09	Change		
			Amount	Percent	
Apportionments					
General Fund	\$3,346.9	\$3,300.4	-\$46.5	-1.4%	
Local property tax revenue	2,051.7	2,196.2	144.5	7.0	
Subtotals	(\$5,398.6)	(\$5,496.6)	(\$98.0)	(1.8%)	
Categorical Programs					
Basic skills improvement	\$33.1	\$29.5	-\$3.6	-10.9%	
Matriculation	101.8	98.0	-3.8	-3.7	
Career technical education (CTE)	20.0	17.8	-2.2	-10.9	
Nursing	22.1	19.7	-2.4	-10.9	
Extended Opportunity Programs and Services	122.3	117.8	-4.5	-3.7	
Disabled students	115.0	110.8	-4.2	-3.7	
Apprenticeships	15.2	14.2	-1.0	-6.5	
Services for CalWORKs ^b recipients	43.6	38.8	-4.7	-10.9	
Part-time faculty compensation	50.8	45.3	-5.5	-10.9	
Part-time faculty office hours	7.2	6.4	-0.8	-10.9	
Part-time faculty health insurance	1.0	0.9	-0.1	-10.9	
Physical plant and instructional support	27.3	24.4	-3.0	-10.9	
Economic development program	46.8	41.7	-5.1	-10.9	
Telecommunications and technology services	26.2	23.3	-2.9	-10.9	
Financial aid/outreach	51.6	45.0	-6.6	-12.8	
Child care funds for students	6.8	6.4	-0.4	-6.5	
Foster Parent Training Program	5.3	4.7	-0.6	-10.9	
Fund for Student Success	6.2	5.5	-0.7	-10.9	
Other programs	8.2	7.8	-0.5	-5.6	
Subtotals, Categorical Programs	(\$710.5)	(\$658.0)	(\$52.5)	(-7.4%)	
Other Appropriations					
Lease revenue bond payments	\$58.3	\$68.1	\$9.8	16.8%	
Totals	\$6,167.5	\$6,222.7	\$55.2	0.9%	
^a Excludes available funding appropriated in prior fiscal years, including monies appropriated for CTE outside of the Annual Budget Act.					
^b California Work Opportunity and Responsibility to Kids.					

LAO Alternative Proposal. Consistent with its Alternative Budget, the LAO recommends that the committee focus dollars on those programs that most directly support the college's "core" mission of educating students. To meet this end, the LAO recommends that the Legislature target \$11 million of reductions on the community colleges' Economic and Workforce Development Programs, which would bring funding for this program back to the levels provided in 2005-06. For all other categorical programs, the LAO recommends providing the same level of funding as in the current year.

Consistent with prior recommendations, the LAO proposes consolidating several categorical programs into a series of two *block grants* (as outlined below) in order to provide local districts with greater flexibility and reduce the costs associated with administering the programs. In response, the CCC chancellor's office notes that there appears to be no indication from local districts that additional flexibility is needed in relationship to categorical programs.

Figure 9	
LAO's Proposed Consolidation of Funding for Categorical Programs	
<i>(General Fund, In Millions)</i>	
2007-08 Amounts	
Student Success Block Grant	
Financial aid/outreach	\$51.6
Extended opportunity programs and services	122.3
Disabled students	115.0
Fund for Student Success	6.2
Matriculation	101.8
Basic skills initiative	33.1
Total	\$430.0
Faculty Support Block Grant	
Faculty and staff outreach/training	\$1.7
Part-time faculty compensation	50.8
Part-time faculty office hours	7.2
Part-time faculty health insurance	1.0
Total	\$60.7
Grand Total	\$490.7

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

V. UC and CSU Professional School Differential Fees (Informational Item). The UC first began charging differential fees for professional-level students in Law and Medicine in 1990, as a result of the state budget situation at the time, and under the assumption that students in the programs will eventually have greater earning power and should thus bear a greater burden of the educational costs. At that time, the surcharge (\$376) was assessed in addition to the standard complement of mandatory systemwide and campus based fees. UC's

practice of assessing a surcharge on students in professional degree programs continues. In 1994-95 the fee was increased (to between \$2,000 and \$2,400) and expanded to include professional degree programs in Dentistry, Veterinary Medicine, and Business. Since then the fee has steadily increased and been further expanded to cover professional degree programs in Optometry, Pharmacy, Nursing, and Theater/film and Television.

Beginning in 2004-05 and continuing through 2008-09, the surcharge has increased monumentally (anywhere from 50 to 100 percent) and the scope of programs impacted has been further widened to include Public Health, Public Policy, and International Relations. This increase was primarily in response to significant budget cuts made mid-year in 2002-03 which reduced state General Fund support for UC's professional degree programs by 25 percent.

For 2008-09, it is anticipated that a law student at UC Berkeley will be paying over \$31,563 annually in tuition alone (\$10,321 in combined mandatory systemwide and campus based fees, coupled with \$21,242 in a Berkeley specific Law school surcharge.). Tuition for Medical students will be slightly over \$25,000 annually. The increases in the professional school surcharges are expected to reap \$16.5 million (\$11.1 million after one-third of the new revenues are returned to financial aid). This trajectory of professional school fee increases is expected to continue (as the chart on the following page indicates).

A recent policy change by the UC Regents is contributing substantially to the increasing costs. The Regents are now allowing individual campuses to increase professional school fees at levels different from those of other campuses in the UC system. For example, while law students at Berkeley may pay \$31,563 annually, their peers at UC Davis will be paying \$28,500. For students earning an MBA, the disparity is even greater. Students at UC Los Angeles will pay \$32,370 for their education annually, while students at UC Davis pay \$27,125. Prior to this policy, all UC campuses charged the same fee amount.

CSU, which has never charged a differential fee for professional programs, is considering following suit for students enrolled in MBA programs at all CSU campuses. Scheduled for further discussion at its Fall 2008 Trustees meeting, the CSU expects to implement a *new* \$5,000 per student per year fee on students in state-supported MBA programs. Under the present proposal, the fee would be implemented for Fall 2009.

Proposed Changes in Fee Levels for Professional School Students (California Residents)

	Proposed Increase <u>2008-09</u>	Proposed Professional Degree Fee			Estimated Total Fees		
		<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Law							
Berkeley	\$ 3,472	\$ 21,242	\$ 25,283	\$ 29,979	\$ 30,931	\$ 35,571	\$ 40,906
Davis	\$ 2,121	\$ 18,439	\$ 20,836	\$ 23,545	\$ 28,270	\$ 31,244	\$ 34,566
Los Angeles	\$ 3,305	\$ 21,075	\$ 24,408	\$ 28,213	\$ 31,113	\$ 35,157	\$ 39,727
Business							
Berkeley	\$ 3,470	\$ 21,630	\$ 25,668	\$ 30,361	\$ 30,913	\$ 35,549	\$ 40,882
Davis	\$ 1,528	\$ 16,804	\$ 18,484	\$ 20,332	\$ 26,257	\$ 28,515	\$ 30,975
Irvine	\$ 1,142	\$ 17,456	\$ 18,678	\$ 19,985	\$ 28,040	\$ 30,030	\$ 32,169
Los Angeles	\$ 2,762	\$ 22,049	\$ 25,161	\$ 28,678	\$ 31,860	\$ 35,683	\$ 39,965
Riverside	\$ 1,069	\$ 16,345	\$ 17,489	\$ 18,714	\$ 25,798	\$ 27,544	\$ 29,412
San Diego	\$ 1,528	\$ 16,804	\$ 18,484	\$ 20,332	\$ 26,047	\$ 28,402	\$ 30,981
Dentistry							
Los Angeles	\$ 1,185	\$ 18,087	\$ 19,353	\$ 20,708	\$ 28,103	\$ 30,080	\$ 32,200
San Francisco	\$ 1,185	\$ 18,087	\$ 19,353	\$ 20,708	\$ 27,848	\$ 29,880	\$ 32,063
Medicine							
Berkeley (Jt. MD/PhD)	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 24,704	\$ 26,352	\$ 28,113
Davis	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 25,383	\$ 27,010	\$ 28,747
Irvine	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 26,020	\$ 27,838	\$ 29,791
Los Angeles	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 24,183	\$ 25,943	\$ 27,830
Riverside	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 23,947	\$ 24,996	\$ 26,118
San Diego	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 24,664	\$ 26,388	\$ 28,241
San Francisco	\$ 984	\$ 14,984	\$ 16,033	\$ 17,155	\$ 25,187	\$ 27,002	\$ 28,953
Pharmacy							
San Diego	\$ 1,760	\$ 13,635	\$ 15,395	\$ 17,155	\$ 22,878	\$ 25,313	\$ 27,804
San Francisco	\$ 1,760	\$ 13,635	\$ 15,395	\$ 17,155	\$ 23,341	\$ 25,860	\$ 28,441
Veterinary Medicine							
Davis	\$ 813	\$ 12,459	\$ 13,331	\$ 14,264	\$ 23,876	\$ 25,326	\$ 26,872
Nursing							
Irvine	\$ -		\$ 3,943	\$ 4,219		\$ 16,264	\$ 17,439
Los Angeles	\$ 241	\$ 3,685	\$ 3,943	\$ 4,219	\$ 12,447	\$ 13,422	\$ 14,457
San Francisco	\$ 241	\$ 3,685	\$ 3,943	\$ 4,219	\$ 13,364	\$ 14,380	\$ 15,474
Optometry							
Berkeley	\$ 715	\$ 10,925	\$ 11,690	\$ 12,508	\$ 20,208	\$ 21,572	\$ 23,029
Theater, Film, & TV							
Los Angeles	\$ 446	\$ 6,821	\$ 7,298	\$ 7,809	\$ 15,583	\$ 16,771	\$ 18,047
Public Health							
Berkeley	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,784	\$ 15,768	\$ 16,819
Davis	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 15,202	\$ 16,171	\$ 17,203
Irvine	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 16,072	\$ 17,226	\$ 18,468
Los Angeles	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,263	\$ 15,360	\$ 16,356
Public Policy							
Berkeley	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,784	\$ 15,768	\$ 16,819
Irvine	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 16,072	\$ 17,226	\$ 18,468
Los Angeles	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,264	\$ 15,360	\$ 16,536
International Relations & Pacific Studies							
San Diego	\$ 300	\$ 4,584	\$ 4,905	\$ 5,248	\$ 14,745	\$ 15,805	\$ 16,947

VI. Community College Chancellor's Office State Operations. The purpose of the California Community College's Chancellor's office is to oversee the statewide CCC system. Key functions of the Chancellor's office include: (1) administering statewide programs; (2) providing technical assistance to districts; and (3) issuing annual reports on the fiscal condition and educational effectiveness of districts. In 2007–08, the Chancellor's office is budgeted \$20.5 million (all fund sources) for about 150 FTE staff, including \$9.9 million in General Fund (non–Proposition 98) support.

Consistent with his approach for the budget in general, the Governor begins by constructing a "workload budget" for the Chancellor's Office. Increases include \$174,000 for baseline adjustments (employee compensation increases and other costs), and \$200,000 for two new staff. One of these positions would be assigned to the nursing program at the Chancellor's Office, and the other would help administer the CCC's career technical education program. The administration asserts that these new staff positions are necessary given the significant expansion of these programs in the past few years.

As part of his across-the-board, budget–balancing reductions, the Governor then proposes a 10 percent unallocated reduction of \$1 million to the Chancellor's Office General Fund workload budget of \$10.3 million. Combined, these workload increases and budget–balancing cuts would provide \$9.3 million General Fund to the Chancellor's Office in 2008–09, a net reduction of \$660,000 (or 6.6 percent) compared with the current year.

LAO Recommendation. The LAO believes that the Chancellor's Office performs a critical oversight function of the community colleges with a limited number of staff. The Chancellor's Office has been subject to various base reductions since 2002–03, and is currently operating with 30 percent fewer funded positions than in 2001–02. As a result, the LAO is concerned that the proposed \$1 million (10 percent) cut to the Chancellor's Office workload budget would leave the office with insufficient resources to perform its responsibilities. Given current staffing needs at the Chancellor's Office, the LAO instead recommends a smaller reduction of \$200,000 to reflect modest administrative savings resulting from its separate recommendation to implement categorical reform (as discussed earlier).

Staff recommends that this issue be "held open" pending the May Revision and an update of the General Fund condition.

VII. Executive Compensation at UC and CSU (Informational Item).

A. Bureau of State Audits. In November 2007 and May 2006, the State Auditor released audit reports which examined CSU and UC compensation practices, respectively, and made specific findings and recommendations to improve those practices. As of February 2008, the State Auditor identifies three *areas of concern* that remain outstanding at the CSU: (1) how CSU defines "total compensation"; (2) policies surrounding "dual employment"; and (3) the group of employees that should be including in CSU's reporting to the Trustees. For the UC, the 2008 report did not identify any specific areas of concern; however, one of the Auditor's prior findings pertained to UC's granting of "exceptions to policy."

Staff has invited State Auditor Elaine Howle to present the Subcommittee with a report on the current status of the CSU's and UC's efforts to implement the recommendations from the 2007 and 2006 audit reports, respectively.

1. *CSU Pending Audit Issues.*

- a. *Policy Changes.* In its response to the audit report, the CSU states that it does not intend to make changes to existing *executive* compensation policies which define "total compensation" and address "dual employment" unless and until those policy changes are applied equitably to *faculty*. Further, CSU indicates that if no agreement is reached on the definition of "total compensation", the Chancellor will report to the Board of Trustees every five years on total compensation. Staff notes that any definitional and policy changes applying to faculty members would be subject to the collective bargaining process.

Staff recommends that the Subcommittee request the Auditor and the CSU provide further comment on this issue, and that the CSU explicitly explain the necessity of establishing identical policies for faculty and staff.

- b. *Effective Monitoring and Oversight.* In conducting its audit, the State Auditor examined a representative sample of 76 "highly paid" CSU employees. The Auditor's examination extended beyond the traditional administrative "executive" to include the 6 highest paid faculty from the sampled campuses. The Auditor recommended that to "provide effective oversight..., the CSU needs accurate, detailed and timely compensation data." While the CSU indicates that it supports "in concept" the Auditor's recommendation, CSU and the State Auditor do not appear to agree on the type of monitoring that is warranted. The Auditor recommends a centralized system that captures compensation data by type and funding source. CSU is proposing to monitor compensation by having: (1) the Board of Trustees review the executive compensation transactions for a select group of 29 individuals, (2) the Chancellor's Office conduct a review of all payments and changes to vice president-level compensation, and (3) the Chancellor submit an annual report to the Board of Trustees on the *general* nature of compensation and the changes to such compensation from all sources.

Staff recommends that the Subcommittee request the Auditor and the CSU provide further comment on this issue.

2. *Prior UC Audit Issue.* The Subcommittee has previously expressed concern that the UC's regular granting of exceptions to policy makes the exception(s) the de facto policy. Since the Legislature first heard this issue, UC has indicated that as "policies are updated and revised, the numbers of exceptions granted would drop significantly." Further, the UC indicated that "exceptions to compensation policy will become just that, exceptional actions taken when only absolutely necessary."

Staff recommends that the Subcommittee request that the Auditor and the UC provide further comment on this issue.

B. University of California Compensation Issues. In late 2005, a series of media reports brought to light questionable compensation practices impacting predominately executives at the UC. In February 2006, the Senate Education Committee and Senate Budget Subcommittee on Education held two joint hearings to examine UC's compensation practices and policies. In March 2007, these committees reconvened for an additional hearing on these matters. The overall focus of these hearings was to ensure transparency and accountability in UC's compensation practices. In addition, reporting language was adopted in both the 2006-07 and 2007-08 Budget Acts requiring the UC to annually report to the Legislature on its "Compensation Policy and Practices." As a result of these hearings, the related budget actions, the aforementioned State Auditor's Report, and other UC-initiated audits and management reviews, the past two-plus years have seen UC initiate substantive reforms to improve transparency and accountability in compensation matters.

In compliance with reporting language contained in the Budget Act, the UC provided its second annual report to the Legislature focusing on senior leadership compensation (those whose cash compensation exceeds \$205,000). The report details UC's ongoing work to develop policies that are clear, consistent, transparent, easily understood, and provide guidance on when and how exceptions may occur, resulting in new and revised draft policies and a proposed governance model for senior management compensation that will be discussed and acted upon by the Regents in Spring 2008. Following Regental action, the UC reports indicates that a comprehensive communication and training effort will be undertaken to ensure that the new and revised policies, as well as the expanded monitoring and reporting processes, are implemented across the University.

Staff notes that the UC is to be commended for the depth and breadth of the work it has undertaken since early 2006 to reform policies in this arena. Staff also notes that the 2008 report to the Legislature provides every indication that the UC is continuing to make additional improvements to its compensation policies. However, the depth of the challenge to achieve systemic and systemwide reform is illustrated by *two recent incidents at the UC*.

1. *Consistent Disclosure of all Compensation Elements.* The UC has adopted numerous reforms to ensure standard definitions of compensation and consistent public disclosure of all compensation elements. However, staff notes that UC has been reluctant to include the monetary value of its "standard" benefits such as its defined benefit retirement plan as well as health, vision and dental benefits. This issue recently came to light when the UC announced the hiring of a new president and its actions did not appear to meet the intent of these policies. The Regents' item delineated all elements of compensation and provided cost estimates for each item. The press release, however, did not contain that same complete set of items. Rather, while the press release accurately stated that certain items were excluded (mainly retirement benefits) the net effect, as subsequently reported by the media, was the widely quoted "total compensation" figure of \$828,000, which was derived specifically *from* the press release itself. However, if one includes the monetary value

of retirement contributions, the *total* compensation figure, which could be determined only by reviewing the Regents' agenda item, is closer to \$938,888.

2. *UC Berkeley Hiring Practices.* In June 2007, a point in time shortly after the three legislative hearings identified earlier in this agenda, and after the release of the State Auditor's Report and other UC-initiated audits and management reviews, the UC Berkeley campus made a questionable decision to re-hire the campus police chief who had just retired after 34 years of service to the UC with a \$2 million lump-sum retirement payout. The campus asserts that all UC policies were followed and all retirement pay received by the police chief was appropriate. The campus also states that the sole exception to policy, which was approved under UC procedures, was the carry forward of sixty-one weeks of unused sick leave.

Staff recommends the Subcommittee request the UC provide further information about the above two incidents.

The present focus of the compensation reforms at UC are centered on "senior leadership" compensation which is defined as those in top management positions whose cash compensation exceeds \$205,000. By policy, these matters are required to come before the Regents for approval. Given the income threshold, staff recommends that UC provide the subcommittee with information regarding how they intend to ensure compliance with UC policy for employees compensated at \$204,999 and below.

VIII. Proposed Consent

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

- 1) Item 6440-001-0001 Support, University of California. *Add Provisional Language, Per April Finance Letter (Issue 350), Related to Energy Conservation Projects.*
- 2) Item 6440-001-0007 Support, University of California. Breast Cancer Research. *Amend item to extend period of availability of funds to June 30, 2011 (technical amendment). \$12,776,000*
- 3) Item 6440-001-0046 Support, University of California. Institute of Transportation Studies. *Reduce item by \$5 million to conform to action of Senate Budget Subcommittee #4, State Administration. ~~\$5,980,000~~ \$980,000*
- 4) Item 6440-001-0234 Support, University of California. Cigarette and Tobacco Products Surtax Fund, Research Account. \$14,553,000
- 5) Item 6440-001-0308 Support, University of California. Earthquake Risk Reduction Fund. \$1,500,000
- 6) Item 6440-001-0321 Support, University of California. Oil Spill Response Trust Fund. \$1,300,000
- 7) Item 6440-001-0890 Support, University of California. Federal GEAR UP Program. \$3,500,000
- 8) Item 6440-001-0945 Support, University of California. California Breast Cancer Research. \$778,000
- 9) Item 6440-001-3054 Support, University of California. Analysis of Health Care-Related Legislation. \$1,908,000
- 10) Item 6440-002-0001 Support, University of California. Ongoing deferral of expenditures from June 30th to July 1st. (\$55,000,000)
- 11) Item 6440-003-0001 Support, University of California. Debt Service. \$175,078,000
- 12) Item 6440-004-0001 Support, University of California UC Merced. \$20,000,000
- 13) Item 6440-005-0001 Support, University of California. Institutes for Science and Innovation. \$4,750,000
- 14) Item 6440-011-0042 Transfer by Controller from State Hwy. Acct., Earthquake Risk Reduction Fund of 1996 (\$1,000,000)
- 15) Item 6440-490 Reappropriation, University of California.
- 16) Item 6610-002-0001 Support, California State University. Legislative, Executive, and Judicial Fellows Programs and Center for California Studies. \$2,991,000.

- 17) Item 6610-003-0001 Support, California State University. Debt Service. \$56,999,000
- 18) Item 6610-402 California State University. Fee Revenue Deposits into Local Trust Funds, General Fund Offset
- 19) Item 6610-490 Reappropriation, California State University.
- 20) Item 6870-001-0909. Support, California Community Colleges. Fund for Instructional Improvement. \$12,000
- 21) Item 6870-001-0925. Support, California Community Colleges. California Business Resource and Assistance Innovation Network Fund. \$12,000
- 22) Item 6870-001-0890. Support, California Community Colleges. Logistics Program, Payable from Federal Funds. \$251,000
- 23) Item 6870-001-0001. Local Assistance, California Community Colleges. *Increase Reimbursements by \$400,000, Per April Finance Letter, for Emergency Planning and Preparation (Issue 702)*
- 24) Item 6870-001-0001. Local Assistance, California Community Colleges. *Increase Reimbursements by \$175,000, Per April Finance Letter, for Mental Health Program Administration (Issue 703). Amend request to include Provisional Language (per attached).*
- 25) Item 6870-101-0001. Local Assistance, California Community Colleges. *Transfer \$587,000 of Apprenticeship Program Funding, Per April Finance Letter, from the Community Colleges to the California Department of Education (Issue 701)*
- 26) Item 6870-101-0001. Trailer Bill Language. *Clarify Statutory Intent, Per April Finance Letter, Related to Education Code 76300 and recent Commission on State Mandates ruling.*
- 27) Item 6870-101-0909. Local Assistance, California Community Colleges. Fund for Instructional Improvement. \$302,000
- 28) Item 6870-101-0925. Local Assistance, California Community Colleges. California Business Resources and Assistance Innovation Network Fund. \$15,000
- 29) Item 6870-103-0001. Local Assistance, California Community Colleges. Lease Revenue Bond Payments. \$68,122,000
- 30) Item 6870-107-0001. Local Assistance, California Community Colleges. Local District Financial Management and Oversight. *Amend Item to reject Governor's Proposed Reduction.* ~~\$508,000~~ \$570,000
- 31) Item 6870-111-0001. Local Assistance, California Community Colleges. CalWORKS Services, Foster Parent Training, Vocational Education, and Telecommunications/Technology. \$0
- 32) Item 6870-295-0001. Local Assistance, California Community Colleges. Mandate Reimbursement. \$4,004,000

Provisional Language Amending April Finance Letter: Item 6870-001-0001 (Issue 703).

Provision X. On or before June 1, 2009, the Chancellor of the California Community Colleges shall provide the Legislature and Department of Finance with a report on the state of mental health services at the community colleges. The Chancellor's Office shall request, but not require, data from community colleges for inclusion in the report. The report shall include all of the following for each community college : (1) current staffing levels of campus mental health programs; (2) the extent to which colleges utilize community providers to complement or supplement the provision of mental health services to students; (3) the current level of student access to crisis, short-term, and mid-term counseling services; (4) funding sources and levels in support of mental health services; and (5) other potential sources of funding (such as grants) that could be accessed to enhance student mental health services at the community colleges. It is the intent of the Legislature to require subsequent reports to monitor the Chancellor's Office's efforts at improving the delivery of mental health services at the community colleges.

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



Subcommittee No. 1

Chair, Jack Scott

Member, Bob Margett

Member, Gloria Romero

**Tuesday, May 13, 2008
1:30 p.m.
Room 113, State Capitol**

OUTCOMES

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ISSUE 1: Federal Funds Reporting – LAO Proposal

DESCRIPTION: The LAO recommends that the Legislature require the California Department of Education (CDE) to report annually on federal funding. This action would promote transparency and improve the timeliness of information and would allow the Legislature to consider all options and priorities when making budget and program decisions. **The Subcommittee heard this issue on April 15th and requested the LAO to develop language for the Subcommittee’s consideration at a later hearing. The LAO will present the following trailer bill language, which has been reviewed by CDE, the Department of Finance, and legislative budget staff. There is no opposition to this language.**

X) The California Department of Education shall submit to the Legislature and the Administration two annual reports on federal funds for K-12 education.

- (1) One report shall provide a three-year tracking of federal funds. Specifically, for each federally funded program and each type of funded activity (state operations, state-level activity, local assistance, and capital outlay), the report shall include: (1) actual expenditures for the prior year, (2) a revised estimate of current-year expenditures, and (3) the budget-year appropriation. The department shall submit this report to the Governor, the Legislature, and the Legislative Analyst's Office no later than February 15 of each year.*
- (2) The other report shall identify available federal carryover funds. Specifically, this report shall identify carryover funds, by fiscal year and potential reversion date, for each federally funded program and each type of funded activity (state operations, state-level activity, local assistance, and capital outlay). The department shall submit this report to the Governor, the Legislature, and the Legislative Analyst's Office no later than November 1 of each year.*

Staff recommends approval of the LAO language provided above that requires CDE to prepare two annual reports on federal funds for K-12 education.

OUTCOME: Approve LAO language. [Vote: 3-0]

BACKGROUND: The federal government appropriates funds to California for a variety of programs—each with unique requirements on how the funds can be expended and when they will revert if unspent. Currently, CDE is responsible for tracking federal funds appropriations, expenditures, and carryover by year and by program. The CDE is also responsible for adhering to the federal requirements for each “pot” of funding. For each of the programs, CDE needs to track prior- and current-year carryovers as well as budget appropriations. The CDE provides information about federal funds to the Department of Finance and Legislature upon request.

LAO ANALYSIS: The LAO makes a number of findings about federal funding information available to the Legislature for purposes of developing the annual budget for K-12 education:

Current Approach Results in Delays, Inconsistencies, and Extra Administrative Burden. Because only CDE officially tracks the many pots of federal funds, others involved in the K–12 budget process must rely on CDE for updates on available monies. Without a regular reporting cycle for this information, all other interested parties must make ad hoc requests for information. This situation puts a burden on CDE as it often answers the same question multiple times each year. The lack of a regular reporting cycle also results in delays and inconsistency in information for various decision makers (who may ask for information at different times and then have trouble reconciling different answers).

Lack of Transparency Results in Less Effective Decision Making. Without formal dissemination of consistent information, all decision makers do not have a complete picture of information as they begin budget deliberations. For example, only CDE knows the carryover balances for each program. Occasionally, this lack of transparency about available carryover has resulted in federal funds going unspent and reverting to the federal government.

LAO RECOMMENDATIONS: The LAO recommends that the California Department of Education provide the Administration and the Legislature with two annual reports on federal funding—a three-year budget summary and a summary of carryover balances. To maximize efficient use of federal funds, we recommend both reports be produced prior to annual budget deliberations. Specifically, these two new reports include:

Report on Actual Expenditures and Budgeted Appropriations Would Help Inform Budget Process Up Front. The LAO recommends that the Legislature require CDE to provide a three-year picture of federal funds, by program, no later than January 15 of each year. For each type of activity (state operations, state level activity, local assistance, or capital outlay), this budget summary should include: (1) actual expenditures for the prior year, (2) a revised estimate of current-year expenditures, and (3) the budget-year appropriation. Although too late to be helpful to the Administration in preparing its budget proposal, the January 15 deadline would help ensure more accurate information is disseminated—as the federal budget should be enacted and information distributed to the states by that time. In addition, the January 15 deadline would ensure the Legislature has timely information before beginning its budget deliberations. This deadline also allows for timely current-year corrections.

Report on Available Carryover Would Enable Timely Response and Minimize Reversions. The LAO recommends an annual report of carryover amounts and potential reversion dates for each pot of federal funds (by program and fiscal year) be provided by November 1 of each year. We believe this report could be provided earlier than the three-year budget summary report because it does not rely on recent passage of the federal budget. The somewhat earlier deadline for this report would benefit the Administration in its budget development as well as the Legislature in its budget deliberations. The deadline would also facilitate timely actions to deal with monies in danger of reverting.

COMMENTS/RECOMMENDATION:

Staff supports the LAO's proposal to require annual reporting by CDE on federal funds available for appropriation. As described by the LAO, these reports would reduce overall workload for CDE, provide more consistent information to all parties, better inform decision makers by helping them consider all budget and program options, and allow for timely corrective action to avoid reverting federal dollars.

Staff recommends that the Subcommittee request the LAO to work with staff from CDE, DOF, and the Legislature on the development of specific statutory language for their proposal. Staff further recommends that the Subcommittee consider this language at their April 29th hearing.

ISSUE 2: Federal Funds -- Special Education (6110-001-0001/0890 & 6110-161-0890)

DESCRIPTION: The Governor’s January budget provides a total of **\$887 million** in federal Special Education funding serving students with disabilities in 2008-09. This amount includes a \$278 million reduction for anticipated Maintenance-of-Effort losses that could result from the Governor’s proposed \$231 million General Fund reduction for special education in 2008-09. The Department of Finance (DOF) April Finance Letter proposes to restore the \$278 million in federal funding in 2008-09, pending approval of a federal maintenance-of-effort waiver. Other April Letters propose adjustments that align federal appropriations with available grants. The California Department of Education (CDE) has identified **\$11.4 million** in additional undesignated funds (\$3.9 ongoing and \$7.5 million one-time carryover) that will be available for special education programs in 2008-09. Options for utilizing these additional funds in 2008-09 will be presented to the Subcommittee.

BACKGROUND: Federal Special Education funds are authorized under the Individuals with Disabilities Education Act (IDEA). Part B funds provide special education grants to states to support the education and related educational activities for school age students with disabilities as defined by the IDEA. In addition to Part B grants, the IDEA also authorizes special education preschool grants and state personnel development grants.

Federal funds appropriated to states for Special Education are organized in three basic categories -- local assistance grants, state –level activities, and state administration. Federal rules establish the level of funding allowed and the uses of these funds within each of these categories. The federal rules for the Special Education programs outlined in the chart below:

Special Education	Federal Rules – Expenditure Authority	Federal Rules Allowable Activities
Local Assistance	Must distribute any funds the state does not reserve for state level activities to LEAs.	Activities related to the provision of a free and appropriate public education to meet the unique needs of children and youth with disabilities ages 3-22.
State Level Activities	Approximately 10 percent.	Support and direct services, including technical assistance, personnel preparation, and professional development and training.
State Administration	Approximately 5 percent.	Provide monitoring, enforcement and complaint investigation. Establish and implement mediation/due process functions. Maintain high cost pool for high needs students.

Under IDEA, states must abide by specific Maintenance of Effort (MOE) requirements that do not allow states to reduce current year state funding below spending levels for the previous year. States face the loss of federal funds if these requirements are not met.

GOVERNOR'S PROPOSALS:

Governor's January Budget. The Governor's January budget provides a total of **\$887 million** in federal Special Education funding in 2008-09 to serve students with disabilities. This amount includes a **\$278 million** reduction in federal special education funding that the Governor anticipates will result from MOE losses in 222008-09. The Administration predicts these MOE losses will occur as a result of the \$231 million (7.3 percent) General Fund reduction for special education in 2008-09, as proposed by the Governor's Budget Balancing Reductions.

Federal Funds	Governor's Budget 2008-09 (Proposed)
Local Assistance Grants	\$1,063,00,000
State Level Activities	86,000,000
State Administration	16,000,000
TOTAL, Federal Funds	\$1,165,000,000
BBR MOE Reduction	-278,000,000
Total, Governor's Budget	\$887,000,000

April Finance Letter: The Department of Finance April Letter proposes the three following adjustments to the Governor's January budget:

1. Item 6110-161-0890, Local Assistance, Special Education. Federal Special Education Funds (Issue 486). It is requested that this item be increased by \$14,960,000 Federal Trust Fund to align the appropriation with available federal funds for special education. This adjustment includes an increase of \$15,796,000 for K-12 grants and a decrease of \$836,000 for Preschool grants.

2. Item 6110-161-0890, Local Assistance, Special Education. State Improvement Grant (Issue 490). It is requested that this item be decreased by \$2,079,000 Federal Trust Fund to reflect the federal government's elimination of base funding for improvement grants. These discretionary funds were previously used in California for professional development. Although the federal government eliminated the improvement grants, it instead provided \$2,196,000 in new funds that LEAs will use for science-based professional development, which was included in the Governor's Budget.

3. Item 6110-161-0890, Local Assistance, Special Education. Base Federal Funds for Special Education (Issue 491). It is requested that this item be increased by \$278.0 million Federal Trust Fund to restore federal funds for Special Education grants on the assumption that the federal government approves a waiver on maintenance-of-effort requirements. Federal law requires California to spend the same amount as the prior year for Special Education, but also authorizes waivers due to exceptional or uncontrollable circumstances. The Governor's Budget included a reduction of \$278.0 million, which did not presume approval of a waiver. It is further requested that provisional language be added as follows to conform to this action:

- X. Of the funds appropriated in this item, \$278,000,000 shall be expended only after approval of a pending federal waiver.

Additional Funds Identified. CDE has identified additional ongoing and carryover funds beyond the amounts designated in the Governor's budget proposals. In total, CDE has identified **\$11.4 million** (\$3.9 million ongoing and \$7.5 million one-time carryover) in additional special education funds available for state-level activities and state administration in 2008-09. Of this amount, \$9.5 million is available from state-level activities and \$1.9 million is available from state operations. CDE has not developed options for using these funds, and generally supports shifting these funds to local assistance on a one-time basis.

Governor's Budget Vetoes for 2007-08. The Governor vetoed the following budget items the Legislature included in the 2007-08 budget. All of these proposals were funded with one-time federal Special Education funds available for state-level activities.

- **Technical Assistance and Monitoring of Students with Disabilities in Alternative Schools, Courts Schools and Division of Juvenile Justice Schools.** The budget eliminated a \$1,050,000 legislative augmentation to expand special education focused monitoring and technical assistance services in alternative, county court, and Division of Juvenile Justice schools.
- **Best Practices for Students with Specific Learning Disabilities.** The budget deleted a \$400,000 legislative augmentation to create an advisory committee and perform a best practices study that would assist local education agencies in implementing evidence-based practices intended to assist students with specific learning disabilities to improve academically.
- **Independent Evaluation of the Dispute Resolution Services.** The budget eliminated a \$150,000 legislative augmentation to provide an independent evaluation of the special education dispute resolution services provided by the Office of Administrative Hearings.

DOF Section 28.00 Letter: In November 2007, the Department of Finance requested authority to expend \$1.1 million in one-time special education funds that the Governor vetoed in the 2007-08 budget. Specifically, DOF requested that the \$1.1 million in funds the Legislature approved for monitoring and technical assistance for students with disabilities in court schools, alternative schools, and Department of Juvenile Justice (DJJ) schools be redirected to local assistance. The Joint Legislative Budget Committee sent a letter to DOF recommending that the department not proceed with this request because the Section 28.00 process is intended for unanticipated funds not vetoed funds.

LAO ANALYSIS/RECOMMENDATIONS:

- **Governor's Budget Balancing Reductions and Federal MOE Losses.** The LAO recommends that the Legislature reject the Administration's proposed across-the-board reduction to special education. The LAO believes this action would trigger a federal MOE problem for California. While recognizing that a federal budget hardship waiver is possible, the LAO believes that it is very unlikely the federal government would grant California a waiver. The Governor now estimates the amount of the federal MOE threat to be roughly \$200 million (\$278 million was a point in time estimate); the LAO estimates the amount at \$189 million. While the Governor's April Letter proposes to restore the \$278 million pending approval of a federal MOE waiver, the LAO does not believe that USDE would approve the waiver.

- **Additional Undesignated Funds.** The LAO recommends utilizing \$9.2 million of the \$11.4 million in undesignated funds from state-level activities and state administration to offset General Fund reductions for the State Special Schools proposed by the Governor as a part of this Budget Balancing Reductions. The Governor's budget proposes a \$9.2 million General Fund (\$5.1 million Proposition 98) reduction for the State Special Schools. Additional federal funds would keep the school's budget whole while freeing up general fund dollars that could be used for other purposes. The LAO believes that using funds for this purpose is allowed under federal law and there would not be supplanting issues since the state is proposing a cut to the schools.

COMMENTS/RECOMMENDATIONS:

April Letters – Local Assistance. *Staff recommends* that the Subcommittee approve two of the Governor’s April Letter requests that are technical in nature. These issues are listed as April Letter items 1 and 2 in this agenda. Both of these issues align federal local assistance appropriations with updated federal grant amounts.

Staff recommends that the Subcommittee delay action on the remaining April Letter request that would restore \$278 million in federal funds pending approval of a federal waiver. Action on this issue will need to conform to action on the Governor’s proposed General Fund reduction for special education.

Additional Undesignated Funds. *Staff recommends* that the Subcommittee delay action on proposals for appropriating the additional \$11.4 million in special education undesignated funds identified by CDE until after May Revise. In considering these proposals, staff offers the following comments.

- **Offset Governor’s Reductions for State Special Schools.** *Staff supports* the LAO recommendation to use **\$9.2 million** of the \$11.4 million in additional undesignated funds for state-level activities and state administration to backfill the Governor’s proposed reduction to the State Special Schools. As stated at an earlier Subcommittee hearing, *staff does not support* the Governor’s proposed reductions to instructional programs at the State Special Schools. Using federal funds to backfill General Fund losses appears to be allowable under federal rules per CDE and would produce important General Fund savings for the state.
- **Monitoring and Technical Assistance for Incarcerated Youth.** *Staff also supports* directing **\$1.0 million** in available carryover funds to provide monitoring and technical assistance activities for youth with disabilities in correctional and alternative education settings. CDE currently provides focused monitoring and technical assistance to school districts, but does not specifically cover county programs – including court schools and other alternative programs. This proposal builds state and local capacity for better serving incarcerated youth in counties. This proposal is complementary to the realignment of services for incarcerated youth between counties and the state Division of Juvenile Justice that was enacted as a part of budget and policy reforms in 2007-08.

**OUTCOME: Approve April Letter items 1 and 2 in this agenda (Issues 486 & 490).
[Vote: 3-0]**

6110 California Department of Education

ISSUE 3: Federal Funds – Title III English Language Acquisition Program (6110-001-0001/0890 & 6110-125-0890)

DESCRIPTION: The Governor’s January budget provides a total of **\$182 million** for the Title III English Language Acquisition Program in 2008-09. This amount includes funds for local assistance grants, state-level activities and state administration. The Department of Finance (DOF) April Finance Letter proposes adjustments that align federal appropriations with available grants and appropriate one-time carryover funds for the English Language Acquisition Program. The California Department of Education (CDE) has identified **\$3.4 million** additional one-time carryover funds that will be available in 2008-09. Options for utilizing these carryover funds will be presented to the Subcommittee.

BACKGROUND: The English Language Acquisition program is authorized under the federal No Child Left Behind Act (NCLB) to improve the education of limited English proficient (LEP) children and youths by helping them learn English and meet challenging state academic content and student academic achievement standards. The program provides enhanced instructional opportunities for immigrant children and youths. Funds are distributed to states based on a formula that takes into account the number of immigrant and LEP students in each state. Federal funds appropriated to states for the Title III – English Language Acquisition program are organized in three basic categories -- local assistance grants, state –level activities, and state administration. Federal rules establish the level of funding allowed and the uses of these funds within each of these categories, which are outlined in the chart below:

Title III- English Language Acquisition	Federal Rules – Expenditure Authority	Federal Rules Allowable Activities
Local Assistance	Approximately 95 percent.	Activities that increase English proficiency and academic achievement of LEP students, including: professional development, instructional materials, tutorials or intensified instruction, curriculum/program development, and family/parent/community outreach.
State Level Activities	Not more than 5 percent may be used for state level activities and state operations.	Professional development, evaluations, technical assistance, performance-based incentive awards. .
State Administration	Not more than 5 percent may be used for state level activities and state operations. Not more than 60 percent of the 5 percent may be used for state administration.	Planning and administrative costs.

As a part of the Title III program, states must develop annual measurable achievement objectives for LEP students that measure their success in achieving English language proficiency and

meeting challenging state academic content and achievement standards. Schools use the funds to implement language instruction educational programs designed to help LEP students achieve these standards.

GOVERNOR’S PROPOSALS:

Governor’s January Budget: The Governor’s January budget provides a total of **\$182 million** for the Title III English Language Acquisition Program in 2008-09. This amount includes \$173 million for local assistance grants, \$5.2 million for state-level activities and \$3.4 million for state administration.

Federal Funds	Governor’s Budget 2008-09 (Proposed)
Local Assistance Grants	\$173,039,783
State Level Activities	5,284,686
State Administration	3,370,448
TOTAL, Federal Funds	\$181,694,917

April Finance Letter:

1. **Item 6110-125-0890, Local Assistance, English Language Acquisition Program (Issues 411).** Requests funds be increased by \$12,435,000 federal Title III Language Acquisition funds, which includes an increase of \$7,629,000 to align the appropriation with available federal funds, and an increase of \$4,806,000 to reflect the availability of one-time carryover funds. Local education agencies (LEA) will use these funds for services to help students attain English proficiency and meet grade level standards.

It is also requested that provisional language be added to require the department to allocate all carryover funds in this item on a per pupil basis by October 1, 2008. The purpose is to allocate funding in a timely manner so that LEAs can use the funds effectively and promptly to improve student performance for these vulnerable populations.

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

X. Of the funds appropriated in Schedule (3), \$4,806,000 is provided in one-time carryover funds to support the existing program.

X. The State Department of Education shall allocate all carryover funds in this item on a per-pupil basis by October 1, 2008 to all eligible service providers. Local educational agencies shall use these funds to supplement, but not supplant, one-time instruction or support services authorized by law.

Additional Carryover Funds. The Department of Education has identified **\$3.4 million** in additional one-time carryover funds available for Title III state activities in 2008-09.

Under Title III, allowable state-level activities include professional development activities, planning and evaluation, technical assistance, and providing recognition (including financial rewards) to grantees that have exceeded their annual measurable objectives. Allowable state administration activities include grant planning, administration, reporting, and evaluation of the effectiveness of grant programs. In addition, the federal law requires the state to provide technical assistance to school districts that fail to meet English learner benchmarks, and requires state intervention in failing districts.

GOVERNOR'S 2007-08 BUDGET VETOES: The Governor vetoed the following budget items the Legislature included in the 2007-08 budget. All of these proposals were funded with one-time federal Title III carryover funds available for state-level activities.

- **Technical Assistance and Monitoring of English Learners in Alternative Schools, Courts Schools and Division of Juvenile Justice Schools.** The budget provided \$1,600,000 and 4.0 positions to CDE to monitor and provide technical assistance to alternative, county court, and Division of Juvenile Justice schools serving English learners. These one-time funds would be provided over a three-year period and intended to build local capacity for better serving youth being shifted from DJJ to county programs.
- **English Learner Best Practices Pilot Program (Pilot).** The budget provided \$1.0 million for an evaluation of the English Learner Best Practice Pilot Program established pursuant to the requirements of Chapter 561, Statutes of 2006 (AB 2117). The 2006-07 budget provided \$20 million in one-time funds for the program. The Governor reduced funding for the evaluation by \$500,000.
- **Effective Communication with Non-English Speaking Parents.** The budget provided \$50,000 for an evaluation to ensure that LEAs are employing methods to ensure effective and timely oral communication with non-English-speaking parents.

CDE Issues: The Department of Education has raised the following two issues for the Subcommittees information and consideration:

- **New Program Improvement Intervention Program.** The Department of Education has utilized \$1.8 million in Title III state level activities funds from 2007-08 to begin a state level intervention and assistance program for local education agencies (LEAs) facing corrective actions for English learners. The Legislature did not approve these funds as a part of the 2007-08 budget, rather this program was developed and implemented administratively by CDE. This new program is funded with state level activities funds and allocates base grants and per pupil funding to eleven county offices of education to support LEAs that have failed to meet growth objectives – defined as annual measurable achievement objectives (AMAOs) for English learners. This new program both coordinates and overlaps with Title I intervention activities currently underway for schools and districts in program improvement.
- **Delay Best Practice Pilot Program Evaluation.** Due to the insufficiency of funding available for the Best Practices evaluation, CDE has informed budget staff that they are delaying release of the Request for Proposal. CDE is exploring the extension of the evaluation timetable in reduce the costs and extend the benefits of the evaluation.

LAO ANALYSIS/RECOMMENDATIONS:

- Coordinate Title I Program Improvement and Title III program intervention activities.
- Support use of Title III carryover funds to increase funding for the Best Practices Pilot Program evaluation.
- Support DOF April Letter request to adjust Title III funding with the deletion of proposed budget language to require CDE to allocate all carryover funds on a per-pupil basis by October 1, 2008.

COMMENTS:

April Letter: *Staff recommends* that the Subcommittee approve the April Letter request, but supports the LAO recommendation to delete related budget language since it is not felt to be necessary by CDE.

Carryover Funds for Correctional and Alternative Education Schools. *Staff supports* using **\$1.6 million** of the \$3.4 million in Title III carryover funds for the monitoring and technical assistance of correctional and alternative programs. This proposal was passed by the Legislature in 2007-08, but vetoed by the Governor.

Best Practice Pilot Program Evaluation. The 2007-08 budget provides \$500,000 for this evaluation over a five year period. The Governor vetoed another \$500,000 for the evaluation based on understandings that private foundations would cover this amount. CDE has indicated that it is not possible to complete a high quality evaluation without this additional funding. Given the availability of one-time Title III funds in 2008-09, *staff supports* providing an additional **\$500,000** for the study, as approved by the Legislature in 2007-08.

New Title III Intervention Program. In addition, *staff recommends* that when the Subcommittee takes action to appropriate carryover funds for Title III, that action be taken on the new intervention program developed by CDE in 2007-08 to coordinate it with Title I program improvement activities. If approved by the Subcommittee, *staff further recommends* that provisional language be added to the budget bill to identify this program and funding in the annual budget. This **\$1.8 million** program is currently operating without any budget or statutory authority.

OUTCOME: Approve April Letter, but delete proposed budget language to require CDE to allocate all carryover funds on a per-pupil basis by October 1, 2008. [Vote: 3-0.]

6110 California Department of Education

ISSUE 4: Federal Funds – Title I -- Migrant Education Program (6110-001-0001/0890 & 6110-125-0890)

DESCRIPTION: The Governor’s January budget provides a total of **\$129 million** in federal funds for the Migrant Education Program in 2008-09. This amount includes funds for local assistance grants and state administration. The Department of Finance (DOF) April Finance Letter proposes adjustments that align federal appropriations with available grants and appropriate one-time carryover funds for the Migrant Education Program. Specifically, the April Letter proposes to decrease ongoing grants by \$1.7 million and increase one –time carryover funds by \$9.0 million. Options for allocating these carryover funds will be presented to the Subcommittee.

BACKGROUND: The Migrant Education Program is authorized under Title I of the federal No Child Left Behind Act (NCLB). The program provides grants to states to ensure that highly mobile children whose family members are employed performing seasonal agricultural work have the same opportunity to meet state content and performance standards as other students.

Funds support high quality education programs for migratory children and help ensure that migratory children who move among the states are not penalized in any manner by disparities among states in curriculum, graduation requirements, or state academic content and student academic achievement standards.

Funds also ensure that migratory children not only are provided with appropriate education services (including supportive services) that address their special needs, but also that such 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.

Federal funds are allocated by formula based on the state’s per pupil expenditure for education and counts of eligible migratory children, age 3 through 21, residing within the state. States use program funds to identify eligible children and provide supplemental education and support services. These services include: academic instruction; remedial and compensatory instruction; bilingual and multicultural instruction; vocational instruction; career education services; special guidance; counseling

April Finance Letter – Local Assistance Funding. The Governor proposes an increase of \$9.0 million in local assistance carryover funds for Migrant Education in 2008-09. The majority of these funds originated from unanticipated federal grant funds provided to California in 2007-08.

1. Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 409)

It is requested that this item be increased by \$7,254,000 federal Title I Migrant Education funds, which includes a decrease of \$1,746,000 to align the appropriation with available federal funds

and an increase of \$9.0 million to reflect the availability of one-time carryover funds. LEAs will use these funds for educational and support services to meet the needs of highly-mobile children.

It is also requested that provisional language be added to require the department to allocate all carryover funds in this item on a per pupil basis by October 1, 2008. The purpose is to allocate funding in a timely manner so that LEAs can use the funds effectively and promptly to improve student performance for these vulnerable populations.

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

X. Of the funds appropriated in Schedule (1), \$9,000,000 is provided in one-time carryover funds to support the existing program.

X. The State Department of Education shall allocate all carryover funds in this item on a per-pupil basis by October 1, 2008 to all eligible service providers. Local educational agencies shall use these funds to supplement, but not supplant, one-time instruction or support services authorized by law.

CDE Issues: CDE is requesting that **\$1.2 million** of the \$9 million in carryover funds be provided to continue an evaluation of the Migrant Education Program required by the federal law. The 2007-08 budget provided \$800,000 for this evaluation, including \$400,000 for planning and \$400,000 for the first year of the three-year evaluation.

LAO ANALYSIS/RECOMMENDATIONS: The LAO supports additional funding of **\$600,000** from one-time Migrant Education carryover funds in 2008-09 to complete funding for the three-year Migrant Education evaluation required by federal law. This proposal would provide an additional \$300,000 each for year two and year three of the evaluation. Together with the \$400,000 available in 2007-08, this would provide a total of \$1.0 million for the Migrant Education evaluation. The LAO also recommends eliminating budget language included in the April Finance Letter that would require CDE to allocate remaining local assistance carryover funds by October 1, 2008.

COMMENTS/RECOMMENDATIONS: *Staff does not support* approval of the April Finance Letter at this time. Instead, *staff supports* the LAO recommendation to appropriate an additional \$600,000 in available in carryover funds to cover the costs of an impendent evaluation of the Migrant Education Program. This would provide \$8.4 million for local assistance grants, instead of the \$9.0 million proposed by the Administration.

In addition, *staff supports the LAO recommendation to delete* budget language included in the April Finance Letter that would require CDE to allocate funds by October 1, 2008.

In summary, *staff recommends* that the Subcommittee delay action on the Governor's April Letter request (Issue 409) until after May Revise in order to allow all parties additional time to evaluate the CDE request for additional funding for the Migrant Education evaluation, as required by federal law.

6110 California Department of Education

ISSUE 5: Reading First Program (Item 6110-126-0890)

DESCRIPTION: The Governor’s January budget proposes a total of **\$135.6 million** in federal funding to continue the Reading First program in 2008-09. The Department of Finance April Budget Letter requests that Reading First funding be reduced by **\$78.1 million**, bringing total funding for the program down to \$57.4 million in 2008-09. This reduction reflects a major decrease (64 percent) in federal appropriations to states for the Reading First program in 2008-09. The Governor’s plan does not specify how this reduction should be allocated among Reading First grantees; however, the Administration assumes that Reading First is a six year program and that funds would be allocated to ensure that Reading First cohorts receive five or six years of funding. The LAO will present a specific plan for continuing funding for grantees through their sixth year, even if additional federal funds are not allocated in future years.

BACKGROUND: The federal Reading First Program, first authorized under the No Child Left Behind Act of 2001, provides six year grants to states to improve reading instruction and outcomes for students. California’s Reading First Plan was approved by the State Board of Education and codified in state law in 2002 to provide reading instruction to K-3 students and K-12 special education students.

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

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

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

Significant Progress Requirements. The federal law requires that Reading First grantees demonstrate “significant progress” in improving reading scores in order to receive funding beyond three years. The 2005-06 budget contained provisional language requiring the State Board of Education to seek legislative approval for any extension of the grant period beyond three years. Legislation was not passed for this purpose. The State Board of Education finally adopted a definition of significant progress in 2006-07, after fourth year grants had been released for the first round of Reading First schools.

Program Participation: To date, the State Department of Education has allocated Reading First funds to four cohorts (rounds) of grantees. (See Appendix A for a list of school districts in each cohort.) Funding began for the first cohort of funding in 2002-03; in 2007-08, Cohort 1 will be finishing up its sixth and final year of funding. Funding for the last cohort - Cohort 4 - began in 2006-07 and will not complete its sixth year until 2011-12.

As indicated below, the Reading First program currently provides grants to nearly 18,030 classrooms/teachers in 873 schools statewide, representing more than half (55 percent) of the eligible schools statewide.

Existing Grantees:	Districts	Schools	Classrooms/ Teachers	Year of Funding	2007-08 Funding (In Millions)
Cohort 1 (Waivered Classrooms)	13	354	7,828 (412)	6	\$56.1
Cohort 2 (Waivered Classrooms)	60	367	7,270 (695)	5	\$48.2
Cohort 3 (Waivered Classrooms)	37	131	2,548 (627)	4	\$18.3
Cohort 4 (Waivered Classrooms)	12	21	384 (xx)	2	\$2.5
Subtotal, Existing Grantees (Subtotal, Waivered Classrooms)	122	873	18,030 (xxx)		\$125.0
Total Eligible Grantees		1,597	32,182		

Unfunded Programs:

While more than half of the state’s eligible schools are funded, 724 eligible schools and 14,152 classrooms/teachers are not participating in the Reading First program as indicated by the table below.

Unfunded Classrooms:	Districts	Schools	Classrooms/ Teachers
Additional Eligible Classrooms in Currently Funded Districts		249	4,863
Additional Eligible Classrooms in Currently Unfunded Districts		475	9,289
Subtotals, Unfunded Classrooms		724	14,152

Special Education Pilot Project: The 2007-08 budget appropriated **\$34.9 million** in one-time

Reading First carryover funds for a three year pilot program to encourage professional development in reading for special education teachers.

The federal Reading First program is focused on reading improvement for K-12 special education students, as well as K-3 students. The Special Education Pilot Program grew out of concerns about the lack of participation of special education teachers in Reading First, given the poor performance of special education students in reading and English Language Arts, as measured by state assessments. The last report from the Department of Education indicated that 2,720 K-12 special education teachers have participated in some Reading First professional development since the program began. At the same time, the department also reported: *“There is high probability that no Special Education teachers are participating in the Reading First program as only teachers in core curriculum can participate. Currently, the data collected from LEAs does not include whether the teacher teaches Special Education.”*

CDE notified legislative staff last March that implementation of the Special Education Pilot Program was on hold. In response to these delays, the Subcommittee Chairs of the budget committees of both houses of the Legislature sent a letter to the Superintendent of Public Instruction. This letter – dated March 24, 2008 – urged immediate implementation of the program. According to CDE, applications for 2007-08 funds have now been released and the department plans to select and approve first year grants before the end of the fiscal year.

In selecting proposals, budget act provisions require CDE to give first priority to K-12 special education teachers in eligible Reading First districts not currently participating in the Reading First program, and second priority to K-12 special education teachers within already participating Reading First districts that have yet to receive professional development in reading.

Advisory Group for Implementing Reading First in Waivered Classrooms: The 2005-06 budget established an advisory committee composed of waived classroom teachers; academic experts in second-language acquisition; and academic experts in Reading Language Arts and Spanish Language Arts. The advisory committee was directed to assist CDE in addressing assessments and professional development for reading teachers and coaches.

California Reading First Evaluations: A Year 3 Evaluation of California’s Reading First program was completed in November 2005 by an external evaluator selected by CDE. While the evaluation concluded that the program was having a positive impact on student achievement, when it compared Reading First schools to demographically similar non-Reading First schools the results were more inconclusive. It should be noted that it is not possible to measure individual student progress because student based, longitudinal data is not yet available for schools.

A Year 5 Evaluation of Reading First, which was published in January 2008, found higher growth rates for students in Reading First schools compared to non-Reading First schools. Positive results were confirmed for English learners in Reading First schools compared to English learners in non-Reading First schools. The report does not include data or make findings for special education students. (See Comments section below for more detail on the Year 5 Evaluation.)

Federal GAO Report. A February 2007 report by the federal Government Accountability Office (GAO) found that, while states reported some improvements in reading instruction as a result of the Reading First funding, some federal government officials violated provisions of the No Child Left Behind Act when they implemented Reading First, by "pressur[ing] state and local applicants to choose specific reading programs and assessments" (pressuring states and locals to purchase specific instructional material programs). Such actions are expressly prohibited by NCLB, due to the importance of "preserv[ing] state and local control over key aspects of the public school system" and the importance of ensuring that federal officials do not influence local purchasing decisions that could benefit particular private publishing companies. The federal government responded to the audit with a plan to put procedures in place to protect against such violations in the future. However, these findings are important in that they may affect any changes to the program if and when the program is reauthorized by Congress.

Federal Independent Evaluation. A congressionally mandated study of Reading First, prepared by the Institute of Education Sciences, was released by the U.S. Department of Education in May 2008. The study found that there was no statistically significant impact on reading comprehension assessments for first, second, or third grade students in Reading First schools compared to students in non-Reading First schools. The study involved grade 1-3 students in 1,400 classrooms from 248 schools in 13 states nationwide. The study focused on data collected from 2004 to 2006.

GOVERNOR'S BUDGET PROPOSALS:

Governor's January Budget: The Governor's January budget proposes a total of **\$135.6 million** in federal funding to continue the Reading First program in 2008-09.

April Finance Letter: The Department of Finance April Budget Letter requests that Reading First funding be reduced by **\$78.1 million**, bringing total funding for the program down to **\$57.4 million** in 2008-09. This reduction reflects a major decrease (64 percent) in federal appropriations to states for the Reading First program in 2008-09, offset in part by one-time carryover funds estimated in 2008-09. More specifically, the April Letter proposes the following adjustments to the Governor's January budget:

1. Item 6110-126-0890, Local Assistance, Reading First Program. Requests this item be decreased by \$78,141,000 federal Title I Reading First funds, which includes a decrease of \$87.6 million to align the appropriation with available federal funds and an increase of \$9,459,000 to reflect the availability of one-time carryover funds. The Reading First Program provides grants for schools to improve reading in Kindergarten or any of Grades 1 to 3, inclusive, with scientifically-based reading programs. **(Issues 082 and 083)**

The Governor's April Letter does not specify how this local assistance reduction should be allocated among Reading First grantees; however, the Administration assumes that Reading First is a six year program and that funds would be allocated to ensure that Reading First cohorts receive six years of funding. As such, the Administration assumes that available Reading First

funds would be allocated for Cohorts 2, 3 and 4 in 2008-09 and not for Cohort 1 since it finishes year six of funding in 2007-08.

The Governor's carryover totals do not reflect unexpended 2007-08 funds for Cohorts 2 and 4 that are available in 2008-09. According to CDE, these two cohorts spend these funds the year after receiving them, reflecting a delay in the original start date for these grants that continues to affect the timing of annual expenditures.

CDE Reading First Recommendation: CDE assumes that federal Reading First funding will continue at 2008-09 levels in 2009-10. With this amount of funding, CDE proposes to continue funding for Cohort 1 for a seventh year at roughly half of its current level and to fully fund Cohorts 2, 3 and 4 in 2008-09. In 2009-10, CDE proposes no funding for Cohort 1, funding for Cohort 2 at roughly half of its current level, and full funding for Cohorts 3 and 4. Virtually no funding would be remaining after 2009-10 to provide half funding for Cohort 3 or full funding for Cohort 4.

Under the CDE recommendation, if federal Reading First funding does not continue to states in 2009-10, it would not be possible to provide a fifth or sixth year of funding to Cohorts 3 and 4. In addition, Cohort 2 would not be provided with a seventh year of funding (at nearly half its current level), as provided for Cohort 1 under CDE's proposal.

LAO ANALYSIS/ RECOMMENDATION: The LAO assumes there will be no additional federal Reading First funding for states beyond 2008-09, given the 64 percent reduction in the federal Reading First grant to states and ongoing Congressional concerns about the effectiveness and appropriateness of the program. Therefore, the LAO recommends that base grant and carryover funding available in 2008-09 be utilized in a way that will allow existing Reading First grant cohorts to complete six years of funding.

The LAO estimates a total of **\$92.7 million** in Reading First funds will be available for local assistance grants for the Reading First program in 2008-09. (This includes \$39 million in base grants funds and \$53.7 million in carryover funds, including unspent 2007-08 funds for Cohort 2 and 4.) The LAO recommends using the \$92.7 million over the next three years, as follows, to allow each cohort to participate in the program for five or six years:

- **\$69.0 million** would be provided for Cohorts 2, 3 and 4 in 2008-09. (No funding would be provided for Cohort 1, which is in its sixth year of funding in 2007-08.)
- **\$20.7 million** would be provided in 2009-10 for Cohorts 3 and 4. (No funding would be required for Cohort 2 since it will have completed six years of funding in 2008-09.)
- **\$2.5 million** would be provided in 2010-11 for Cohort 4 in its fifth year of funding. (No funding would be required for Cohort 3 since it will have completed six years of funding in 2009-10.)

As a part of this proposal, the LAO also recommends that **\$3.0 million** of the \$6.7 million proposed for Reading First state and regional assistance centers in 2008-09 be redirected to local assistance grants. This reduction is proposed to reflect lower workload of these state/regional centers when Cohort 1 phases out of the program in 2008-09. Additional savings from the state

and regional assistance centers would be redirected to cover the sixth and final year of funding for Cohort 4 in 2011-12.

In recent years, the LAO has raised the lack of notable, widespread success of the Reading First program evidenced by state and national program evaluations. As a result, the LAO has recommended that the program become more flexible and that districts be allowed to use at least a portion of their funding for direct student service. Specifically, the LAO has consistently recommended modifications in the structure of the Reading First program to allow for actual reading instruction to students instead of teacher training and coaching.

COMMENTS/RECOMMENDATIONS:

2008-09 Funding Plan. *Staff recommends* approval of the LAO's recommendation, which assumes no additional federal funding to states for Reading First beyond 2008-09 and allocates **\$92.7 million** in ongoing and carryover funds available in 2008-09 over the next three years to allow each cohort to participate in the program for six years: (The LAO proposal also assumes \$2.5 million in state and regional assistance center savings would be available to cover the sixth year of funding for Cohort 4.)

While a more conservative approach than recommended by CDE, the LAO recommendation assures six years of grant funding for all Reading First cohorts. The CDE recommendation assumes that federal funds appropriated for Reading First in 2008-09 will continue at the same level in 2009-10. Despite a 64 percent reduction in federal funds, CDE recommends extending a seventh year of funding – at roughly half current levels -- for Cohort 1. If federal funds don't materialize in 2009-10, it will not be possible to provide five or six years of funding for Cohorts 3 and 4. (In addition, Cohort 2 will not receive any seventh year funding, as provided for Cohort 1 under CDE's plan.)

The LAO proposal is also consistent with the Governor's budget approach, which does not provide grant funding beyond six years, and intends to provide five or six years of funding for existing Reading First cohorts.

Fifth Year Evaluation: The California Reading First Year 5 Evaluation Report found that schools that participated in Reading First for five years showed five-year gains in reading achievement that were slightly greater than the gains compared to a statistical control group. However, this difference was only statistically significant for grades 2 and 4, but not for grade 3.

Specifically, for grade 2, the percentage of students scoring at proficient or higher on the Reading/Language Arts portion of the California Standards Test went from 15.4% to 34.2% over five years in schools that participated in Reading First over that time period, as compared to the statistical control group, where the percentage of students scoring at proficient or higher went from 15.4% to 30.4% over the same time period.

For grade 4, the percentage of students scoring at proficient or higher on the Reading/Language Arts portion of the California Standards Test went from 15.2% to 31.3% in the same Reading

First schools, as compared with the statistical control group, where the percentage of students scoring at proficient or higher went from 15.2% to 27.5%.

For reading achievement in grade 3, there was no statistically significant difference in 5-year gains in reading achievement between the Reading First schools and the statistical control group. These statistics are summarized in the tables below:

Percentage of students scoring at proficient or above on the Reading/
Language Arts portion of the California Standards Test, Grade 2

	Reading First Schools (participating in the program for five consecutive years)	Statistical control group
2002	15.4%	15.4%
2007	34.2%	30.4%

Percentage of students scoring at proficient or above on the Reading/Language Arts portion of
the California Standards Test, Grade 4

	Reading First Schools (participating in the program for five consecutive years)	Statistical control group
2002	15.2%	15.2%
2007	31.3%	27.5%

QUESTIONS:

1. ***Fifth Year Evaluation.*** *The fifth year evaluation of Reading First published in January 2008, found that Reading First schools showed five-year gains in reading achievement that were slightly greater than the gains compared to a statistical control group. How significant are these gains?*
2. ***Sixth Year Evaluation.*** *The 2007-08 budget provided \$140,000 to enhance funding for the six year evaluation of the Reading First program. These funds were provided to fund a survey of eligible Reading First school districts – including participating and non-participating – to solicit feedback on a number of issues. While it does not appear likely, if the federal government reauthorizes the Reading First program next year and provides another cycle of funding to states, what insights does this recently released report provide with regard to attracting new districts to the program?*
3. ***Status of the Special Education Pilot Program.*** *Can the Department of Education provide an update on implementation of the Special Education Pilot Program in the current year?*

ISSUE 6: Federal Funds – Title II – Implementation of NCLB Highly Qualified Teacher Requirements

DESCRIPTION: The California Department of Education (CDE) will provide an update on implementation of California's revised plan for compliance with the "highly qualified teacher" provisions of the federal No Child Left Behind Act submitted to the U.S. Department of Education in September 2006. Under this revised plan, California provided assurances for placing a highly qualified teacher in every classroom providing core academic subject by the end of 2006-07.

BACKGROUND:

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

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

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

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

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

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

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

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

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

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

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

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

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

Status of HQT Compliance in California:

California does not currently have accurate data on the number and types of teachers of core academic subjects that are not considered highly qualified for purposes of NCLB under our state’s definition. California tracks the number of classes taught by highly qualified teachers and not by the individual teacher. For this reason, our state does not really know how many teachers are considered noncompliant with NCLB.

The development of more accurate, detailed data on highly qualified teachers is one the requirements of our state’s revised highly qualified teacher plan. California currently collects the qualifications of teachers through the California Basic Educational Data System (CBEDS) process on the Professional Assignment Information Form (PAIF). This data is self-reported information submitted by the local districts. With the development and implementation of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) system, more accurate information will be collected on the individual teachers including the status of highly qualified certification and process to become certified.

Core Academic Classes: According to the October 2006 CBEDS-PAIF 90 percent of all NCLB core academic classes, as defined by federal law, in California were taught by a highly qualified teacher. Comprehensive schools are reporting an even higher compliance rate; with approximately 94 percent of all NCLB core academic classes are taught by compliant teachers. This is a significant increase from 2002-03 when only 48 percent of NCLB core academic classes were identified as being taught by NCLB compliant teachers.

2006-07 Data			
School Type	Total Number of Core Academic Classes	Number of Core Academic Classes Taught by HQTs	Percentage of Core Academic Classes Taught by HQTs
All Schools			
Elementary Schools	151,994	145,932	96
High-Poverty Schools	102,345	97,456	95
Low-Poverty Schools	49,649	48,476	98
Middle Schools	182,019	160,850	88
High Poverty Schools	118,330	100,879	85
Low Poverty Schools	63,689	59,971	94
Secondary Schools	270,306	247,860	92
High-Poverty Schools	128,578	114,146	89
Low Poverty Schools	141,728	133,714	94
Alternative Education	30,114	23,525	78
High Poverty Schools	17,402	13,224	76
Low Poverty Schools	12,712	10,301	81

Core Classes in High- and Low-Poverty Schools. The percentage of core classes taught by HQTs is different for high- and low-poverty schools, particularly for middle and secondary schools. A total of 94 percent of core teachers in low-poverty middle and secondary schools are taught by highly qualified teachers. These figures fall to 85 percent for high-poverty middle schools and 89 percent for high-poverty secondary schools.

Core Classes in Other Types of Schools. There is a large gap in teacher quality in the high needs area of alternative education. Comprehensive high schools report an overall compliance rate of 92 percent, which is only slightly lower than elementary levels and significantly higher than middle/junior high levels. However, secondary alternative education programs report a significantly lower compliance rate than their counterparts. According to the 2006 CBEDS-PAIF, Alternative Education sites have an overall compliance rate of 78 percent.

Other Teacher Shortage Data from CDE. The Department of Education produces an annual report designating critical shortages of teachers for the Student Aid Commission. This report is required by statute governing the Assumption Program of Loans for Education (APLE), administered by the Commission. The report identifies teaching fields with the most critical shortages of teachers for purposes of allocation of APLE grants to teachers in shortage fields.

The report utilizes data from school districts on the number of teachers with emergency permits or waivers and the number of new teacher hires reflecting existing vacancies and estimated new hires for the coming year. This data is compiled and submitted by local school districts through the CBEDS data system.

The CDE teacher shortage report for 2008, as displayed below, reflects 2006-07 data. From this data, CDE designates teacher shortages in fields with the highest percentage shortages equating to five percent of the total full-time equivalent (FTE) teachers. Shortage areas designated by CDE are highlighted on the table below, and include: Special Education, including State Special Schools; Physical and Life Science; Music; Business; Agriculture; Reading; Foreign Language; Mathematics/Computer Education.

Teacher FTE Demand and Shortage Areas by Subject, 2008
FY 2007-2008 (based on 2006-07 data)

Subject Areas	FTE Teachers	FTE on Emergency Permits Or Waivers	Estimated New Hires	FTE Shortage	Percent of Subject FTE Teachers	Percent of Total FTE Teachers
Self-contained Classrooms	134,358.89	2,244.04	6125.60	8,369.64	6.2%	2.9%
Special Education	27,150.39	1,752.43	3448.80	5,201.23	19.2%	1.8%
Mathematics/Computer Ed.	21,477.66	718.47	2132.70	2,851.17	13.3%	1.0%
English (Drama & Humanities)	25,150.97	648.40	2088.50	2,736.90	10.9%	0.9%
Life & Physical Science	15,242.67	314.63	1929.20	2,243.83	14.7%	0.8%
Social Science	16,576.41	303.82	1033.70	1,337.52	8.1%	0.5%
PE/Health/Dance	12,213.83	323.50	654.80	978.30	8.0%	0.3%
Other Specializations	16,909.50	3,846.58	675.50	4,522.08	26.7%	1.6%
Foreign Language	5,677.16	147.40	692.30	839.70	14.8%	0.3%
Music	2,874.21	93.78	326.20	419.98	14.6%	0.1%
Reading	4,203.44	260.00	323.50	583.50	13.9%	0.2%
Art	3,971.84	97.89	293.00	390.89	9.8%	0.1%
Business	1,041.67	32.56	117.69	150.25	14.4%	0.1%
Industrial Arts	2,279.52	59.30	216.00	275.30	12.1%	0.1%
Home Economics	1,088.21	16.20	72.00	88.20	8.1%	0.0%
Agriculture	473.62	11.12	56.80	67.92	14.3%	0.0%
Special Schools	203.87	13.10	23.00	36.10	17.7%	0.0%
TOTAL	290,893.86	10,883.22	20209.29	31,092.51	10.7%	

COMMENTS/QUESTIONS:

Recent USDE Monitoring Visit. The U.S. Department of Education recently visited California to monitor federal Title II programs and to review California's progress in implementing the highly qualified teacher provisions of the NCLB. It would be useful to know from CDE what federal findings and recommendations resulted from that visit.

CALTIDES: As a part of its revised state plan to the USDE, the Department of Education is working to develop better data for tracking state compliance with the highly qualified teacher provisions of NCLB. Can CDE describe how CALTIDES will assist California in tracking highly qualified teachers?

6110 California Department of Education

ISSUE 7: Federal Funds – Title II – Improving Teacher Quality Grants -- (6110-001-0001/0890 & 6110-001-195)

DESCRIPTION: The Governor’s January budget provides a total of **\$328 million** for the Title II Improving Teacher Quality Program in 2008-09. This amount includes funds for local assistance grants, state-level activities, and state administration. The Department of Finance (DOF) April Finance Letter proposes a **\$4.1 million** increase in local assistance carryover funds and a small decrease (\$23,000) in ongoing funds to align federal appropriations with available grants for the Teacher Quality Grants program. The California Department of Education (CDE) has identified an additional **\$5.1 million** one-time carryover funds that will be available in 2008-09. A number of options for utilizing these additional carryover funds in will be presented to the Subcommittee.

BACKGROUND: The Improving Teacher Quality Grants Program is authorized under Title II of the federal No Child Left Behind Act. Program funds are provided to states to support the preparation, training, and recruitment of highly qualified teachers and principals. Federal funds appropriated to states for the Teacher Quality Grants program are organized in three basic categories -- local assistance grants, state-level activities, and state administration. Federal rules establish the level of funding allowed and the uses of these funds within each of these categories, which are by in the chart below:

Title II – Improving Teacher Quality Grants	Federal Rules – Expenditure Authority	Federal Rules Allowable Activities
Local Assistance	95 percent.	Broad array of activities, including creating professional development for teachers and administrators, implementing strategies for recruiting and retaining highly qualified teachers, and activities that improve the quality of the teaching workforce.
State Level Activities	5 percent. 2.5 percent is provided to CDE and 2.3 percent in for higher education. Funds cannot be transferred to local assistance.	Activities to support improvements in the recruitment, hiring, training, and retention of the teaching workforce.
State Administration	Up to 1 percent. Unspent funds can be used for State Level Activities.	General administrative costs.

Unlike other federal education programs, Title II rules prohibit states from shifting carryover funds from state administration and state level activities to local assistances. This requirement creates some pressure for allocating Title II carryover funds for these activities to avoid reversion.

GOVERNOR’S PROPOSALS: The Governor's January budget provides a total of **\$328 million** in federal Title II funds for 2008-09 to continue existing programs. These funds are provided in three categories – local assistance, state-level activities and state administration – as follows:

Federal Funds	Governor’s Budget 2008-09 (Proposed)
Local Assistance Grants	\$317,348,578
State Level Activities	9,177,000
State Administration	2,319,278
TOTAL, Federal Funds	\$328,348,578

State level activities currently support the following program: \$1.6 million for the Administrator Training Program; \$4.4 million is provided for the California Subject Matter Projects – a teacher preparation program administered by the University of California; \$945,000 for the Compliance Monitoring, Interventions and Sanctions (CMIS) and \$1.8 million is for the California Longitudinal Teacher Integrated Data Education System (CALTIDES). (Of this total, the Governor provides \$894,000 for 1.0 limited-term analyst position, contracts for project management, project oversight, and other expenses for CDE and \$248,000 for 2.5 positions and other expenses to the Commission on Teacher Credentialing for development of CALTIDES.)

State operations fund support a variety of administrative activities within CDE, particularly within the Professional Development Division.

April Finance Letter – Local Assistance Funding. The Department of Finance April Budget Letter proposes to increase the Title II local assistance appropriation by **\$4.1 million** in 2008-09. This amount reflects a \$4.1 million increase in one-time local assistance carryover funds and a small decrease (\$23,000) in ongoing federal grant amount. The April Letter requests that \$3.5 million of these one-time funds be provided for local assistance grants and \$500,000 be provided to augment the California Subject Matter Projects, as follows:

- 1. Item 6110-195-0890, Local Assistance, Title II Improving Teacher Quality Local Grants (Issues 086, 088, and 089).** Requests this item be ~~decreased~~ **increased** by \$4,059,000 federal Title II Improving Teacher Quality funds, which includes a decrease of \$23,000 to align the appropriation with available federal funds and an increase of \$4,082,000 to reflect the availability of one-time carryover funds. This program provides apportionments to LEAs for activities focused on preparing, training, and recruiting highly-qualified teachers.

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

X. Of the funds appropriated in Schedule (1), \$3,582,000 is provided in one-time carryover for Improving Teacher Quality Local Grants.

X. Of the funds appropriated in Schedule (3), \$500,000 is provided in one-time carryover for California Subject Matter Projects.

Additional Carryover Funding – State Activities. CDE has identified an additional \$5.0 million in Title II carryover funds from state level activities and state administration that will be available in 2008-09. Of this amount, **\$3.6 million** is available from state administration carryover and **\$1.4 million** from state level activities carryover.

CDE Option for Carryover Funds - Personnel Management Assistance Teams (PMATs). CDE requests that the Legislature provide **\$3.0 million** in federal Title II carryover funds in 2008-09 to restore funding for Personnel Management Teams (PMATs). The department request funding for PMATs as means of providing technical assistance to school districts in meeting the highly qualified teacher provisions of NCLB. As authorized by SB 1209/Scott (Chapter 517; Statutes of 2006), PMATS have been established in six county offices of education statewide -- Los Angeles, Orange, San Bernardino, Santa Clara, Shasta, and Ventura. The 2006-07 budget act provided \$3 million in one-time Proposition 98 funds to begin funding for PMATs, however, additional funding was not appropriated for the program in 2007-08. CDE requested \$3.0 million in funding for PMAT in 2008-09 budget, but the request was not approved by the Administration.

Compliance, Monitoring, Interventions and Sanctions (CMIS). The 2007-08 budget provide \$929,000 in Title II carryover funding for a new monitoring and technical assistance program to help school districts comply with the highly qualified teacher requirements of NCLB. The new Compliance, Monitoring, Interventions and Sanctions (CMIS) program was established to ensure that NCLB's highly qualified teacher provisions are met in California. According to the Department of Education, this new program was necessary to meet the assurances the department made to the federal government as a part the state's revised highly qualified teacher plan. The department proposes CMIS as a continuing program through 2012 that utilizes annual Title II carryover funds for support of the program.

LAO ANALYSIS/RECOMMENDATIONS: The LAO recommends the following options for appropriating Title II carryover funds available in 2008-09.

- **State Administration.** The LAO estimates that the state receives \$2.8 million annually for state administration for Title II, but spends only \$2.3 million on an ongoing basis, leaving about **\$500,000** left over annually. The LAO recommends using these ongoing funds to pay for Teacher Misassignment Monitoring (\$308,000) within the Commission of Teacher Credentialing and to use approximately \$200,000 to fund two existing

positions in CDE's Professional Development Unit. This would provide approximately \$500,000 in ongoing General Fund savings to the state.

- **State-Level Activities.** The LAO suggests using **\$5.1 million** in Title II carryover funds available for state-level activities to offset General Fund costs for an existing program to create one-time savings. The funds could be used to replace Proposition 98 General Funds funding for the Administrator Training Program (\$4.5 million) or to replace Non-98 General Fund dollars for the Subject Matter Projects within the UC budget (\$5 million).

The LAO questions the Governor's April Letter proposal to direct \$500,000 in Title II local assistance carryover funds to expand the U.C. Subject Matter Projects, given existing expenditure delays for that program.

COMMENTS:

Legislative Options for State Activity Carryover Funds: Staff offers two additional options for utilizing one-time Title II carryover funds for state level activities and state administration.

- **Teacher Performance Assessment:** Provide **\$4.1 million** to offset the 2008-09 costs of implementing a Teacher Performance Assessment (TPA) for the California State University and University of California. Funding would provide approximately \$400 to these public higher education institutions for an estimated 10,164 candidates that will successfully complete the TPA in 2008-09. Current law requires teacher preparation program to implement a TPA by July 1, 2008 and includes legislative intent language that the TPA be fully funded. The TPA requires teacher candidates to demonstrate through their performance with K-12 students, that they have mastered the knowledge, skills, and abilities required of a beginning teacher. The TPA is embedded into credential programs and completed at intervals during the program. The assessment is scored by higher education program faculty (or K-12 teachers) who are specially trained to ensure consistent scoring among candidates. Many higher education institutions have implemented the TPA on a voluntary basis, including 78 percent of CSU programs, all UC programs and 64 percent of the independent college and university programs. This proposal would provide one-year of funding to allow the public higher education systems to avoid increasing candidate fees or making other reductions to their preparation programs in this first year of full implementation.
- **Principal Coaching.** Appropriate **\$2.0 million** to the existing Administrator Training Program to cover the costs of Principal Coaching for 200 first- and second- year principals in Program Improvement schools. These funds would provide \$5,000 to cover the costs of an on-site leadership coach for each principal for a two-year period – at least eight hours per month over eleven months per year. Coaching would provide individualized support to principals to improve their skills in (1) utilizing schools data; (2) identifying and overcoming challenges to student achievement and school cultures; and (3) establishing clear goals for action. Coaches would be required to hold an administrative services credential, have at least five years of successful administrative

experience, and have knowledge of effective, research-based curriculum and instructional practice, as well as leadership practice. Coaches would be required to obtain approval for their program from the Superintendent of Public Instruction.

Federal Compliance and Assurances. *Staff notes* that the Department of Education has made substantial assurances to the federal government for monitoring, assisting, and enforcing the highly qualified teacher provisions of NCLB as a part of the revised plan. According to the Department, these assurances require the development of new processes and resources contained in the new CMIS Program. In considering one-time funding proposals outlined in this agenda, it will be important for the Subcommittee to understand what options the Department of Education has for utilizing available Title II funds to better meet its federal obligations.

Risk of Excess Carryover Funds. CDE has informed budget staff about the risk of reverting an estimated \$2.0 million, if funds are not expended by September 30, 2008. The U.S. Department of Education (USDE) gives states 27 months to expend federal funds. If federal funds are not expended within this timeframe, they must be returned to the USDE.

In 2005-06, there was a federal finding that California was not spending enough for Title II state-level activities. Due to an accumulation of Title II carryover funds, the state was at risk for reverting some federal funds back to USDE. The 2006-07 budget contained several one-time proposals to spend these funds quickly and minimize losses of federal funds. In the end, the state was unable to expend approximately \$300,000 in Title II funds by September 30, 2006, and these funds were reverted to USDE.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee hold off on action on the April Letter request and any other decisions for appropriating Title II state activity carryover funding until the Subcommittee has had time to weigh all options.

With regard to the Governor's April Letter, *staff notes* that it is unclear why the Administration supports providing \$500,000 in one-time local assistance funds to the U.C. Subject Matter Projects, given existing expenditure delays for that program.

In considering options for utilizing one-time Title II funds, *staff suggests* that the Subcommittee focus on programs directly connected to improving teacher quality at the statewide level. In addition, *staff suggests* that the Subcommittee give strong consideration to options that create General Fund savings for the state -- even if they are one-time savings -- as long as there are no conflicts with federal supplanting rules.

6110 California Department of Education

ISSUE 8: Statewide Data System – California Longitudinal Teacher Integrated Data Education System (CALTIDES)

DESCRIPTION: The Governor’s budget provides **\$1.8 million** in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2008-09. Of this total, the Governor provides **\$271,000** for 2.0 positions and other contract expenses to the California Department of Education and **\$248,000** for 2.5 limited-term positions and other expenses to the Commission on Teacher Credentialing (CTC) for development of CALTIDES. The Department of Education will provide an update on the development of the new teacher data system.

BACKGROUND: The 2005-06 budget appropriated **\$350,000** in federal Title II funds to the Department of Education to contract for a Feasibility Study Review (FSR) for a new teacher data system. The 2005-06 budget required CDE to convene a working group including the Department of Finance, LAO, and other interested parties in selecting a vendor.

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

- (1) inventory the teacher data elements currently collected by state agencies and county offices of education;
- (2) identify existing redundancies and inefficiencies;
- (3) identify the existing teacher data needs of state agencies and county offices of education for meeting state and federal compliance and reporting requirements;
- (4) identify the most cost effective approach for converting the existing data systems into an integrated, comprehensive, longitudinally linked teacher information system that can yield high quality program evaluations; and
- (5) estimate the additional one-time and ongoing costs associated with the new system.

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

CALTIDES Expenditures	2006-07 (Budgeted)	2007-08 (Budgeted)	2008-09 (Proposed)	2009-10 (Estimated)	2010-11 (Estimated)
	\$.938 m	\$1.1 m	\$1.8 m	\$6.2 m	\$??

The 2007-08 budget appropriated **\$1.1 million** in one-time federal Title II funds to continue development of the CALTIDES in 2007-08. Of this total, the Governor provides **\$894,000** for one limited-term analyst position, contracts for project management, project oversight and other expenses to CDE and **\$248,000** for 2.5 positions and other expenses to CTC and for development of CALTIDES.

The 2007-08 budget set aside approximately \$5.3 million in additional federal Title II carryover funds to offset an estimated \$10.0 million in one-time costs for CALTIDES development in 2008-09 and 2009-10. However, due to delays in CALTIDES, only \$1.8 million is needed for the program in 2008-09. An additional \$6.2 million will be required in 2009-10.

GOVERNOR’S BUDGET PROPOSALS: The Governor’s budget provides **\$1.8 million** in one-time federal Title II funds to continue development of CALTIDES in 2008-09. Of this total, the Governor provides **\$271,000** for 2.0 positions and other contract expenses to the California Department of Education and **\$248,000** for 2.5 limited-term positions and other expenses to the Commission on Teacher Credentialing for CALTIDES preparation and development activities.

CALTIDES Implementation Status: CDE has provided the following project timeline for CALTIDES. In summary, the FSR for CALTIDES was approved by the Department of Finance in May 2006. The RFP has been completed and is awaiting approval from the Department of General Services. The vendor will be selected in January 2009. Development of the CALTIDES system will be completed in September 2011 and system implementation will commence in October 2011.

Project and System Development

Project Stage	Start	Completed	Approved/Released
Feasibility Study Report (FSR)	September 2005	March 2006	May 2006
Request for Proposal (RFP)	January 2007	December 2007	June 2008*
Final Bids Submission/Evaluation*	April 2009	July 2009	August 2009
Special Project Report*	August 2009	October 2009	December 2009
Section 11*	December 2009	January 2009	January 2009
Contract Commences*	February 2009		
Project Phases 1, 2, 3*	February 2009	September 2011	
Phase 4: System Implementation*	October 2011	June 2012	

SEID Dissemination*

Project Stage	Start	Completed	Approved/Released
Dissemination to County Offices	April 2008	May 2008	
County Office dissemination to local education agencies (LEAs)	May 2008	August 2008	
Use of SEID in CBEDS	October 2008		

*Projected dates

CALTIDES Delays: There have been recent delays with approval of the CALTIDES RFP due to issues raised by the Department of General Services (DGS). The draft RFP was provided to DGS in early February 2008 and is still being reviewed. CDE estimates it will receive final approval by the first of June. The delay in RFP release has pushed the CALTIDES schedule back several months, pushing expenditures originally planned for 2008-09 into 2009-10. As a

result of this delay, CALTIDES implementation is now estimated for fall of 2011, instead of 2010.

LAO ANALYSIS/RECOMMENDATIONS: The LAO supports the continuation of CSIS in CALPADS design and development. The LAO is investigating possible options for providing funding to support the involvement of CSIS in CALPADS.

COMMENTS/RECOMMENDATIONS.

CDE Issues – California School Information System (CSIS) Funding for CALPADS. While not directly related to CALTIDES, CDE has requested an additional \$1.1 million for CSIS support of the California Longitudinal Pupil Achievement Data System (CALPADS) in 2008-09. The approved Special Projects Report for the CALPADS included \$1.1 million for the CSIS in 2008-09. While CDE requested these additional funds, the request was not approved in the Governor’s 2008-09 budget. According to CDE, CSIS is California’s expert in the interface between local student information systems and state systems. In the department’s view, involving CSIS in CALPADS development reduces the project risks by providing CDE and the CALPADS contractor with expertise necessary to maximize benefits to the State while minimizing negative impacts to LEAs. There is one-time funding in 2007-08 to support involvement of CSIS in CALPADS development and meet other operational funding. CDE requests that this support be continued in 2008-09.

Staff notes that the CDE request for CSIS funding is for support of CALPAD, not CALTIDES, however the two projects are related.

6110 California Department of Education

ISSUE 9: April Finance Letters – Federal Funds – Local Assistance Items (Consent Items)

DESCRIPTION: The Department of Finance (DOF) proposes the following changes to the Governor’s January budget for two federally funded local assistance programs budgeted within the California Department of Education. These revisions are proposed by the April 1st budget amendment letter (April Letter) from the Department of Finance. These issues are considered technical adjustments to update budget appropriation levels so they match the latest federal estimates and utilize funds consistent with current programs and policies.

1. Item 6110-166-0890, Local Assistance, Vocational Education Program. Requests this item be ~~decreased~~increased by ~~-\$415,000~~ \$6,000,000 Federal Trust Fund to align the appropriation with available federal funds. The Carl D. Perkins Vocational and Technical Education Program provides LEAs with funding for the improvement of secondary and postsecondary vocational and technical education programs. Funding is provided to state institutions, secondary education programs, and postsecondary programs. **(Issue 166)**

2. Item 6110-180-0890, Local Assistance, Education Technology Program. Requests this item be decreased by \$527,000 federal Title II Education Technology funds, which includes a decrease of \$2,314,000 to align the appropriation with available federal funds and an increase of \$1,787,000 to reflect the availability of one-time carryover funds. This program assists LEAs in utilizing technology to enhance teaching and to promote learning. The reduction will be applied proportionally to the formula grants, competitive grants, the California Technology Assistance Project, and support. Carryover will be used for its original purposes (\$601,000 for technical assistance, \$814,000 for ~~competitive~~ formula grants, and \$372,000 for ~~formula~~ competitive grants). **(Issue 408)**

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

“1. Of the funds appropriated in this item, ~~\$15,569,000~~ \$14,880,000 ~~\$15,322,000~~ is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program. This allocation includes \$372,000 \$814,000 in one-time carryover funds.

2. Of the funds appropriated in this item, ~~\$15,569,000~~ \$15,322,000 ~~\$14,880,000~~ is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program including the eligibility criteria established in federal law to target local educational agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal school improvement or demonstrating substantial technology needs. This allocation includes \$814,000 \$372,000 in one-time carryover funds.

3. Of the funds appropriated in this item, ~~\$654,000~~ \$1,062,000 is available for the California Technology Assistance Project (CTAP) to provide federally required technical assistance and to help districts apply for and take full advantage of the federal Enhancing Education Through Technology grants. This allocation includes \$601,000 in one-time carryover funds.

COMMENTS/RECOMMENDATION: *Staff recommends* approval of the DOF April Letter proposals listed in items 1 and 2 above, including staff revisions highlighted for both items. These revisions provide corrections to the April Letter requested by both CDE and DOF. Both of the above items are considered technical adjustments, which align available federal funds with existing programs. No issues have been raised for any of these items.

OUTCOME: Approve April Letter items 1 and 2, including staff revisions. [VOTE: 3-0]

ISSUE 10: School Facilities Program – Fiscal Services Staffing

DESCRIPTION: The Governor proposes **\$740,000** and **7.0 new Fiscal Services positions** for the Office of Public School Construction (OPSC) within the Department of General Services. This proposal would be funded through state school facility bond funds. This request includes 6.0 permanent positions and 1.0 limited term positions to conduct audits under the School Facilities Program (SFP) and to establish an integrated audit information system required under an Executive Order issued by the Governor in 2007. The Administration believes additional positions are needed to address the large backlog of aging SFP audits. **Senate Budget Subcommittee 4 has heard this issue and is holding it open pending recommendations from Subcommittee 1.**

BACKGROUND:

Under the direction of the State Allocation Board (SAB), OPSC administers the functions of various school facilities and building acts (most recently, the Leroy F. Greene School Facilities Act of 1998) through which school districts establish eligibility for funding from statewide bond measures for school facility construction. The SAB approves and apportions funds for projects of eligible schools districts which are certified by the OPSC as compliant with applicable statutory prerequisites.

Over the past ten years, the voters have passed four statewide bonds that provided funding for school facilities. The following table displays funds authorized for each bond along with the amounts awarded and disbursed as of January 31, 2008:

Bond	Authorized Funds*	Awarded to Date*	Disbursed to Date*
Prop 1D (2006)	\$7,350,000	\$903,813	\$475,997
Prop 55 (2004)	\$10,015,500	\$9,342,087	\$6,653,444
Prop 47 (2002)	\$11,400,000	\$11,284,811	\$9,675,482
Prop 1A (1998)	\$6,700,000	\$6,648,081	\$6,647,663
TOTAL	\$35,465,500	\$28,178,792	\$23,452,586

(*dollars in thousands)

SFP Construction Process. The current process for construction under the SFP can take more than nine years to go from application to apportionment, from funding to expenditure, and finally from the beginning to the end of the audit process (project closeout). The following table shows where the OPSC estimates each of the school facilities bonds is in terms of the progression from fund apportionment to final closeout.

	Prop 1A (1998)	Prop 47 (2002)	Prop 55 (2004)	Prop 1D (2006)
Duration of Bond Fund Apportionments	11/1998 to 10/2002	11/2002 to 12/2006	03/2004 to 05/2008*	12/2006 to 08/2011*
# of Projects Not Yet Apportioned* (\$ Amount)	0	8 (\$0.1 billion)	67 (\$0.7 billion)	2,215 (\$6.4 billion)
# of Projects Apportioned, But Not Closed (\$ Amount)	331 (\$2.5 billion)	2,117 (\$8.4 billion)	2,407 (\$9.1 billion)	615 (\$0.9 billion)
# of Projects Closed (\$ Amount)	2,126 (\$4.2 billion)	1,496 (\$2.9 billion)	111 (\$0.2 billion)	0
Closeout Period*	4/2000 to 3/2011	5/2003 to 5/2015	10/2005 to 10/2016	5/2008 to 1/2020

(*estimated)

OPSC Projected Audit Workload. According to OPSC, state regulations (Title 2 California Code of Regulations Section 1859.106) require OPSC to audit project expenditures of school districts within two years of receipt of the final expenditure report from the district. According to the regulations, the audit is conducted to ensure that districts are meeting statutory requirements with regard to their projects as well as assure that the district complied with all site acquisition guidelines.

According to OPSC, the bulk of the audit and closeout workload will occur in the next ten years. For example, OPSC indicates that its current audit workload of 1,400 projects worth \$7 billion is anticipated to grow in FY 2008-09 to 2,000 audits—a 43 percent increase. In the long-term, over the next eight years, OPSC projects that the audit workload will increase to approximately 8,000 projects, more than doubling the total of 3,400 from the previous eight years.

In anticipation of this increased workload, OPSC is requesting 7.0 additional auditor positions to augment the existing 35.0 positions in the Auditing Services Section of the OPSC.

Audit Standards. According to OPSC, since 2000, OPSC Fiscal Services staff has recovered nearly half a billion dollars from school districts that have not complied with the various laws and regulations that govern the SFP. However, concerns have been raised by the field with regard to the consistency of the standards by which these audits are conducted since OPSC does not have published or adopted audit standards. With clear audit guidelines and audit training for staff, the SFP audit program would better ensure that bond awards are being spent appropriately.

Governor's Executive Order Regarding the Establishment of an Automated and Integrated Audit Information System. According to OPSC, under the Governor's Executive Order S-02-07, the OPSC is required to establish an automated and integrated audit information system to provide better accountability and web accessibility to project information for all SFP projects. Executive Order S-02-07 sets forth the Administration's plan to audit all 2006 General Obligation Bond expenditures and make the audit findings available to the public via the internet.

LAO ANALYSIS/RECOMMENDATION: The LAO recommends approval of the Governor's Budget proposal.

COMMENTS/RECOMMENDATIONS:

Staff recommends that Subcommittee 1 recommend to Subcommittee 4 that it approve the Governor's Budget proposal to provide 7.0 additional Fiscal Services positions to OPSC. These positions include 6.0 permanent positions and 1.0 limited-term position.

QUESTIONS:

1. *How does OPSC plan to implement the Executive Order to automate and integrate their existing audit information system?*

OUTCOME: Recommend to Subcommittee 4 approval of the Governor's Budget proposal to provide 7.0 additional Fiscal Services positions to OPSC. These positions include 6.0 permanent positions and 1.0 limited-term position.

[Vote: 3-0]

Appendix A
Reading First School Districts

County	LEA	
Round 1		
Santa Clara	Alum Rock Elementary	
Kern	Bakersfield City Elementary	
Riverside	Coachella Valley Unified	
Los Angeles	Los Angeles Unified	
Los Angeles	Montebello Unified	
Sacramento	North Sacramento Elementary	
Alameda	Oakland Unified	
Contra Costa	West Contra Costa Unified	
Round 2		
Orange	Anaheim Elementary	
Kern	Arvin Union Elementary	
Merced	Atwater Elementary	
Sacramento	Del Paso Heights Elementary	
Tulare	Dinuba Unified	
Imperial	El Centro Elementary	
San Bernardino	Fontana Unified	
Fresno	Fresno Unified	
Santa Barbara	Guadalupe Union Elementary	
Los Angeles	Keppel Union Elementary	
Monterey	King City Union Elementary	
Kern	Lamont Elementary	
Los Angeles	Long Beach Unified	
San Joaquin	Manteca Unified	
Kern	McFarland Unified	
Merced	Merced City Elementary	
Los Angeles	Mountain View Elementary	
San Bernardino	Ontario-Montclair Elementary	
Riverside	Palm Springs Unified	
Riverside	Perris Elementary	
San Bernardino	Rialto Unified	
Sonoma	Roseland Elementary	
Monterey	Salinas City Elementary	
San Bernardino	San Bernardino City Unified	
San Francisco	San Francisco Unified	
Riverside	San Jacinto Unified	
San Diego	San Ysidro Elementary	
Orange	Santa Ana Unified	
Santa Barbara	Santa Maria-Bonita Elementary	
Ventura	Santa Paula Elementary	

Los Angeles	South Whittier Elementary	
Los Angeles	Whittier City Elementary	
Round 3		
Monterey	Alisal Union Elementary	
Riverside	Alvord Unified	
Riverside	Banning Unified	
Los Angeles	Compton Unified	
Tehama	Corning Union Elementary	
Riverside	Desert Sands Unified	
San Diego	Escondido Union Elementary	
Monterey	Greenfield Union Elementary	
Los Angeles	Lancaster Elementary	
Los Angeles	Lynwood Unified	
Santa Cruz	Pajaro Valley Unified	
Los Angeles	Palmdale Elementary	
San Mateo	Ravenswood City Elementary	
Ventura	Rio Elementary	
San Diego	South Bay Union Elementary	
Kern	Taft City Elementary	
Kern	Wasco Union Elementary	
Yolo	Washington Unified	
Los Angeles	Wilsona Elementary	
Round 4		
Kings	Corcoran Joint Unified	
Sonoma	Healdsburg Unified	
Riverside	Hemet Unified	
Solano	Vallejo City Unified	
Fresno	West Fresno Elementary	

Source: California Department of Education, May 2008.

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



Subcommittee No. 1

Chair, Denise Moreno Ducheny

Member, Bob Margett

Member, Gloria Romero

Wednesday, May 21, 2008

1:30 p.m.

Room 2040, State Capitol

**Overview of Governor's May Revision Budget –
K-12 and Higher Education**

Legislative Analyst's Office:

- **K-12/Proposition 98 – Jennifer Kuhn, K-12 Director**
- **Higher Education – Steve Boilard, Higher Education Director**

Department of Finance:

- **K-12/Proposition 98 – Nick Schweizer, Assistant Program Manager, Education Systems Unit**
- **Higher Education – Lynn Podesto, Assistant Program Manager, Education Systems Unit**

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.

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Denise Moreno Ducheny
Member, Bob Margett
Member, Gloria Romero

Friday, May 23, 2008
10:00 a.m.
Room 112, State Capitol
Higher Education Agenda – Part A

<u>Item</u>	<u>Department</u>	<u>Page</u>
6120	California State Library	Page 1
7980	California Student Aid Commission	Page 1
CAPITAL OUTLAY:		
6440	University of California	Page 4
6610	California State University	Page 6
6870	California Community Colleges	Page 8

#	Item	Issue	Description	Staff Recommendation	Language (000's)	Comments
CALIFORNIA STATE LIBRARY						
1	6120-011-0001	<i>May Revision:</i> California State Library, State Operations	Including May Revision adjustments (Issues 50 and 51), the Governor's proposal would provide \$13.2 million General Fund to support the operations of the State Library.	May Revision issues will conform to future Senate Subcommittee #4 Action	No	Issue previously heard on April 8th
2	6120-011-9740	<i>New Issue: Add New Item as Technical Adjustment</i>	Technical Adjustment proposed by May Revision to better account for 10 percent reductions (Issue 50).	Approve Item	Yes, per May Revision	New Issue
3	6120-221-0001	<i>January Budget:</i> State Library, Public Library Foundation	Governor's Budget Proposed 10 percent (\$1.4 million) reduction to program, for a total appropriation of \$12.9 million.	Adopt Budget Bill Language Allowing Local Libraries Flexibility in Meeting Local Maintenance of Effort Requirements	Yes, per attached	Item previously heard on April 8th
CALIFORNIA STUDENT AID COMMISSION						
4	7980-001-0001 7980-001-0784	<i>May Revision:</i> California Student Aid Commission, Support	May Revision restores the Federal Policy and Programs Division (Issue 057) due to the delay in the sale of EdFUND.	Approve May Revision	Yes, per May Revise	New Issue
5	7980-001-0001 7980-001-0784	<i>May Revision:</i> California Student Aid Commission, Support	Due to the delay in the EdFUND sale, the May Revision removes 11 positions that had previously been proposed in the Governor's Budget for the purpose of re-establishing the shared services at CSAC that had been provided by EdFUND. Instead the May Revision retains the dollars (\$1.8 million) to address CSAC moving expenses (Issue 080).	Approve May Revision to: (1) Reduce Positions and (2) Approve Governor's proposed appropriation levels from GF and Student Loan Operating Fund. Adopt Legislative Change to Budget Bill Language by adopting revised language shifting usage of dollars between costs for moving expenses and general operations.	Yes, per attached	Issue previously heard on April 8th

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
6	7980-490	<i>May Revision:</i> California Student Aid Commission, Reappropriation	May Revision proposes to reappropriate any current year savings to the Student Aid Commission to account for any unforeseen costs associated with its relocation to a new building or the sale of EdFUND (Issue 052).	Create New Item, per May Revision	Yes (new item)		New Issue
7	7980-101-0001	<i>May Revision:</i> California Student Aid Commission, Cal Grant Program	May Revision shifts \$223 million of General Fund from the Cal Grant to Social Services and replaces it with a like-amount of federal Temporary Assistance for Needy Family Program (TANF) dollars, in order to better meet the state's minimum Maintenance of Effort requirements (Issue 051).	Will conform to future Senate Subcommittee #3 action	No		New Issue
8	7980-101-0001	<i>May Revision:</i> California Student Aid Commission, Cal Grant Program	Governor's Budget contained an \$80 million "placeholder" within the Cal Grant program to ensure that grant funding would be available if UC and CSU increased fees in excess of the original 7.4 and 10 percent increases proposed. May Revision deletes this set-aside and scores the \$80 million to the General Fund (Issue 064).	Approve May Revision	No		Issue previously heard on April 8th
9	7980-101-0001	<i>January Budget:</i> California Student Aid Commission, Cal Grant Program	Governor's Budget phased out the Competitive Cal Grant program by failing to authorize or fund the incoming cohort of students for the 2008-09 academic year. This action reaps a General Fund savings of \$57 million.	Deny Governor's January Proposal and augment by \$57 million General Fund to retain program at statutory levels	No	57,000	Issue previously heard by Full Senate Budget Committee on March 13
10	7980-101-0001	<i>January Budget:</i> California Student Aid Commission, Assumption Program of Loans for Education (APLE)	Governor's Budget reduces the number of warrants for the Assumption Program of Loans for Education (APLE) by 800 or 10 percent, bringing the total number of warrants down from 8,000 to 7,200.	Deny Governor's January Proposal	No		Issue previously heard by Full Senate Budget Committee on April 8th

#	Item	Issue	Description	Staff Recommendation	Language (000's)	Comments
11	7980-101-0001	<i>April Letter:</i> California Student Aid Commission, Cal-SOAP	Governor's April proposal (Issue 046) proposes to shift \$5.7 million of the Cal-SOAP funding currently being provided by the GF to federal funds (derived from a new federal grant); augment that amount by \$1.6 million (FF); and earmark \$1.0 million of the new funds for outreach associated with Career Technical Education.	Approve April Letter with revised Budget Bill Language "prioritizing" \$1 million (rather than specifically earmarking the funds) for career technical education outreach and awareness	Yes, replace the words "\$1,000,000 is dedicated" with "\$1,000,000 is prioritized"	Issue previously heard on April 8th
12	7980-101-0001	<i>May Revision:</i> California Student Aid Commission, Student Loan Program	May Revision proposes <u>trailer bill language</u> to explicitly allow EdFUND and the Student Aid Commission to serve as the federal government's Lender of Last Resort for the guaranteed student loan program.	Approve Legislative Change to May Revision Language (with minor grammatical change)	Yes	New Issue

University of California					
2008-09 Capital Outlay Budget					
	Campus	Project	Phase	Amount	Action
Item 6440-301-0705—Capital Outlay Bond Fund of 1992					
(1)	Los Angeles	Electrical Distribution System Expansion, Step 6C	W	310,000	Delete
(2)	Los Angeles	School of Medicine High-Rise Fire Safety, Phase 1	W	400,000	Delete
(3)	Los Angeles	Center for Health Sciences South Tower Seismic Renovation	W	1,060,000	Delete
(4)	San Diego	Management School Facility, Phase 2	W	1,304,000	Delete
(5)	San Diego	Campus Storm Water Management, Phase 2	P	191,000	Delete
(6)	Santa Cruz	Alterations for Physical, Biological, and Social Sciences	P	635,000	Delete
(7)	Irvine	Social and Behavioral Sciences Building	E	2,855,000	Add
May 1		Budget Bill Language			Delete Obsolete Reporting Language, Per May Revision Letter (Issue 001)
Item 6440-301-0791—June 1990 Higher Education Capital Outlay Bond Fund					
(1)	Davis	Chilled Water System Improvements Phase 7	P	854,000	Delete
(2)	Riverside	Batchelor Hall Building Systems Renewal	W	716,000	Delete
(3)	Riverside	Student Academic Support Services Building	E	910,000	Add
May 1		Budget Bill Language			Delete Obsolete Reporting Language, Per May Revision Letter (Issue 002)
Item 6440-301-6048—2006 University Capital Outlay Bond Fund					
(1)	Riverside	Materials Science and Engineering Building	E	4,620,000	Add
(2)	Santa Barbara	Education and Social Services Building	E	2,590,000	Add
Item 6440-301-6074—2008 University Capital Outlay Bond Fund					
(1)	Berkeley	Campbell Hall Seismic Replacement Building	C	58,032,000	Delete
(2)	Davis	Veterinary Medicine 3B	C	64,737,000	Delete
(3)	Davis	Chilled Water System Improvements Phase 7	W	784,000	Delete
(4)	Davis	Music Instruction and Recital Building	W	893,000	Delete
(5)	Irvine	Social and Behavioral Sciences Building	E	2,855,000	Delete.
(6)	Los Angeles	Electrical Distribution System Expansion Step 6C	C	9,659,000	Delete
(7)	Los Angeles	School of Medicine High-Rise Fire Safety Phase I	C	13,008,000	Delete
(8)	Los Angeles	Hershey Hall Seismic Renovation	W, C	23,100,000	Delete
(9)	Los Angeles	Center for Health Sciences South Tower Seismic Renovation	C	19,590,000	Delete
(10)	Merced	Science and Engineering Building 2	P	2,010,000	Delete
(11)	Merced	Site Development and Infrastructure, Phase 4	P, W	375,000	Delete
(12)	Riverside	Materials Science and Engineering Building	E	4,620,000	Delete
(13)	Riverside	Student Academic Support Services Building	E	910,000	Delete
(14)	Riverside	Engineering Building Unit 3	P	2,208,000	Delete
(15)	San Diego	Management School Facility Phase 2	C	24,771,000	Delete
(16)	San Diego	Biological and Physical Sciences Building	P, W	6,860,000	Delete
(17)	San Francisco	Electrical Distribution Improvements Phase 2	C	13,129,000	Delete
(18)	Santa Barbara	Education and Social Sciences Building	E	2,590,000	Delete
(19)	Santa Barbara	Arts Building Seismic Correction and Renewal	C	21,406,000	Delete
(20)	Santa Barbara	Infrastructure Renewal Phase 1	C	5,122,000	Delete
(21)	Santa Barbara	Infrastructure Renewal Phase 2	P	320,000	Delete
(22)	Santa Cruz	Infrastructure Improvements Phase 2	C	6,731,000	Delete
(23)	Santa Cruz	Alterations for Physical, Biological, and Social Sciences	W	564,000	Delete
Item 6440-302-0705—Higher Education Capital Outlay Bond Fund of 1992					
(1)	Berkeley	Biomedical and Health Sciences Building Step 2	P	600,000	Delete

	Campus	Project	Phase	Amount	Action
	Item 6440-302-6041—2004 Higher Education Capital Outlay Bond Fund				
May 1	Los Angeles	Life Sciences Replacement Building	C	5,802,000	New Item, per May Revision (Issue 001)
	Item 6440-302-6048—2006 University Capital Outlay Bond Fund				
(1)	Riverside	Environmental Health and Safety Expansion	W, C	16,619,000	Delete
	Item 6440-302-6074—2008 University Capital Outlay Bond Fund				
(1)	Berkeley	Biomedical and Health Sciences Building Step 2	W, C	52,100,000	Delete
	Item 6440-304-6048—2006 University Capital Outlay Bond Fund				
(1)	San Francisco	Telemedicine and Prime-US Education Facilities	C, E	29,100,000	Approve
April 1	Statewide	Telemedicine Services Expansion Project	E	10,750,000	Per April Finance Letter (Issue 001)
May 1		Budget Bill Language			Delete Obsolete Reporting Language, Per May Revision Letter (Issue 003)
	Item 6440-401	Approve Item, Per Governor's Budget			Provisional Language
	Item 6440-402				
April 1	San Diego	Campus-Health Science Biomedical Research Facility 2	PWC		New Item, Per April Letter (Issue 001) to authorize "Garamendi" Debt Financing
	Item 6440-491				
May 1	Various reappropriations from 2006 and 2007 Budget Acts.				New Item, Per May Revision (Issue 001)
	Item 6440-492				
May 1	Extend period of liquidation by one year for Davis Campus Physical Sciences Expansion Project				New Item, Per May Revision (Issue 001)
	Item 6440-495				
May 1	Revert \$5,802,000 from 2002 Higher Education Capital Outlay Bond Fund originally authorized for Los Angeles, Life Sciences Replacement Building				Per May Revision (Issue 001)

California State University 2008-09 Capital Outlay Budget					
	Campus	Project	Phase	Amount	Action
Item 6610-002-0785—Higher Education Capital Outlay Bond Fund of 1988					
(1)	Systemwide	Capital Renewal	P, W, C	9,962,000	Add New Item
Item 6610-301-0785—Higher Education Capital Outlay Bond Fund of 1988					
(1)	Sacramento	Science II, Phase 2	P, W	4,826,000	Delete. Also Delete \$5.136 Set-Aside for Construction in 2009-10
Item 6610-301-6028—2002 Higher Education Capital Outlay Bond Fund					
(1)	Dominquez Hills	Educational Resource Center Addition	E	3,664,000	Add
(2)	Los Angeles	Forensic Science Building	E	575,000	Add
Item 6610-002-6041—2004 Higher Education Capital Outlay Bond Fund					
April 1	Systemwide	Capital Renewal	P, W, C	5,000,000	Add Item, per April Finance Letter (Issue 353)
	Systemwide	Augment Capital Renewal	P, W, C	3,709,000	Add
Item 6610-301-6041—2004 Higher Education Capital Outlay Bond Fund					
(1)	East Bay	Warren Hall Telecommunications Relocation	P, W	241,000	Delete
(2)	East Bay	Seismic Upgrade, Warren Hall	P, W	3,468,000	Delete
(3)	Channel Islands	Entrance Road	C	23,822,000	Approve
(4)	Chico	Student Services Center	E	2,432,000	Add
(5)	East Bay	Student Services Replacement Building	E	1,963,000	Add
Item 6610-302-6041—2004 Higher Education Capital Outlay Bond Fund					
(1)	San Bernardino	Access Compliance Barrier Removal	P, W, C	10,510,000	Approve
(2)	Northridge	Science I Replacement	E	4,499,000	Add
(3)	Northridge	Performing Arts Center	E	6,032,000	Add
Item 6610-002-6074—2008 University Capital Outlay Bond Fund					
(1)	Systemwide	Capital Renewal	P, W, C	50,000,000	Delete
Item 6610-301-6074—2008 University Capital Outlay Bond Fund					
(1)	Systemwide	Minor Capital Outlay	P, W, C	25,000,000	Delete
(2)	Bakersfield	Art Center and Satellite Plant	W, C	17,292,000	Delete
(3)	Maritime Academy	Physical Education Replacement	P	917,000	Delete
(4)	Chico	Student Services Center	E	2,432,000	Delete
(5)	Chico	Taylor II Replacement Building	P, W	2,637,000	Delete
(6)	Dominquez Hills	Educational Resource Center Addition	E	3,664,000	Delete
(7)	East Bay	Warren Hall Telecommunications Relocation	C	1,762,000	Delete
(8)	East Bay	Student Services Replacement Building	E	1,963,000	Delete
(9)	Humboldt	Library Seismic Safety Upgrade	P, W	454,000	Delete
(10)	Los Angeles	Forensic Science Building	E	575,000	Delete
(11)	Monterey Bay	Academic Building II	P, W	2,145,000	Delete
(12)	San Diego	Storm/Nasatir Halls Renovation	C	47,169,000	Delete
(13)	Channel Islands	Classroom and Faculty Office Renovation	C	30,128,000	Delete
(14)	Channel Islands	West Hall	P	868,000	Delete
(15)	San Jose	Spartan Complex Renovation	P	1,162,000	Delete
(16)	Stanislaus	Science I Renovation	C	16,731,000	Delete
(17)	San Luis Obispo	Center for Science	C	99,620,000	Delete

	Item 6610-302-6074—2008 University Capital Outlay Bond Fund				
(1)	Northridge	Science I Replacement	E	4,499,000	Delete
(2)	Northridge	Performing Arts Center	E	6,032,000	Delete
	Item 6610-493				
May 1	Extend period of liquidation by one year for projects at San Diego and San Bernardino campuses				New Item, Per May Revision (Issue 001)

California Community Colleges					
2008-09 Capital Outlay Budget					
	Campus	Project	Phase	Amount	Action
Item 6870-001-6028—Higher Education Capital Outlay Bond Fund of 2002					
	Systemwide	Facilities Planning and Support		1,879,000	Approve
Item 6870-301-0705—Higher Education Capital Outlay Bond Fund of 1992					
(1)	Los Angeles, Los Angeles Harbor College	Library/Learning Resource Center	E	302,000	Approve
(2)	San Joaquin Delta, San Joaquin Delta College	Cunningham Math/Science Replacement	E	804,000	Approve
Item 6870-301-0785—Higher Education Capital Outlay Bond Fund of 1988					
(1)	Los Angeles, Los Angeles City College	Jefferson Hall Modernization	CE	3,680,000	Approve
(2)	South Orange Co, Irvine Valley	Life Sciences Bldg	PW	1,266,000	Approve
Item 6870-301-6041—Higher Education Capital Outlay Bond Fund of 2004					
(1)	Cerritos, Cerritos College	Seismic Retrofit Gym	C	9,678,000	Approve
May 1	San Jose-Evergreen, Evergreen	Arts Complex	E	1,848,000	Add Item, Per May Revision
(2)	Siskiyou, College of the Siskiyou	Science Complex Modernization	PW	1,140,000	Approve
(3)	West Valley-Mission, District-wide	Fire Alarm System	PW	1,207,000	Approve
(4)	South Orange County, Irvine Valley College	Business Tech and Innovation Center	E	2,721,000	Approve
Item 6870-301-6049—Higher Education Capital Outlay Bond Fund of 2006					
April 1	Compton CCD, El Camino College Compton Center	Utility Infrastructure Ph. 1	PW	1,700,000	Revise April Finance Letter to fund PW only and defer Construction funding
(1)	Antelope Valley, Antelope Valley	Health and Science Building	C	34,974,000	Approve
(2)	Barstow, Barstow	Wellness Center	CE	9,722,000	Approve
(3)	Chaffey, Ralph M. Lewis Fontana Center	Fontana Center Phase III - Academic Building	CE	9,091,000	Approve
(4)	Coast, Orange Coast	Consumer and Science Lab Building	CE	15,620,000	Approve
(5)	El Camino, El Camino	Social Science Remodel for Efficiency	CE	5,257,000	Approve
(6)	Los Angeles, Los Angeles Harbor College	Library/Learning Resource Center	C	12,766,000	Approve
(7)	Los Angeles, Los Angeles Trade Tech College	Learning Assistance Center Modernization	CE	27,246,000	Approve
(8)	Los Angeles, Los Angeles Valley College	Library/Learning Assistance Center	CE	23,515,000	Approve
(9)	Los Rios, American River College	Library Expansion	C	3,216,000	Approve
(10)	Los Rios, Sacramento City College	Performing Arts Modernization	C	16,036,000	Approve
(11)	Mt. San Antonio, Mt. San Antonio	Administration Building Remodel	CE	8,912,000	Approve
(12)	North Orange County, Fullerton	Technology and Engineering Complex	CE	34,255,000	Approve

(13)	Palo Verde, Needles Center	Needles Center Equipment	E	1,661,000	Approve
(14)	Redwoods, College of the Redwoods	Student Services/Administration & Performing Arts Bldg	C	15,027,000	Approve
(15)	Redwoods, College of the Redwoods	New Science/Humanities Building Seismic Replacement	PW	2,258,000	Approve
(16)	Riverside, Riverside Community	Nursing/Science Building	CE	58,008,000	Approve
(17)	San Francisco, City College of San Francisco - Chinatown Campus	Campus Building	E	5,007,000	Approve
(18)	San Joaquin Delta, San Joaquin Delta College	Cunningham Math/Science Replacement	C	26,493,000	Approve
(19)	San Luis Obispo Co., North County Center	Learning Resource Center	CE	22,187,000	Approve
(20)	Santa Clarita, College of the Canyons	Library Addition	CE	14,059,000	Approve
(21)	Santa Monica, Santa Monica	Student Services & Administration Building	CE	15,935,000	Approve
(22)	Sequoias, College of the Sequoias	PE & Disabled Program Center	CE	13,946,000	Approve
(23)	Sequoias, Tulare Center	Phase I Site Development & Facilities	W	2,526,000	Approve
(24)	Sierra Joint, Sierra	Child Development Center	CE	7,821,000	Approve
(25)	Sonoma County, Santa Rosa Junior College - Public Safety Training Center	Public Safety Training Ctr. Adv. Lab & Office Complex	CE	5,748,000	Approve
(26)	West Hills, West Hills College, Coalinga	Agricultural Science Facility	CE	9,405,000	Approve
Item 6870-301-6075—Higher Education Capital Outlay Bond Fund of 2008					
(1)	Antelope Valley, Antelope Valley	Student Services Building	PW	1,067,000	Delete
(2)	Barstow, Barstow	Initial Building Modernization Ph. 1	PW	510,000	Delete
(3)	Chaffey, Chaffey	Liberal Arts and Letters Complex	PW	1,733,000	Delete
(4)	Contra Costa, Contra Costa	Physical Education Remodel	PW	379,000	Delete
(5)	Contra Costa, Diablo Valley	Engineering Tech Renovation	PW	747,000	Delete
(6)	Contra Costa, Los Medanos	Nursing and EMT Remodel	PW	317,000	Delete
(7)	Gavilan, Gavilan	Physical Education Complex Modernization	PW	579,000	Delete
(8)	Glendale, Glendale	Aviation/Art Building Modernization	PW	1,057,000	Delete
(9)	Grossmont-Cuyamaca, Grossmont	Theater Arts Building	PW	1,800,000	Delete
(10)	Imperial, Imperial College	Bldg. 400 Modernization	PW	200,000	Delete
(11)	Kern, Bakersfield	Perform Arts Modernization	PW	1,565,000	Delete
(12)	Kern, Porterville	Allied Health Facility	PW	661,000	Delete
(13)	Long Beach, Long Beach City College, Pacific Coast Campus	Student Service Center	PW	318,000	Delete
(14)	Long Beach, Long Beach City College, Liberal Arts Campus	Multi-Disciplinary Facility Replacement	PW	1,485,000	Delete
(15)	Los Angeles, Los Angeles Pierce	Horticulture Modernization and Expansion	PW	714,000	Delete

(16)	Los Rios, American River	Technical Building Remodel	PW	288,000	Delete
(17)	Los Rios, Cosumnes River	Architecture and Construction Education Building	PW	254,000	Delete
(18)	Los Rios, Folsom Lake	Instructional Facilities, Phase 2A	PW	168,000	Delete
(19)	Mt. San Antonio, Mt. San Antonio	Business & Computer Technology	PW	1,237,000	Delete
(20)	Mt. San Jacinto, Menifee Valley Center	Classroom Building II	PW	1,066,000	Delete
(21)	Napa Valley, Napa Valley	Modernize Bldg. 700	PW	168,000	Delete
(22)	Rio Hondo, Rio Hondo	Library Conversion to Instructional Building	PW	965,000	Delete
(24)	San Francisco, City College of SF, Ocean/Phelan Campus	Advanced Bio Tech/Stem Cell Technology Training Center	PW	1,956,000	Delete
(25)	San Joaquin Delta, San Joaquin Delta	Holt Bldg. Modernization and Expansion	PW	4,027,000	Delete
(26)	San Luis Obispo County, North County Center	Child Development Center	PW	544,000	Delete
(27)	Santa Barbara, Santa Barbara City	Physical Science East Wing Modernization	PW	348,000	Delete
(28)	Santa Barbara, Schott Center	Schott Center Modernization	PW	769,000	Delete
(29)	Sequoias, College of the Sequoias	Admin Bldg Remodel for Efficiency	PW	585,000	Delete
(30)	Sonoma County, Santa Rosa Junior College	Laboratory and Office Complex	PW	1,811,000	Delete
(31)	Chabot Las Positas, Chabot	Phys Sci/Math/Sci Lrng Crt Mod	PW	157,000	Delete
(32)	Chabot Las Positas, Las Positas	Science Technology, Phase II	PW	124,000	Delete
(33)	State Center, Fresno City	Old Admin Bldg. North & East Wings, Ph III	PW	149,000	Delete
(34)	State Center, Reedley	Child Development Center	PW	688,000	Delete
(35)	Ventura County, Moorpark	Technology Building Modernization	PW	1,000,000	Delete
(36)	West Kern, Taft	Vocational Center	PW	1,018,000	Delete
(37)	West Valley-Mission, West Valley	Applied Arts and Sciences	PW	676,000	Delete
(38)	Yuba, Yuba College	Building 500 Reconstruction	PW	453,000	Delete
(39)	Copper Mountain, Copper Mountain	Vocational Facility	PW	472,000	Delete
Item 6870-303-6041—Higher Education Capital Outlay Bond Fund of 2004					
(1)	Ohlone, Ohlone	Fire Supression	PWC	5,741,000	Approve
(2)	Mira Costa, Mira Costa	Campus-wide Fire Line Replacement	PWC	2,628,000	Approve
Item 6870-303-6049—Higher Education Capital Outlay Bond Fund of 2006					
(1)	Riverside, Riverside Community	Wheelock Gymnasium, Seismic Retrofit	PWC	10,156,000	Approve
Item 6870-303-6075—Higher Education Capital Outlay Bond Fund of 2008					
(1)	Allan Hancock, Allan Hancock	Fine Arts Complex	PWCE	19,887,000	Delete
(2)	Butte-Glenn, Butte	Student/General Services Building		9,466,000	Delete
(3)	Cabrillo, Cabrillo	Bldg. 1500-1600 Modernization	PWCE	2,525,000	Delete
(4)	Cerritos, Cerritos	Burnight Center Replacement	PWC	30,034,000	Delete
(5)	Coast, Orange Coast	Music Building Modernization	PWC	3,610,000	Delete

(6)	Los Angeles, Los Angeles City	Clausen Hall Modernization	PWCE	6,353,000	Delete
(7)	Merced, Merced	Ag Sci & Industrial Tech Complex	PWCE	10,903,000	Delete
(8)	Monterey Peninsula, Monterey Peninsula College	Business, Math & Science Buildings	PWCE	16,159,000	Delete
(9)	North Orange County, Cypress	Science/Math Bldg. 3 Modernization	PWCE	29,343,000	Delete
(10)	North Orange County, Fullerton	Music 1100 Bldg. Modernization	PWCE	13,022,000	Delete
(11)	Palomar, Palomar	Library/Learning Resource Center	PWCE	52,489,000	Delete
(12)	Peralta, Laney	Modernize Library Building	PWCE	14,869,000	Delete
(13)	Peralta, Merritt	Modernize Trade Technology Building A	PWCE	10,082,000	Delete
(14)	Peralta, College of Alameda	Modernize Science Complex	PWCE	17,074,000	Delete
(15)	Riverside, Riverside Community	Riverside School of the Arts	PWCE	43,056,000	Delete
(16)	Riverside, Moreno Valley Center	PH III Student Academic Services Building	PWCE	14,858,000	Delete
(17)	San Diego, San Diego Miramar	Library/Learning Resource Center	PWCE	20,428,000	Delete
(18)	San Mateo Co., Canada	Multiple Program Instructional Center	PWC	7,732,000	Delete
(19)	San Mateo Co., College of San Mateo	Media Center	PWCE	5,723,000	Delete
(20)	San Mateo Co., Skyline	Instructional and Admin. Resource Center	PWCE	7,681,000	Delete
(21)	Santa Clarita, College of the Canyons	Administration/Student Services	PWCE	6,676,000	Delete
(22)	Santa Clarita, Canyon Country Educational Center	Instructional Building One	PWCE	11,879,000	Delete
(23)	Southwestern, Southwestern	Photography Building Modernization	PWCE	1,236,000	Delete
(24)	State Center, Career Tech Center	Site Development & Ph I Facilities	PWCE	39,023,000	Delete
(25)	Ventura County, Ventura	G Building Modernization (Theater)	PWC	9,729,000	Delete
(26)	West Hills, West Hills College, Lemoore	Field Sports Construction	PWCE	17,620,000	Delete
	Item 6870-490				
May 1	Various reappropriations from 2004, 2005, 2006 and 2007 Budget Acts.				Add Item, Per May Revision (Issue 104)
	Item 6440-497				
May 1	Revert \$22,404,000 from 2006 Higher Education Capital Outlay Bond Fund originally authorized for the Mission College Main Building Second Floor				Add Item, Per May Revision (Issue 105)

Item 6120-221-0001

Provision X.

Notwithstanding subdivision (d) or any other provision of law, in the 2008-09 fiscal year, any city, county, district, or city and county, that reduces local revenues required to meet the maintenance of effort for the public library for the 2008-09 fiscal year, shall continue to receive state funds appropriated under this chapter for the 2008-09 fiscal year only, provided that the amount of the local reduction to that public library for the 2008-09 fiscal year is no more than ten (10) percent of the 2007-08 fiscal year local revenues required to meet the maintenance of effort for that public library, as certified by the fiscal officer of the public library and transmitted to the State Librarian pursuant to Section 18023.

7980-001-0001, Provision 4

4. (a) ~~This item reflects a reduction of \$1,019,000 and six positions to abolish the Federal Policy and Programs Unit of the Student Aid Commission (Commission) assuming the sale, or other authorized transaction, of EdFund is completed by June 30, 2008. This item reflects \$1.0 million payable from the Student Loan Operating Fund for the purpose of funding on a limited-term basis six positions in the Federal Policy and Programs Division. Those positions shall be continued until a sale or other authorized transaction is completed pursuant to Chapter 182, Statutes of 2007 which is anticipated in 2009-10.~~

(b) ~~Additionally, this item reflects an increase of \$1.8 million \$1,010,000 available on a one-time basis for necessary moving costs, furnishings, and equipment associated with relocation of the commission. No later than August 1, the commission shall detail and submit for approval to the Department of Finance, and for information to the Chairperson of the Joint Legislative Budget Committee, all one-time costs estimated to be necessary for relocation of the commission. Any funds remaining shall be available for any expenses that may be necessary or convenient to further the intent of the sale or other authorized transaction of EdFund pursuant to Chapter 182, Statutes of 2007, upon the written approval of the Department of Finance. and eleven positions for prospective activities necessary to reestablish essential core business and technology services, including equipment, software, and related operating expenses as necessary, which are currently provided through contracts and other arrangements with EdFund. The abolishment of positions for the Federal Policy and Programs Unit shall not be effective until the Department of Finance certifies that a sale or other arrangement has taken place pursuant to Chapter 182, Statutes of 2007. The \$1.8 million allocated in this item to replace shared services shall not be available for expenditure until a detailed transition plan has been provided to and approved by the Department of Finance. Upon certification of a sale of EdFund, the Commission, in cooperation with the purchasing entity, shall develop and provide to the Department of Finance at its earliest convenience a detailed plan for the~~

~~reestablishment of shared services in accordance with proposed transition agreements with the purchasing entity. Notwithstanding this restriction, in the event the sale of EdFund does not occur by June 30, 2008, the Commission may utilize the funding in this provision for the purposes of continuing the Federal Policy and Programs Unit functions until the EdFund sale is completed up to a maximum of \$1,019,000 for the fiscal year. It is the intent of the Legislature that all efforts are taken to minimize the impact to the General Fund through the most cost effective arrangements for restoring shared services back to the Commission.~~

Student Aid Commission/EdFUND Lender of Last Resort:

69522. (a) ... (2) The activities approved by the commission under this subdivision shall not include either of the following:

... (B) Loan origination or loan capitalization activities. This paragraph shall not preclude the commission or the auxiliary organization from undertaking other permitted activities that are related to student financial aid in partnership with institutions that conduct loan origination, or loan capitalization activities, **or from loan origination or capitalization activities authorized pursuant to an agreement with the United States Secretary of Education for the lender-of-last-resort -program.**

All staff recommendations were approved unanimously (Vote: 3-0) , with the following exceptions:

Issue number 7 (Cal Grant Program) shift of \$223 million from GF to TANF: (Vote: 2-0);

Issue number 9 (Cal Grant Program) restore competitive Cal Grant Program (Vote: 2-1);

Issue number 10 (APLE Program) restoration of APLE warrants to 8,000 level (Vote: 2-1);

Issue number 11 (Cal-SOAP/Federal Challenge Grant) -- issue held over to future hearing.

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Denise Moreno Ducheny
Member, Bob Margett
Member, Gloria Romero

Friday, May 23, 2008
10:00 a.m.
Room 112, State Capitol
K-12 Agenda – Part B

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Issue 1 - State Operations - Unallocated Reductions to Headquarters Staff

Item	Issue	Description	Staff Recommendation
6110-001-0001	January Budget. CDE Headquarters - Unallocated Reductions. State Operations. General Funds (Non-98)	<p>As a part of the Governor's Budget Balancing Reductions (BBRs), the Governor proposes a \$5.6 million unallocated reduction for CDE headquarters staffing and operating expenses. This equates to a ten percent reduction to the General Fund budget for CDE headquarters budget. CDE headquarters staff administer state education programs and provide program support to local education agencies.</p> <p>As proposed by the Governor, the Superintendent of Public Instruction would have discretion to allocate this reduction.</p> <p>CDE provided the Subcommittee with a general plan for approaching unallocated reductions in 2008-09.</p>	Approve Governor's Budget.

Issue 2 - State Operations - Federal Fund Positions

Item	Issue	Description	Staff Recommendation
6110-001-0001 6110-001-0890	January Budget. Child Care Alternative Payment Monitoring. State Operations. Federal Funds.	Provides \$742,000 in federal Child Development funds for 7.0 positions to meet new federal audit requirements for the Improper Payments Information Act, which became effective October 1, 2007.	Approve Governor's Budget.
6110-001-0001 6110-001-0890	January Budget. California High School Exit Exam. State Operations. Federal Funds.	Provides \$103,000 in federal Title VI funds for 1.0 position to monitor changes to CAHSEE pursuant to AB 347 (Chapter 526, Statutes of 2007). This measure implemented a settlement agreement in the <i>Valenzuela v. O'Connell</i> lawsuit by requiring school districts to provide intensive instruction and services for two additional, consecutive years to pupils who have not passed the high school exit examination by the end of twelfth grade. According to CDE, this position will facilitate the administration of the new exam requirements, communicate with local education agencies, prepare bill analyses and State Board of Education items, and help to monitor the CAHSEE contractor for compliance.	Approve Governor's Budget.

<p>6110-001-0001 6110-001-0890</p>	<p>January Budget. Child Nutrition and Information Payment System (CNIPS). State Operations. Federal Funds.</p>	<p>Provides \$1,874,000 in federal Child Nutrition funds to extend 7.2 limited-term positions for one additional year. CNIPS is an information technology system used to administer four United States Department of Agriculture (USDA) programs, including School Nutrition, Child and Adult Care Food, Summer Food, and Food Distribution. Delays in software contract approval and design complexities have delayed implementation of the project by one year.</p>	<p>Approve Governor's Budget.</p>
<p>6110-001-0001 6110-001-0890</p>	<p>April Letter. Child and Adult Food Care Program. State Operations. Federal Funds. (Issue 643)</p>	<p>Requests an increase of \$172,000 in Federal Child Nutrition Funds to establish 2.0 positions to improve the department's compliance monitoring and technical assistance for the federal Child and Adult Care Food Program. This program provides funding to licensed child care centers, adult day care centers, and organizations that sponsor day care homes to ensure participants receive nutritionally-adequate meals and snacks. Recently, the federal government found an increasing number of sponsors that are seriously deficient in their administration of the program. As a result, the U.S. Department of Agriculture and Congress have imposed new financial management requirements on sponsors and additional oversight responsibilities for the department.</p>	<p>Approve April Letter.</p>

Issue 3 - State Operations - General Fund Positions

Item	Issue	Description	Staff Recommendation
6110-001-0001	January Budget. Shift Funding and Staff for State Board to Office of the Secretary for Education (OSE). State Operations. General Fund (Non-98)	<p>Shifts \$1,567,000 in state General Funds and 8.0 positions for the State Board of Education to OSE. This issue is fully described in the OSE item of this Subcommittee agenda. The Administration is no longer pursuing this proposal.</p> <p>The Governor has withdrawn this proposal and requested that the Legislature take action to restore positions and funding to the CDE budget.</p>	Restore 8.0 positions and \$1.5 million for State Board staff to the CDE budget. Provide a \$155,000 (ten percent) unallocated reduction to the restored amount.
6110-001-0001	January Budget. School Districts of Choice. State Operations. General Fund (Non-98)	Provides \$131,000 in state General Funds for 1.0 position to meet reporting requirements required as part of the sunset extension of the Districts of Choice program enacted by SB 80 (Chapter 174; Statutes of 2007). This measure mandated new reporting and evaluation requirements. Districts must report data and information about student inter-district transfers. CDE must now collect, analyze, and post information about inter-district transfers and must also prepare a comprehensive evaluation study of transfer options for students.	Deny new General Fund positions.

6110-001-0001	January Budget. Anti - Discrimination Monitoring. State Operations. General Fund (Non-98)	Provides \$40,000 in state General Funds for a 0.3 position to implement the requirements of AB 394 (Chapter 566, Statutes of 2007). This measure requires CDE to assess local education agencies -- as part of the department's existing monitoring process -- for compliance with specific anti-discrimination and harassment policies and procedures to protect students, and to display specific discrimination and harassment prevention information on their website.	Deny new General Fund positions.
6110-001-0001	January Budget. Math and Reading Professional Development - English Learners. State Operations. General Fund (Non-98)	English Learners. Provides \$109,000 in state General Funds to continue and make permanent 1.0 position to administer the provisions of SB 472 (Chapter 524; Statutes of 2006). This measure authorizes an English Learner component to the Math and Reading Professional Development program. The 2006-07 Budget Act added \$25 million in ongoing funding for this program. The current position within CDE is authorized until June 30, 2008.	Deny new General Fund positions.
6110-001-0001	January Budget. Career Technical Education Website and Maintenance. State Operations. General Fund (Non-98)	Provides \$100,000 in state General Funds for 1.0 limited-term position to implement AB 597 (Chapter 529, Statutes of 2007). This measure requires CDE to create a comprehensive, easy to access, user-friendly website with information about Career Technical Education opportunities and programs available in the state.	Deny new General Fund positions.
6110-001-0001	January Budget. Reading and Language Arts Adoption. State Operations. General Fund (Non-98)	Provides \$102,000 in General Funds to provide support for the 2008 Reading Language Arts instructional materials adoption.	Deny new General Fund positions.

Issue 4 - Various April Letter and May Revise Adjustments

Item	Issue	Description	Staff Recommendation
6110-001-0001	April Letter. Instructional Materials Program- Budget Language. State Operations. General Fund (Non-98) (Issue 404)	Requests that language be added to this item to allow for the transfer of up to \$536,000 to the State Instructional Materials Fund. The Governor's Budget proposed consolidating several small support items, including 6110-015-0001 for Instructional Materials Management and Distribution, to streamline administration, and to increase the department's flexibility for implementing necessary reductions. The proposal inadvertently eliminated enabling transfer language that allowed the department to conduct instructional materials activities. This proposal will reinstate the provisional language.	Approve April letter and strike language that references adjustments for employee compensation and general price increases.
6110-491	April Letter. Schoolbus Driver Instructor Training Program- Reappropriation. Local Assistance. Special Fund Reappropriation. (Issue 163)	Requests that Item 6110-491 be added to reappropriate estimated savings of \$132,000 from Item 6110-001-0178, Budget Act of 2007 that occurred due to a delay in securing training facilities for the Schoolbus Driver Instructor Training Program. The reappropriated savings will be used to secure a new school bus to support the ongoing training functions of this program.	Approve April letter.

6110-602-0942	<p>April Letter. Partnership Academy Special Deposit Fund Reimbursements. Local Assistance. (Issue 162)</p>	<p>Requests that a special deposit fund be established to utilize a donation from Pacific Gas and Electric to support up to five new partnership academy programs per year over a five-year period. These academies will provide an integrated curriculum focusing on green technologies. This donation will support activities that are consistent with the current Partnership Academy Program funded in Item 6110-166-0001 and the department indicates that allocation levels will be consistent with the current program funding model. The funding level required to support up to five academies for 2008-09 would be \$210,000. Should the donation cease in the future, there is no expectation that state funds will be used to continue the program.</p>	<p>Approve April letter.</p>
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Issue 5 - Child Nutrition Adjustments

Item	Issue	Description	Staff Recommendation
6110-201-0001	May Revise. Child Nutrition - Non-School Based Programs. Local Assistance. General Fund (Non-98) (Issue 642 & 6463)	Requests that this item be decreased by \$2.3 million to align the appropriation with the latest estimates of meals served for private schools, centers, homes, halls, shelters, and camps participating in the Child Nutrition Program. This reduction reflects declining participation by private schools and other entities in the Child Nutrition Program.	Approve May Revise.
6110-202-0890	May Revise. Federal Child Nutrition Grants. Local Assistance. Federal Funds. (Issue 643)	Requests that this item be increased by \$109.1 million to reflect anticipated growth in the Child Nutrition Program. Local educational agencies (LEAs), private schools, and public and private centers, homes, halls, shelters, and camps are reimbursed for meals served through this federal entitlement program.	Approve May Revise.

Issue 6 - Federal Funds - Title I Migrant Education

Item	Issue	Description	Staff Recommendation
6110-125-0890	April Letter. Title I - Migrant Education Program. Local Assistance. Federal Funds. (Issue 409)	<p>Requests an increase of \$7.3 million in federal Title I Migrant Education funds, which includes a decrease of \$1.7 million to align the appropriation with available federal funds and an increase of \$9.0 million to reflect the availability of one-time carryover funds. The Governor proposes to use the \$9.0 million LEAs for local assistance grants.</p> <p>The Governor also requests that provisional language be added to require CDE to allocate these carryover funds on a per pupil basis by October 1, 2008.</p> <p>CDE is requesting that \$900,000 of the \$9.0 million in carryover funds be provided to continue an evaluation of the Migrant Education Program required by the federal law. The 2007-08 budget provided \$800,000 for this evaluation, including \$400,000 for planning and \$400,000 for the first year of the three-year evaluation.</p> <p>The LAO supports CDE's request, but recommends that \$600,000 be appropriated for the last two years of the study and that remaining funds be allocated for local assistance grants per the April Letter.</p>	<p>Approve LAO alternative to provide \$600,000 for the three-year evaluation and \$8.4 million for local assistance per the April Letter.</p> <p>Reject language requiring CDE to allocate funds on a per-pupil basis by October 1, 2008.</p>

Issue 7 - Federal Title VI - State Assessments

Item	Issue	Description	Staff Recommendation
6110-113-0890	<p>April Letter. Title VI Funding for State Assessment and Accountability. Local Assistance. Federal Funds. (Issues 562 & 563).</p>	<p>Requests this item be increased by \$3.9 million in federal Title VI State Assessment funds, which includes a decrease of \$986,000 to Schedule (4) to align expenditure authority with available federal funds and an increase to Schedule (4) of \$4.9 million to reflect the availability of one-time carryover funds. Title VI federal funds are used to develop and implement statewide testing programs such as the Statewide Testing and Reporting Program, the High School Exit Examination, and the English Language Development Test for K-12 public schools.</p>	<p>Approve the level of adjustments proposed in April Letter, but conform use of carryover funds to action on CALPADS system. Add provisional language to set aside \$3.2 million in Title VI funds for CALPADS in 2009-10. Reduce CALPADS funding in budget item 6110-001-0001 by \$3.2 million.</p>

Issue 8 - State Assessments - STAR Norm-Referenced Test

Item	Issue	Description	Staff Recommendation
6110-113-0001 6610-113-0890	Legislative Analyst Proposal. Eliminate STAR Norm-Referenced Test. Local Assistance. General Funds (Prop 98) & Federal Funds.	The Legislative Analyst's Office recommends that the Legislature eliminate the norm-referenced portion of the Standardized Testing and Reporting (STAR) program for a total savings of \$2.3 million 2008-09 and \$2.5 million in 2009-10 and beyond. In addition, the LAO estimates that this action will save 2.5 hours of student testing time in 3rd grade and 3.0 hours in the 7th grade – an estimated 30 percent reduction in testing time for these students.	Adopt LAO recommendation to reduce assessment funding by \$2.5 million and redirect savings for support of CALPADS.

Issue 9 - State Data Systems - CALPADS & CSIS

Item	Issue	Description	Staff Recommendation
6110-001-0001 6110-001-0349	January Budget. California Longitudinal Pupil Achievement Data System (CALPADS) . State Operations. General Fund (Non-98) and Education Telecommunications Fund.	<p>Provides \$10.9 million from various funds to continue development and administration of CALPADS in 2008-09. Of this amount, \$3.2 million is provided from state General Funds (Non-98), \$5.3 million in Education Telecommunications Funds, and \$2.4 million in federal Title VI funds. According to the Governor, this amount fully funds the contract signed last December to develop the new system.</p> <p>The LAO recommends reducing the level of funding by \$500,000 in 2008-09 to reflect a reduction in the amount needed by CDE. In addition, the LAO recommends replacing \$3.2 million in General Funds with federal Title II funds for the project. The LAO plan fully funds CALPADS in 2008-09 per the requirements of the CALPADS Special Projects Report.</p>	<p>Reduce Governor's budget by \$500,000 to reflect workload to provide total funding of \$10.4 million. Eliminate General Funds (Non-98) and provide \$5.3 million in Education Telecommunications funds and \$5.1 million in federal Title II funds.</p>
6110-101-0349	May Revise. California Longitudinal Pupil Achievement Data System (CALPADS) & California School Information Services (CSIS) . Local Assistance. Federal Funds. (Issue 428)	<p>Requests \$1.1 million in Educational Telecommunications Fund be provided to the California School Information Services program to support workload associated with the development of the California Longitudinal Pupil Achievement Data System. This funding would be used to support 7.0 local positions to provide subject matter expertise relating to the design, development, testing, and implementation of the data system.</p>	<p>Approve \$1.1 million, but provide funding from Title II savings instead of Education Tele-communications Fund.</p>

Issue 10 - State Data Systems - CALTIDES

Item	Issue	Description	Staff Recommendation
<p>6110-001-0001 6110-001-0890</p>	<p>January Budget. CALTIDES Positions and Operating Expenses. State Operations. Federal Funds.</p>	<p>Provides \$1.4 million in one-time federal Title II funds to CDE continue development of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2008-09. Of this total, the Governor provides \$271,000 and 2.0 positions and \$1.2 million in other contract expenses.</p> <p>The LAO recommends reducing CALTIDES funding to CDE by \$600,000 in 2008-09 to align funding with project workload.</p> <p>The Subcommittee previously approved an additional \$248,000 and 2.5 limited-term positions and \$150,000 in other expenses to the Commission on Teacher Credentialing (CTC) for development of CALTIDES.</p>	<p>Reduce Governor's budget by \$600,000 to reflect workload. This provides \$1.2 million in Title II funds for CALTIDES, including \$231,000 and 2.0 limited-term positions.</p>

Issue 11 - State Special Schools - Capital Outlay

Item	Issue	Description	Staff Recommendation
6110-301-0660	January Budget. Athletic Complex, California School for the Deaf, Fremont. Capital Outlay. General Fund (Non-98)	Requests \$14.3 million to renovate the football field and surrounding track and to add athletic locker room space at the California School for the Deaf, Fremont. The project includes the addition of an artificial turf football/soccer field, synthetic running track, field access, raised bleachers, press box, concession and restroom facilities, storage, equipment, fencing, parking, athletic locker rooms, stadium field lighting, drinking faucets, sideline team benches, and cable for the public address system and scoreboard.	Deny Governor's Budget for new capital outlay project.
6110-301-0660	January Budget. Athletic Complex, California School for the Deaf, Riverside. Capital Outlay. General Fund (Non-98)	Requests \$17.1 million to design and construct an athletic complex at the California School for the Deaf, Riverside to ensure the safety of participants and spectators and maximize the use of the files available for interscholastic sports, physical education classes, school functions, and recreational activities for residential students. The complex will be utilized for different sporting events including soccer, baseball, softball, track and field, football, and intramural activities for all students. The complex will improve accessibility, safety and convenience for those attending and participating by adding bleachers, lighting, restrooms, concession stand, electronic scoreboard with message boards, drinking fountains, storage, security, fencing, and accessible pathways.	Deny Governor's Budget for new capital outlay project.

6110-301-0660	April Letter. Kitchen and Dining Hall Renovation, California School for the Deaf, Riverside. Capital Outlay. General Fund (Non-98)	Requests the reappropriation of \$8.1 million approved in the 2006-07 Budget Act and an augmentation of \$4.9 million for the Kitchen and Dining Hall Renovation at the California School for the Deaf, Riverside. The total estimated cost at the end of the preliminary plan phase increases to \$13.7 million with this augmentation. During the design phase, it was determined that the project scope would need to include: (1) extra bathroom facilities in order to meet state plumbing codes and (2) redesign of the kitchen layout to prevent contamination of food during preparation and serving.	Approve April Letter.
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Issue 14 - Office of the Secretary for Education

Item	Issue	Description	Staff Recommendation	BBL/TB
<p>0558-001-0001 0650-011-0001</p>	<p>January Budget. Budget Balancing Reductions. State Operations. General Fund (Non-98)</p>	<p>The Governor proposes a \$351,000 decrease to the OSE General Fund budget as a part of his Budget Balancing Reductions for all state agencies. This provides a ten percent, unallocated reduction to OSE.</p> <p>Given the state budget shortfall, the Legislature could also consider elimination of OSE. The office does not administer education program nor does it provide direct program, policy, or budget oversight to other state education departments or agencies. OSE has never been established statutorily. Total elimination of OSE would generate approximately \$2.1 million in General Fund savings. In implementing this option, the Subcommittee could consider phasing out OSE over a four year period. Alternatively, the Legislature could consider reducing direct funding to OSE of approximately \$1.0 million and retaining \$1.0 million in remaining funding for the Office of Planning and Research for education policy.</p>	<p>Provide a 25 percent reduction to the OSE budget with full elimination achieved in 2011-12.</p>	

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Denise Moreno Ducheny
Member, Bob Margett
Member, Gloria Romero

Wednesday, June 4, 2008
9:30 a.m.
Room 3191, State Capitol
K-12 Agenda – Part A
OUTCOMES

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Issue 1 - Federal Title I - Set-Aside Funds

Item	Issue	Description	Staff Recommendation	BBL/T
6110-134-0890	April Letters. Title I Set-Aside Budget Appropriations - Various Adjustments. Federal Funds. Local Assistance. (Issues 564 & 571)	<p>The Governor proposes a decrease of \$10.8 million federal Title I Set Aside funds to align the appropriation with available federal funds. This brings total Title I Set -Aside funding to \$65.2 million in 2006-07. (Issue 564)</p> <p>The Governor also proposes to eliminate \$20 million in Title I Set-Aside Funds for schools remaining in II/USP and shift these funds to program improvement activities for LEAs in corrective action. This proposal represents a fund shift within the 6110-134-0890 item and therefore does not affect total funds available. (Issue 571)</p>	<p>Approve April Letter adjustments and approve LAO recommendation to appropriate \$55.0 million in federal Title I Set-Aside funds to be allocated pursuant to legislation.</p> <p>Of this amount, approve \$7.8 million on a one-time basis for FCMAT for purposes of providing CSIS support for CALPADS.</p> <p>Action: Approve Staff Recommendation Vote: 3-0</p>	
TBL	May Revise. Title I Set-Aside Funds for LEAs in Corrective Action - Legislative Appropriations. Federal Funds. Local Assistance.	The Governor proposes to set-aside \$45 million in Title I Set- Aside Funds to assist LEAs in their efforts to improvement the academic performance of their students and to meet their federal accountability measures.	<p>Withhold \$47 million in one-time Title I Set-Aside Funds for separate legislation.</p> <p>Action: Approve Staff Recommendation Vote: 3-0</p>	

Issue 2 - Federal Title I - School Improvement Grant Funds

Item	Issue	Description	Staff Recommendation	BBL/T
6110-134-0890	<p>April Letter. Establish the Federal Title I School Improvement Grant. Local Assistance. Federal Funds. (Issue 566).</p>	<p>Requests a new appropriation of \$78.1 million in federal Title I School Improvement Grant (SIG) funds for grants to LEAs. Of this amount, \$16.6 million reflects the availability of one-time carryover funds.</p>	<p>Approve April Letter to appropriate \$78.1 million in federal SIG in the budget, but require that funds be allocated pursuant to legislation so that funds can be coordinated with the Title I program improvement package.</p> <p>Appropriate funding within a new, separate budget item.</p> <p>Action: Approve Staff Recommendation Vote: 3-0</p>	

<p>6110-001-0001 6110-001-0890</p>	<p>April Letter. Staff Positions for Federal School Improvement Grant Program. Federal Funds. State Operations. (Issue 567).</p>	<p>The Governor requests an increase of \$378,000 in federal Title I School Improvement Grant (SIG) funds for 4.0 positions to support the new SIG program.</p>	<p>Approve April Letter funding and positions, but align to purposes of SIG, as determined through legislation.</p> <p>Action: Approve Staff Recommendation. Add intent that CDE, to the extent possible, redirect positions from other programs that have been eliminated or reduced. Vote: 3-0.</p>	
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Issue 3 - Federal Title V - School Innovation and Improvement Funds

Item	Issue	Description	Staff Recommendation	BBL/T B
6110-123-0890	April Letter. Title V Innovative Program - Carryover Funds. Local Assistance. Federal Funds. (Issues 568 and 570)	<p>The Governor proposes a \$4.9 million reduction in total federal Title V funds, which provides a decrease of \$10.9 million align the appropriation with available federal funds and an increase of \$6.0 million to reflect the availability of one-time carryover funds.</p> <p>The federal government eliminated funding for the Title V Program effective in 2008-09. The Governor's proposes to eliminate ongoing funding for Title V to reflect this development and retains a total of \$6.0 million in carryover funds for the program in 2008-09 for the existing program.</p>	<p>Approve April Letter adjustments, but appropriate \$6.0 million in carryover funds pursuant to legislation so that funds can be coordinated with the Title I program improvement package.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	

Issue 4 - Federal Title III - English Language Acquisition Funds

Item	Issue	Description	Staff Recommendation	BBL/T
6110-125-0890	Legislative Proposals. Additional Funds for State Administration and State Level Activities. Federal Funds. State Operations.	<p>CDE has identified \$3.4 million in additional Title III funds available for state level activities or state administration in 2008-09.</p> <p>In 2007-08 the Legislature approved \$1.6 million and 4.0 positions for CDE to monitor and provide technical assistance to alternative, county court, and Division of Juvenile Justice schools serving English learners. As proposed, these one-time funds would be provided over a three-year period and build local capacity for better serving youth being served by county level programs. These funds were vetoed by the Governor.</p> <p>The Governor's January Budget proposed \$109,000 in state General Funds to continue and make permanent 1.0 position to administer the English Learner component of the Math and Reading Professional Development Program. The Subcommittee voted to deny General Fund (Non-98) funds for new positions given the budget shortfall.</p>	<p>*Approve \$1.6 m to support English learner students attending for monitoring and technical assistance of correctional and alternative education programs.</p> <p>*Approve \$109,000 and 1.0 ongoing position to administer the Math and Reading Professional Development for teachers of English learners.</p> <p>*Approve \$1.7 m for local assistance activities coordinated with Title I Program Improvement plan.</p> <p>Action: Approve Staff Recommendations as amended. Vote: 2-1</p>	

<p>6110-001-0001 6110-001-0890</p>	<p>Legislative Proposal. Establish Intervention and Assistance Program in Budget. Federal Funds. State Operations.</p>	<p>CDE has utilized \$1.8 million in Title III state level activities funds from 2007-08 to begin a state level intervention and assistance program for local education agencies (LEAs) facing corrective actions for English learners. The Legislature did not approve these funds as a part of the 2007-08 budget, rather this program was developed and implemented administratively by CDE.</p> <p>This new program is funded with state level activities funds and allocates base grants and per pupil funding to eleven county offices of education to support LEAs that have failed to meet growth objectives – defined as annual measurable achievement objectives (AMAOs) for English learners. This new program both coordinates and overlaps with Title I intervention activities currently underway for schools and districts in program improvement.</p>	<p>Approve \$1.8 million for an intervention program for LEAs not meeting Title III benchmarks (AMAOs).</p> <p>Add provisional language to identify the program in the budget and coordinate it with Title I program improvement activities.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	
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<p>6110-001-0001 6110-001-0890</p>	<p>CDE Proposal. Reappropriation Language for English Learner Best Practices Pilot Program Evaluation. Federal Funds. State Operations.</p>	<p>The Legislature approved \$1.0 million in 2007-08 for an evaluation of the English Learner Best Practice Pilot Program; however, the Governor vetoed \$500,000 based on understandings that private foundations would cover this amount. CDE has indicated that it is not possible to complete a high quality evaluation with only \$500,000. CDE has informed the Legislature that they are delaying release of the Request for Proposal for the evaluation and exploring the extension of the evaluation timetable to reduce the costs and extend the benefits of the evaluation. CDE requests the following provisional language for Best Practices Study reappropriation, as amended by DOF:</p> <p><i>6110-49x--Reappropriation, Department of Education. Notwithstanding any other provision of law, the following specified balances are reappropriated from the following citations, for the purposes specified: (1) \$500,000, or the unexpended amount thereof, from Item 6110-001-0890, Provision 48, of the Budget Act of 2007 (Chapter 172, Statutes of 2007), is reappropriated for the purposes specified.</i></p>	<p>Approve reappropriation language, with amendments recommended by DOF.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	
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Issue 5 - Federal Title II - Teacher Quality Improvement Grants

Item	Issue	Description	Staff Recommendation	BBL/T
<p>6110-001-0001 6110-001-0890 6360-101-0001</p>	<p>LAO Proposal. Additional State Administration Funds Available. Federal Funds. State Operations.</p>	<p>The LAO estimates that the state receives \$2.8 million annually for state administration for Title II, but spends only \$2.3 million on an ongoing basis, leaving about \$500,000 left over annually.</p> <p>The LAO recommends using this \$500,000 in ongoing savings to pay for Teacher Misassignment Monitoring (\$308,000) within the Commission of Teacher Credentialing and to use approximately \$200,000 to fund two existing positions in CDE's Professional Development Unit.</p> <p>This would provide approximately \$500,000 in ongoing General Fund savings to the state.</p>	<p>Approve LAO proposal</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	
<p>6110-195-0890</p>	<p>April Letter. Title II Improving Teacher Quality Local Grants. Local Assistance. (Issues 086, 088, and 089).</p>	<p>The Governor proposes an increase of \$4.1 million in federal Title II Improving Teacher Quality funds, which includes a decrease of \$23,000 to align the appropriation with available federal funds and an increase of \$4.1 million to reflect the availability of one-time carryover funds. The Governor proposes to use carryover funds as follows: \$3.6 million is provided for local grants and \$500,000 is provided in one-time carryover for California Subject Matter Projects.</p> <p>The LAO questions the Governor's April Letter proposal to direct \$500,000 in Title II local assistance carryover funds to expand the U.C. Subject Matter Projects, given existing expenditure delays for that program.</p>	<p>Approve April Letter.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	

6110-195-0890	Legislative Proposals. Undesignated Federal Carryover Funds. Federal Funds. Local Assistance.	<p>CDE has identified an additional \$5.1 million in Title II carryover funds from state level activities and state administration that will be available in 2008-09.</p> <p>The LAO suggests using \$5.1 million in Title II carryover funds available for state-level activities to offset General Fund costs for an existing program to create one-time savings. The funds could be used to replace Proposition 98 General Funds funding for the Administrator Training Program (\$4.5 million) or to replace Non- 98 General Fund dollars for the Subject Matter Projects within the UC budget (\$5 million).</p>	<p>Approve \$3.0 million for Personnel Management Assistance Teams.</p> <p>Provide \$2.1 million to backfill General Fund (Non-98) funds for the U. C. Subject Matter Projects.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	
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Issue 6 - Federal Special Education

Item	Issue	Description	Staff Recommendation	BBL/T
6110-161-0890	Legislative Proposals. Undesignated Federal Special Education Funds. State Operations and State Level Activities.	<p>CDE has identified \$11.4 million (\$3.9 million ongoing and \$7.5 million one-time carryover) in additional special education funds available for state-level activities and state administration in 2008-09. Of this amount, \$9.5 million is available from state-level activities and \$1.9 million is available from state operations.</p> <p>The Governor and CDE support shifting these funds to local assistance.</p> <p>The LAO recommends utilizing \$8.9 million to offset across-the-board reductions for the State Special Schools. This includes \$5.1 million in Proposition 98 General Funds and \$3.8 million in Non-98 General Funds for the State Special Schools.</p>	<p>Approve \$8.9 million to offset General Fund reductions to the State Special Schools. Vote: 3-0.</p> <p>Approve \$1.25 million for monitoring and technical assistance of court and alternative schools: Vote: 2-1.</p> <p>Approve \$1.25 million for the Family Empowerment Centers. Vote: 2-1.</p> <p>Action: Approve Staff Recommendations. (See votes.)</p>	

Issue 7 - Federal Funds - Reading First

Item	Issue	Description	Staff Recommendation	BBL/T
6110-126-0890	April Letter. Reading First Program Funding Adjustments. Federal Funds. Local Assistance. (Issue 082 and 083)	<p>The Governor requests a decrease of \$78.1 million in federal Reading First funds in 2008-09, which includes a \$87.6 million decrease in the ongoing federal grant amount and an increase of \$9.5 million in carryover funds. These adjustments bring total funding for Reading First to \$92.7 million in 2008-09.</p> <p>The LAO recommends that the Legislature allocate \$92.7 million in available Reading First funds and savings from state and regional assistance centers so that existing school district cohorts can participate in the program for six years.</p>	<p>Approve April Letter funding levels, but adopt LAO plan for allocating funds.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	

Issue 8 - State Special Schools Transportation Funding

Item	Issue	Description	Staff Recommendation	BBL/T
6110-008 -0001 6110-008-0046	May Revise. State Special Schools Shift Transportation Funding to Public Transportation Account. General Fund (Non-98) & Public Transportation Account. State Operations. (Issues 422 and 423)	<p>The Governor requests that \$4.1 million in total Home-to-School Transportation program costs be shifted from the General Fund to the Public Transportation Account to support mass transit services at the State Special Schools.</p> <p>This amount reflects proposed increases program totaling \$1,238,000 to support increased busing contract costs for the State Special Schools, including a \$314,000 increase to restore the Budget-Balancing-Reduction and \$924,000 to support an anticipated increase in transportation contract costs due to fuel and insurance prices. Provisional language stipulates that transportation expenditures are subject to Department of Finance approval, as follows:</p>	<p>Approve May Revise proposal. Add language clarifying that DOF shall act on expenditures within 30 days.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	
		<p><i>XX. Funds appropriated in this item are in lieu of funds that otherwise would be transferred from the General Fund to Section A of the State School Fund in accordance with Sections 14007 and 41301.5 of the Education Code.</i></p> <p><i>XX. The State Department of Education shall obtain Department of Finance written approval prior to spending \$924,000 in this item budgeted to address anticipated transportation contract increases in 2008-09 resulting from fuel and insurance costs.</i></p>		

Issue 9 - Arts and Music Program - Language

Item	Issue	Description	Staff Recommendation	BBL/T
6110-265-0001	<p>April Letter. Arts and Music Block Grant - Language. Local Assistance. General Fund (Prop-98). (Issue 402)</p>	<p>The Governor requests the following changes to provisional language clarifying that funds may be used to provide continued (in addition to one-time) support of staff hired under the program and to allow the purchase of used (in addition to new) materials, books, and equipment.</p> <p><i>“3. The funds appropriated in this item may be used for hiring of additional staff and for ongoing support of staff hired under this program grant, purchase of new or used materials, books, supplies, and equipment, and implementing or increasing staff development opportunities, as necessary to support standards aligned arts and music instruction.”</i></p>	<p>Approve April Letter language.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	

Issue 10 - County Office Oversight Authority and Funding

Item	Issue	Description	Staff Recommendation	BBL/T
6110-266-0001	<p>May Revise. Funding for County Offices of Education - CAHSEE Oversight Language. Local Assistance. General Fund (P-98). (Issue 737)</p>	<p>The Governor requests that provisional language be added to this item specifying that county offices of education (COEs) may use up to \$1.5 million General Fund for monitoring school compliance with the Valenzuela settlement agreement. The Valenzuela settlement, codified in Chapter 526, Statutes of 2007 (AB 347), provides intensive instruction services for two additional years after completion of grade 12 for students who have failed to pass the California High School Exit Exam, requires LEAs to notify students of their eligibility for these services, and requires COEs to monitor LEA notification efforts. The legislation authorized COEs to use \$1.5 million of Williams Audits funding to perform notification monitoring in 2007-08 and specified that funding in future years was dependent on Budget Act appropriations.</p>	<p>Approve May Revision language request, with adjustments to remove new requirements for COE audits of Emergency Repair Program.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	
		<p><i>1. Funds appropriated in this item are for allocation to county offices of education for the purposes of site visits pursuant to Sections 1240 and 52056 of the Education Code, and for verification of the completion of Emergency Repair Program projects. Up to \$1,500,000 may be used to provide funding to county offices of education for the oversight activities required pursuant to subparagraph (E) of paragraph (2) of subdivision (c) of Education Code Section 1240. The Governor proposes the following language changes:</i></p>		

Issue 11 - State Relocatable Classroom Facility Program

Item	Issue	Description	Staff Recommendation	BBL/T
Control Section 24.30	May Revise. State Relocatable Classroom Program - General Fund Savings. State Operations. General Fund. (Issue 050)	<p>The Governor requests that Budget Control Section 24.30 be added to transfer sale and lease proceeds from the State Relocatable Classroom Program to the General Fund for the purpose of achieving General Fund Savings in 2008-09. The Office of Public School Construction has recently estimated that \$16.6 million in excess revenues from the program is currently available.</p> <p>The State Relocatable Classroom Program, which is administered by the State Allocation Board, is being phased out. The State Allocation Board voted on May 28th to approve the transfer of \$16.6 million in savings from the program to the state General Fund.</p>	<p>AAB</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	
		<p><i>SEC. 24.30. Notwithstanding any other provision of law, the Controller, upon order of the Director of Finance, shall transfer sale and lease revenues received pursuant to Section 17089 and Section 17089.2 of the Education Code, in an amount determined by the Department of Finance, from the State School Building Aid Fund to the General Fund.</i></p>		

Issue 12 - Control Section 12.40 - Categorical Program Transfers

Item	Issue	Description	Staff Recommendation	BBL/T
Control Section 24.40	April Letter. Control Section 12.40 - Categorical Flexibility. Local Assistance. General Fund (Prop - 98). (Issue 403)	<p>The Governor requests that language in this item be amended to allow LEAs to transfer up to 50 percent out of, and 55 percent into, a specific list of categorical programs. (The Governor's January Budget inadvertently proposed transfer of up to 60 percent out and 65 percent into categorical programs.)</p> <p>As authorized in the 2007-08 Budget Act, Control Section authorizes LEAs to transfer up to 10 percent out and 15 percent into a list of ten categorical programs. The 2007-08 budget also authorizes transfers "in" for two additional programs - Economic Impact Aid and Foster Youth Services - but prohibits transfers out of these programs.</p> <p>The Governor's proposal would allow a five fold increase to current law, which is intended to provide LEAs with increased administrative flexibility as a result of proposed budget reductions.</p>	<p>Reject the Governor's proposal and maintain transfer rates contained in 2007-08 budget. In addition, amend language to prohibit any transfers out of the Child Nutrition program.</p> <p>Action: Approve Staff Recommendation Vote: 2-1.</p>	

Issue 13 - Various Technical Adjustments (Consent)

Item	Issue	Description	Staff Recommendation	BBL/T
6110-198-0001	CDE Proposal. California School Age Families Education Program (CALSAFE) - Budget Schedule Adjustments. Local Assistance. Federal Funds.	CDE proposes to shift funds within the CALSAFE budget item to better align appropriations with program expenditures, as follows: <i>Academic & Support Services.....\$18.8 million</i> <i>Services for Non-Converting Pregnant Minors.....\$12.4 million</i> <i>Child Care..... \$23.1 million</i>	Approve CDE Technical Adjustment. Action: Approve Staff Recommendation Vote: 3-0.	
6110-492	CDE Proposal. Reappropriation of Native American Curriculum Review Funds. State Operations. General Fund.	CDE is requesting the following language be added to item 6110-492: (2) \$50,000 from Item 6110-001-0001 of the Budget Act of 2006 (Chs. 47 and 48, Stats. 2006) is reappropriated to the State Department of Education for supporting the Curriculum Development and Supplemental Materials Commission and the State Board of Education for the purpose of reviewing the standards-based Native American instructional resources developed pursuant to Section 13041 of the Education Code.	Approve Reappropriation Language. Action: Approve Staff Recommendation Vote: 3-0.	

6110-001-0687	CDE Proposal. Funding Authority for Federal Claims Reimbursements for the Westland/Hallmark Beef Recall. State Operations. Federal Funds.	CDE requests budget authority in 2008-09 for \$3.3 million in anticipated federal claims funds from the United State Department of Agriculture (USDA) for the purpose of reimbursing local educational agencies, processors, and distributors for disposal costs associated with the Westland/Hallmark beef recall. USDA instituted a recall of Westland/Hallmark Meat Packing Company beef in February 2008. The USDA issued specific disposal procedures to LEAs, processors, and distributors and indicated its intent to reimburse all entities for disposal of Westland/Hallmark products produced between February 2006 and February 2008. CDE will distribute reimbursement funds through the state Donated Food Distribution Program. Once USDA approves the final claims, CDE will have a relatively short timeframe (perhaps as little as 30 days) to disburse funds to LEAs, processors, and distributors	Approve CDE Technical Adjustment. Action: Approve Staff Recommendation Vote: 3-0.	
6110-201-0890	CDE Proposal. Funding Authority for Federal Fruit and Vegetable Program. Local Assistance. Federal Funds.	CDE requests local assistance budget authority for \$250,000 in federal funds for the United States Department of Agriculture's (USDA) Fresh Fruit and Vegetable Program in 2008-09. The Fresh Fruit and Vegetable Program was initiated by USDA as a pilot program with four states and one Indian Tribal Organization, in an effort to combat childhood obesity by helping children have access to fruit and vegetables and learn more healthy eating habits.	Approve CDE Technical Adjustment. Action: Approve Staff Recommendation Vote: 3-0.	

6110-166-0890	<p>April Letter Revision. Carl Perkins Vocational and Technical Education Program - Funding Adjustment. Local Assistance. Federal Funds.</p>	<p>Increase base federal funding authority for this item by \$2,413,000 to reflect more updated estimates of available Carl D. Perkins Vocational and Technical Education funding subsequent to the Governor's April 1 Finance Letter adjustment previously approved by the Subcommittee.</p> <p>Add the following provisional language to conform to this adjustment:</p>	<p>Approve DOF technical adjustment to April Letter.</p> <p>Action: Approve Staff Recommendation Vote: 3-0.</p>	
		<p><i>X. The funds appropriated in this item include a one-time carryover of \$9,349,000 that is available during the 2008-09 academic year for the support of additional vocational education institutional activities. The first funding priority shall be to support curriculum development and articulation of K-12 technical preparation programs with local community college economic development and vocational education programs to increase the participation of K-12 students in sequenced, industry-driven coursework that leads to meaningful employment in today's high-tech, high-demand, and emerging technology areas of industry employment.</i></p>		

Issue 14 - Office of the Secretary for Education

Item	Issue	Description	Staff Recommendation	BBL/T
0558-001-0001 0650-011-0001	January Budget. Budget Balancing Reductions. State Operations. General Fund (Non-98)	<p>The Governor proposes a \$351,000 decrease to the OSE General Fund budget as a part of his Budget Balancing Reductions for all state agencies. This provides a ten percent, unallocated reduction to OSE.</p> <p>Given the state budget shortfall, the Legislature could also consider elimination of OSE. The office does not administer education program nor does it provide direct program, policy, or budget oversight to other state education departments or agencies. OSE has never been established statutorily. Total elimination of OSE would generate approximately \$2.1 million in General Fund savings. In implementing this option, the Subcommittee could consider phasing out OSE over a four year period. Alternatively, the Legislature could consider reducing direct funding to OSE of approximately \$1.0 million and retaining \$1.0 million in remaining funding for the Office of Planning and Research for education policy.</p>	<p>Provide a 25 percent reduction to the OSE budget with full elimination achieved in 2011-12.</p> <p>Action: Approve Staff Recommendation Vote: 2-1.</p>	

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Denise Moreno Ducheny
Member, Bob Margett
Member, Gloria Romero

Wednesday, June 4, 2008
9:30 a.m.
Room 3191, State Capitol
Child Development Agenda – Part B

<u>Item</u>	<u>Department/Issue</u>	<u>Page</u>
6110-196-0001	California Department of Education – Child Development	
	Consent Agenda	Page 1
	Adjustment of Regional Market Rates	Page 2
	Family Fee Schedule	Page 3
	Caseload Adjustments Stage 2 and Stage 3	Page 4
	Various Changes included in the Governor’s Budget	Page 5
	Proposition 49 After School Education and Safety Program	Page 6
Attachment	Trailer Bill and Budget Bill Language	

6110 California Department of Education – Child Development

Program Description	Comments
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CONSENT

6110-196-0001 California Department of Education – Child Development

6110-196-0890; 6110-602-0001; 6110-696-0001; 6110-488; 6110-494

1. May Revision – PARI\$ System, State Operations. (Issue 002)	Approve May Revision
2. May Revision – Eliminate Stage 2 Child Care Reserve (Issue 376)	Approve May Revision
3. May Revision –Reflect availability of one-time funds (Issues 379 and 385)	Approve May Revision
4. May Revision –Reflect availability of one-time federal funds (Issue 384)	Approve May Revision
5. May Revision –Reappropriate various unexpended funds for child care (Issues 755, 383 and 386)	Approve May Revision

6110 California Department of Education – Child Development

Program Description	Comments
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6110-196-0001 California Department of Education – Child Development

<p>May Revision Issue (374) – Adjustment of Regional Market Rates</p> <p>The May Revision proposal:</p> <ul style="list-style-type: none">(1) Delays child care provider rate increases until January 1, 2009;(2) Caps rates at the 75th percentile of market rates (current law sets caps rates at the 85th percentile);(3) Limits the Regional Market Rate survey to being conducted every two years (rather than annually, as required by current statute);(4) Deletes current statute requiring the California Department of Education to implement regional market rates based on data compiled at the county level rather than aggregated at some other regional level (i.e., zip code level).	<p><u>Staff Recommendation:</u></p> <ul style="list-style-type: none">(1) Adopt Legislative Change to May Revision Letter to further delay implementation of rate increases to March 1, 2009;(2) Deny May Revision proposal to cap reimbursement rates at the 75th percentile of market rates;(3) Approve May Revision proposal to limit RMR survey to every two years; and(4) Deny May Revision proposal to eliminate current statute which outlines how Regional Market Rate data is aggregated.(5) Conform BBL and TBL to reflect actions (conforming to Assembly)(6) Conform action to Item 5180, as necessary.
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6110 California Department of Education – Child Development

Program Description	Comments
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6110-196-0001 California Department of Education – Child Development

<p>May Revision Issue (378) – Family Fee Schedule</p> <p>The May Revision proposal:</p> <p>(1) Adjusts the level at which families start paying fees for child care services from current 40 percent of State Median Income (SMI) to 39.3 percent.</p> <p>(2) Is effectuated by the adoptions of Budget Bill Language requiring the California Department of Education to adjust its family fee schedule to ensure that the starting point at which families began paying fees in 2006-07 is the same level at which fees will be assessed in the future.</p> <p>(3) Includes other provisional language requiring that the fee schedule be based upon the current state median income and that specifies that fees be charged for families that are newly eligible (in the current year) at the higher income levels.</p>	<p><u>Staff Recommendation:</u></p> <p>(1) Deny May Revision proposal to reduce threshold at which fees are charged and retain fee threshold at 40 percent of the SMI.</p> <p>(2) Adopt provisional and Trailer Bill language to conform to legislative action, per attached.</p> <p>(3) Conform actions to Item 5180, as necessary.</p>
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6110 California Department of Education – Child Development

Program Description	Comments
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6110-196-0001 California Department of Education – Child Development

6110-602-0001; 6110-488

<p>May Revision Issues (382 and 386) – Caseload Adjustments Stage 2 and Stage 3</p> <p>The May Revision provides an additional \$19.97 million to account for increased cost of care in the CalWORKs Child Care program.</p>	<p><u>Staff Recommendation:</u></p> <p>Adopt May Revision, with Legislative Change to augment by \$16.4 million for Stage 2 Child Care services, per Proposition 98 package.</p>
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6110 California Department of Education – Child Development

Program Description	Comments
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6110-196-0001 California Department of Education – Child Development

6110-196-0890

<p>Governor's Budget – Various Changes included in the Governor's Budget <i>Governor's Budget:</i></p> <p>(1) Reduced all non-CalWORKs based child care and development programs, as well as Child Care Quality and supportive services programs (BBRs), by approximately 6.4 percent;</p> <p>(2) Omits funding for Cost-of-Living-Adjustments (COLA)</p> <p>(3) Freezes the income threshold (SMI) above which families are not eligible to participate in state-subsidized child care and development programs;</p> <p>(4) Reduces the maximum amount provided to Alternative Payment programs for administrative and support services from 20 percent of the contract amount to approximately 19 percent.</p>	<p><u>Staff Recommendation:</u></p> <p>(1) Deny BBR's, per Proposition 98 Package.</p> <p>(2) Provide partial COLA, per Proposition 98 Package</p> <p>(3) Approve SMI freeze, as Budgeted</p> <p>(4) Adopt Alternative Trailer Bill Language to ensure providers receive their administrative and supportive services allowance "upfront" rather than throughout the year, per attached.</p> <p>(5) Adopt revised child care "quality" provisional language, per attached.</p>
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6110 California Department of Education – Child Development

Program Description	Comments
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6110-600-0001 California Department of Education – After School Program

<p>Governor's Budget – Proposition 49 Proposal</p> <p>The Administration proposes statutory (Trailer Bill) language, which would be placed on the ballot, to reduce the amount of funding available for After School (Proposition 49) programs in those years when the minimum funding guarantee for K-12 education (Proposition 98) is also suspended. In anticipation that this measure passing, the Administration "scores" \$59.6million in Proposition 98 savings.</p>	<p><u>Staff Recommendation:</u></p> <p>(1) Approve as Budgeted, Proposition 49 savings derived from Administration's proposal to the suspension of Proposition 49.</p> <p>(2) Adopt <i>alternative</i> Trailer Bill Language, allowing for the suspension of Proposition 49, contingent upon funding levels in Proposition 98 being driven by "Test 3" rather than the Administration's original proposal (per attached.)</p>
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Child Development
(Item 6110-196-0001)

Child Care Quality Expenditure Plan

Add Provision X. When developing the 2008-09 expenditure plan for proposed state and local activities to improve child care, the State Department of Education (SDE), shall follow these three principles: (1) Preserve funding for activities that provide direct services and supports to families; (2) Preserve funding for activities that provide direct services and supports to child care providers and teachers; (3) Comply with federal mandates including quality earmarks and set-asides.

Regional Market Rates

1. Amend Provision 2 as follows:

(b) Notwithstanding any other provision of law, the funds appropriated in this item for the cost of licensed child care services provided through alternative payment or voucher programs including those provided under Article 3 (commencing with Section 8220) and Article 15.5 (commencing with Section 8350) of Chapter 2 of Part 6 of the Education Code shall be used only to reimburse child care costs up to the ~~85th~~ ~~75th~~ **85th** percentile of the rates charged by providers offering the same type of child care for the same age child in that region effective **January March 1, 2009**, based on the 2007 Regional Market Rate Survey data. The Department of Education shall cause to be developed rate limits at the **75th 85th** percentile, based on the 2007 survey data, and submit for approval in accordance with law to the Department of Finance no later than October 1, 2008, to enable the rate limits to be reviewed and then implemented by **January March 1, 2009**. The Department of Education may redirect funding from funds normally reserved for new surveys to achieve this goal, as necessary.

2. Education Code Section 8357 is amended to read:

8357. (a) The cost of child care services provided under this article shall be governed by regional market rates. Recipients of child care services provided pursuant to this article shall be allowed to choose the child care services of licensed child care providers or child care providers who are, by law, not required to be licensed, and the cost of that child care shall be reimbursed by counties or agencies that contract with the State Department of Education if the cost is within

the regional market rate. For purposes of this section, "regional market rate" means care costing no more than 1.5 market standard deviations above the mean cost of care for that region. Beginning ~~January~~ **March** 1, 2009, child care costs shall not be reimbursed in excess of the ~~75th~~ **85th** percentile for that region. For the 2008-09 and 2009-10 fiscal years, the ~~75th~~ **85th** percentile limits shall be based on the data collected in the 2007 regional market rate survey for that region.

3. Education Code Section 8447 is amended to read.

(a) The Legislature hereby finds and declares that greater efficiencies may be achieved in the execution of state subsidized child care and development program contracts with public and private agencies by the timely approval of contract provisions by the Department of Finance, the Department of General Services, and the State Department of Education and by authorizing the State Department of Education to establish a multiyear application, contract expenditure, and service review as may be necessary to provide timely service while preserving audit and oversight functions to protect the public welfare.

(b) (1) The Department of Finance and the Department of General Services shall approve or disapprove annual contract funding terms and conditions, including both family fee schedules and regional market rate schedules that are required to be adhered to by contract, and contract face sheets submitted by the State Department of Education not more than 30 working days from the date of submission, unless unresolved conflicts remain between the Department of Finance, the State Department of Education, and the Department of General Services. The State Department of Education shall resolve conflicts within an additional 30 working day time period. Contracts and funding terms and conditions shall be issued to child care contractors no later than June 1. Applications for new child care funding shall be issued not more than 45 working days after the effective date of authorized new allocations of child care moneys.

~~—(2) Notwithstanding paragraph (1), for the 2006-07 fiscal year, the State Department of Education shall implement the regional market rate schedules based upon the county aggregates, as determined by the Regional Market survey conducted in 2005.~~

(2) Notwithstanding paragraph (1), for the 2008-09 fiscal year, the State Department of Education shall implement the regional market rate schedules based upon the county aggregates, as determined by the Regional Market survey conducted in 2007. The regional market rate schedules shall be implemented no later than 90 days after the enactment of the 2006 Budget Act.

~~—(2) (3)~~ **(3) Notwithstanding paragraph (1), for the 2006-07 fiscal year, the State Department of Education shall update the family fee schedules by family size,**

based on the 2005 state median income survey data for a family of four. The family fee schedule used during the 2005-06 fiscal year shall remain in effect. However, the department shall adjust the family fee schedule for families that are newly eligible to receive or will continue to receive services under the new income eligibility limits. The family fees shall not exceed 10 percent of the family's monthly income.

~~—(3)—(4)~~ It is the intent of the Legislature to fully fund the third stage of child care for **former** CalWORKs recipients.

Assessment of Family Fees

1. Amend Provision 9 as follows:

(a) Notwithstanding any other provision of law, the income eligibility limits pursuant to subdivision (a) of Section 8263.1 of the Education Code ~~used in that were applicable to~~ the 2007-08 fiscal year, shall remain in effect for the 2008-09 fiscal year.

(b) Notwithstanding any other provision of law, the State Department of Education (SDE) shall update the 2006-07 family fee schedule by family size for use in the 2008-09 fiscal year, based on the state median income of \$66,166 for a family of four, in accordance with law. The department shall ensure fees are not charged for to families that are newly eligible at higher income eligibility levels and that the start point for payment of fees begins at the same dollar income levels as specified in the 2006-07 family fee schedule with incomes lower than 40% of state median income. The SDE shall implement the revised fee schedule as soon as is practicable, contingent upon approval by the Department of Finance in accordance with law.

2. Amend Education Code Section 8447 (g) as follows:

Notwithstanding any other provision of law, no family eligible for an amount of CalWORKs cash aid may be charged a family fee or other contribution to the cost of subsidized child care.

Alternative Payment Provider Administrative and Supportive Services Rate

Amend Education Code 8223 as follows:

The reimbursement for alternative payment programs shall include the cost of child care paid to child care providers plus the administrative and support services costs

of the alternative payment program. The total cost for administration and support services shall not exceed an amount equal to ~~23.4567~~ 19 percent of the ~~direct cost of care payments to child care providers~~ *total contract amount*. The administrative costs shall not exceed the costs allowable for administration under federal requirements.

Trailer Bill Language – Proposition 49 Suspension.

Add Section X to Education Code Section X. Notwithstanding Section 8483.5 (b) of the California Education Code, in any fiscal year identified as a Test 3 year for purposes of calculating Proposition 98, as defined by Article 16, Section 8 (3) of the California Constitution, the Legislature may appropriate an amount it deems appropriate to the State Department of Education from the General Fund for the After School Education and Safety Program.

Add Section X to Education Code Section X. The Secretary of State shall submit Section 1 of this act to the voters at the November 4, 2008, statewide general election.

6110 California Department of Education – Child Development

Program Description	Comments
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CONSENT

6110-196-0001 California Department of Education – Child Development

6110-196-0890; 6110-602-0001; 6110-696-0001; 6110-488; 6110-494

1. May Revision – PARI\$ System, State Operations. (Issue 002)	Approved May Revision (3-0)
2. May Revision – Eliminate Stage 2 Child Care Reserve (Issue 376)	Approved May Revision (3-0)
3. May Revision –Reflect availability of one-time funds (Issues 379 and 385)	Approved May Revision (3-0)
4. May Revision –Reflect availability of one-time federal funds (Issue 384)	Approved May Revision (3-0)
5. May Revision –Reappropriate various unexpended funds for child care (Issues 755, 383 and 386)	Approved May Revision (3-0)

6110 California Department of Education – Child Development

Program Description	Comments
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6110-196-0001 California Department of Education – Child Development

<p>May Revision Issue (374) – Adjustment of Regional Market Rates</p> <p>The May Revision proposal:</p> <ul style="list-style-type: none">(1) Delays child care provider rate increases until January 1, 2009;(2) Caps rates at the 75th percentile of market rates (current law sets caps rates at the 85th percentile);(3) Limits the Regional Market Rate survey to being conducted every two years (rather than annually, as required by current statute);(4) Deletes current statute requiring the California Department of Education to implement regional market rates based on data compiled at the county level rather than aggregated at some other regional level (i.e., zip code level).	<p>All Actions Approved:</p> <ul style="list-style-type: none">(1) Adopt Legislative Change to May Revision Letter to further delay implementation of rate increases to March 1, 2009; (3-0)(2) Deny May Revision proposal to cap reimbursement rates at the 75th percentile of market rates; (2-1)(3) Approve May Revision proposal to limit RMR survey to every two years; (3-0)(4) Deny May Revision proposal to eliminate current statute which outlines how Regional Market Rate data is aggregated. (2-1)(5) Conform BBL and TBL to reflect actions (conforming to Assembly) (2-1)(6) Conform action to Item 5180, as necessary. (2-1)
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6110 California Department of Education – Child Development

Program Description	Comments
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6110-196-0001 California Department of Education – Child Development

<p>May Revision Issue (378) – Family Fee Schedule</p> <p>The May Revision proposal:</p> <p>(1) Adjusts the level at which families start paying fees for child care services from current 40 percent of State Median Income (SMI) to 39.3 percent.</p> <p>(2) Is effectuated by the adoptions of Budget Bill Language requiring the California Department of Education to adjust its family fee schedule to ensure that the starting point at which families began paying fees in 2006-07 is the same level at which fees will be assessed in the future.</p> <p>(3) Includes other provisional language requiring that the fee schedule be based upon the current state median income and that specifies that fees be charged for families that are newly eligible (in the current year) at the higher income levels.</p>	<p><u>Staff Recommendation:</u></p> <p>(1) Deny May Revision proposal to reduce threshold at which fees are charged and retain fee threshold at 40 percent of the SMI. Approved (2-1)</p> <p>(2) Adopt provisional and Trailer Bill language to conform to legislative action, per attached. Approved (2-1)</p> <p>(3) Conform actions to Item 5180, as necessary. Approved (2-1)</p>
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6110 California Department of Education – Child Development

Program Description	Comments
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6110-196-0001 California Department of Education – Child Development

6110-602-0001; 6110-488

<p>May Revision Issues (382 and 386) – Caseload Adjustments Stage 2 and Stage 3</p> <p>The May Revision provides an additional \$19.97 million to account for increased cost of care in the CalWORKs Child Care program.</p>	<p><u>Staff Recommendation:</u></p> <p>Adopt May Revision, with Legislative Change to augment by \$16.4 million for Stage 2 Child Care services, per Proposition 98 package. Approved (2-1)</p>
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6110 California Department of Education – Child Development

Program Description	Comments
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6110-196-0001 California Department of Education – Child Development

6110-196-0890

<p>Governor's Budget – Various Changes included in the Governor's Budget <i>Governor's Budget:</i></p> <p>(1) Reduced all non-CalWORKs based child care and development programs, as well as Child Care Quality and supportive services programs (BBRs), by approximately 6.4 percent;</p> <p>(2) Omits funding for Cost-of-Living-Adjustments (COLA)</p> <p>(3) Freezes the income threshold (SMI) above which families are not eligible to participate in state-subsidized child care and development programs;</p> <p>(4) Reduces the maximum amount provided to Alternative Payment programs for administrative and support services from 20 percent of the contract amount to approximately 19 percent.</p>	<p><u>Staff Recommendation:</u> All Approved (2-1)</p> <p>(1) Deny BBR's, per Proposition 98 Package.</p> <p>(2) Provide partial COLA, per Proposition 98 Package</p> <p>(3) Approve SMI freeze, as Budgeted</p> <p>(4) Adopt Alternative Trailer Bill Language to ensure providers receive their administrative and supportive services allowance "upfront" rather than throughout the year, per attached.</p> <p>(5) Adopt revised child care "quality" provisional language, per attached.</p>
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6110 California Department of Education – Child Development

Program Description	Comments
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6110-600-0001 California Department of Education – After School Program

<p>Governor's Budget – Proposition 49 Proposal</p> <p>The Administration proposes statutory (Trailer Bill) language, which would be placed on the ballot, to reduce the amount of funding available for After School (Proposition 49) programs in those years when the minimum funding guarantee for K-12 education (Proposition 98) is also suspended. In anticipation that this measure passing, the Administration "scores" \$59.6million in Proposition 98 savings.</p>	<p><u>Staff Recommendation:</u> <i>Approved (3-0)</i></p> <p>(1) Approve as Budgeted, Proposition 49 savings derived from Administration's proposal to the suspension of Proposition 49.</p> <p>(2) Adopt <i>alternative</i> Trailer Bill Language, allowing for the suspension of Proposition 49, contingent upon funding levels in Proposition 98 being driven by "Test 3" rather than the Administration's original proposal (per attached.)</p>
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~~but not be limited to, the numbers percentages of institutions and school districts that have signed agreements with Cal PASS, the number and percentage that have actively submitted data to Cal PASS in the current year, and the results of an annual financial audit as prescribed by the chancellor that includes an accounting of all funding sources of Cal PASS and all uses of funds by funding source.~~

~~(e) The chancellor shall submit an annual report detailing the scope of program activities undertaken by the Telecommunications and Technology Services Program to the Legislative Analyst, the Office of the Secretary for Education, and the Department of Finance not later than December 1 of each year. This report shall include a disclosure of expenditures by program and by district. As a condition of receiving Telecommunications and Technology funds, districts shall furnish any data required by the chancellor for the compilation of this report.~~

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Denise Moreno Ducheny
Member, Bob Margett
Member, Gloria Romero

Outcomes

Wednesday, June 4, 2008

9:30 a.m.

Room 3191, State Capitol
Higher Education Agenda – Part C

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6440-001-0001	University of California	Page 2
6600-001-0001	Hastings College of the Law	Page 3
6610-001-0001	California State University	Page 4
6870-001-0001	California Community Colleges -	
	• Consent	Page 5
	• State Operations	Page 6
	• “Green” Career Technical Education	Page 7
	• Local Assistance	Page 8
	• Current-Year Property Tax Shortfall	Page 9
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7980-101-0001	California Student Aid Commission -	
	Cal-SOAP	Page 11
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6420

California Postsecondary Education Commission

Program Description	Comments
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6420-001-0001 California Postsecondary Education Commission

<p>Governor's Budget – Budget Balancing Reductions for State Operations</p> <p>Governor's Budget proposes a \$200,000 or 9.2 percent reduction in CPEC operations compared to the amount budgeted for the current year.</p> <p>Provisional language proposed by the Administration would choose the following three CPEC statutory functions and grant those activities "priority" in light of the proposed budget reductions:</p> <ul style="list-style-type: none"> (1) Conducting all review and recommendations of need for new institutions of higher education; (2) Conducting all review and recommendation of the need for new academic programs within the public higher education segments; and (3) Serving as the designated state educational agency to carry out federal educational programs, as required in statute. <p>Staff notes that when queried about its position on setting these "priorities" CPEC expressed its intent to carry out <u>all</u> of its statutory requirements, regardless of the funding level appropriated. This response raised several fiscal and policy questions: If CPEC can accomplish all of its statutory requirements at <i>this</i> reduced level of funding, can they continue to accomplish those priorities when reduced 25 percent or 50 percent? Has the state been chronically "over-funding" CPEC? Further, if the Legislature and Governor value the above-noted <i>three</i> priorities, is the existence of an entire state agency justified to accomplish those three tasks.</p>	<p><u>Staff Recommendation:</u> Approved (3-0)</p> <p>(1) Reduce funding for CPEC beyond level proposed by Governor, for total reduction of 25 percent or \$557,000.</p> <p>(2) Adopt provisional language stating intent of Legislature to "phase-out" CPEC's General Fund operations by June 30, 2011.</p> <p>(3) Eliminate proposed Budget Bill language outlining CPEC priorities. Determination of CPEC's functions is more appropriately a discussion for the policy committee process.</p>
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6440 University of California

Program Description	Comments
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6440-001-0001 University of California

<p>May Revision Issue (360) – Partially Restore Unallocated Reduction</p> <p>(1) May Revision proposes to partially restore the unallocated reduction proposed by the Administration in January by \$98.6 million. This level of funding is designed to hold General Fund support for UC at the amount provided in the current year.</p> <p>(2) LAO recommends that the Legislature deny the May Revision and instead provide the UC with a lesser augmentation to cover nondiscretionary cost increases -- \$17.9 million versus the Administration's proposed \$98.6 million.</p> <p>(3) The Administration deletes all pro-forma monetary "set-asides" previously contained in the provisional language of the UC's budget item.</p>	<p><u>Staff Recommendation:</u></p> <p>Approved (2-1); Please note, Reduction to Subject Matter Projects of \$2.1 million to conform to K-12 Title II issue. Funding of a like amount to be provided with one-time federal Title II dollars.</p> <p>(1) Approve May Revision Letter;</p> <p>(2) Adopt revised Budget Bill Language outlining Legislative Priorities, per attached.</p>
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6600

Hastings College of the Law

Program Description	Comments
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Governor's Budget – Budget Balancing Reductions

The Governor's Budget proposes a \$1.1 million reduction from the workload budget Hastings College of Law would have received had the provisions of the Compact with Higher Education been in effect.

Year-to-year, this reduction equates to a loss of \$516,000 or approximately 5 percent.

While the Compact does not explicitly apply to Hastings, the Administration and the Legislature have traditionally afforded the same funding provisions applied to UC and CSU to Hastings College of the Law.

Given the unique challenges of the being a small, single-subject, stand-alone college, staff notes that the Compact provisions have not always suited the unique needs of Hastings. As an example, Hastings has never benefited from the enrollment growth provisions of the Compact nor is it afforded the economies of scale necessities to help it withstand tight budget years.

Staff Recommendation:

Approved (2-1); Note, DOF to shift \$200,000 from CSU main support item to 6610-002-0001 to bring funding to current year levels for Center for California Studies.

(1) Deny Governor's Proposal and augment by \$516,000 to hold funding at current-year levels and partially backfill "unallocated" reduction.

6610 California State University

Program Description	Comments
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6610-001-0001 California State University

<p>May Revision Issue (361) – Partially Restore Unallocated Reduction</p> <p>May Revision proposes to partially restore the unallocated reduction proposed by the Administration in January by \$97.6 million. This level of funding is designed to hold General Fund support for CSU at the amount provided in the current year.</p> <p>LAO recommends that the Legislature deny the May Revision and instead provide the CSU with a lesser augmentation to cover nondiscretionary cost increases -- \$19.6 million versus the Administration's proposed \$97.6 million.</p> <p>The Administration deletes all pro-forma monetary "set-asides" previously contained in the provisional language of the CSU's budget item.</p>	<p>(1) Approved May Revision Letter;</p> <p>(2) Adopted revised Budget Bill Language outlining Legislative Priorities, per attached.</p> <p>Note, DOF will shift \$200,000 of funding attributed to the Center for California Studies to Item 6610-002-0001 from CSU's main support item.</p>
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6870 California Community Colleges

Program Description	Comments
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CONSENT

6870-101-0001 California Community Colleges

6870-111-0001

6870-601-0992

<ol style="list-style-type: none">1. May Revision – Increase Foster Care Education Funding (Issue 704)2. May Revision – Adjust Local Student Fee Revenue (Issue 709)3. May Revision – Increase Board Financial Aid Program Adjustments (Issue 710)4. May Revision – Increase Oil and Mineral Revenues (Issue 712)5. Spring Revision - Adjust in Federal Funds for Vocational Education (Per DOF)6. Telecommunications and Technology Programs – Revised Provisional Language7. May Revision –Reimbursements for New CDCR Training Program (Issue 713)8. May Revision – Increase Staff for New CDCR Training Program (Issue 714)	<p><u>Staff Recommendation:</u></p> <ol style="list-style-type: none">1. Approved May Revision (2-1)2. Approved May Revision (2-1)3. Approved May Revision (2-1)4. Approved May Revision (2-1)5. Approved Technical Adjust (2-1)6. Approved language, per attached (2-1)7. Approved May Revision (2-1)8. Approved May Revision (2-1)
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6870 California Community Colleges

Program Description	Comments
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6870-001-0001 California Community Colleges

<p>Community College Chancellor's Office - State Operations</p> <p>Governor's Budget proposed \$1 million reduction in state operations at the California Community Colleges Chancellor's Office (11 percent reduction). Since 2001-02, this office has been reduced by 33 percent and approximately 90 positions, but yet still holds the same if not greater responsibilities for administering statewide community college programs. The Legislative Analyst has expressed concern that the Chancellor's office budget proposed by the Governor would leave the office with insufficient resources to perform its responsibilities and recommends a lesser \$200,000 reduction.</p>	<p><u>Staff Recommendation:</u></p> <p>Approved (2-1)</p> <p>Adopt LAO recommendation and restore \$800,000 and associated positions. (Conforms to Assembly Action.)</p>
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6870 California Community Colleges

Program Description	Comments
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6870-111-0001 California Community Colleges: Statutory Appropriation

<p>New Issue – Placeholder Trailer Bill Appropriation for Career Technical Education: Green Technology</p> <p>Direct funds available under various energy-related research programs for Career Technical Education opportunities in environmental technologies. Specifically focus dollars on building partnerships among high schools and California's clean technology businesses in order to provide a skilled workforce for such industries as: energy and water conservation; renewable energy; pollution reduction; and other technologies that improve California's environment, in furtherance of state environmental laws.</p>	<p><u>Staff Recommendation:</u></p> <p>Approved (2-1)</p> <p>(1) Appropriate \$12.5 million from the Public Interest Research, Development Demonstration Fund (Fund 0381);</p> <p>(2) Appropriate \$12.5 million from the Alternative and Renewable Fuel and Vehicle Technology Fund (Fund 3117);</p> <p>(3) Adopt Placeholder Trailer Bill Language designating that funds be used for: (a) community college's Career Technical Education initiative, directing the funds to California Partnership Academies; (b) state operations at both the CCC's and CDE; and (c) appropriate professional development activities.</p>
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6870 California Community Colleges

Program Description	Comments
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6870-101-0001 California Community Colleges: Local Assistance

<p>1. Governor's Budget - 10 percent Across-the-Board Reductions to Community College programs.</p> <p>Governor's Budget reduces all community college categorical programs by approximately 10.9 percent (from the amount provided in the current year), pursuant to the Administration's Budget Balancing Reductions.</p>	<p><u>Staff Recommendation:</u> Approved (2-1)</p> <p>Deny Governor's Budget Balancing Reductions, <i>per Proposition 98 package.</i></p>
<p>2. Governor's Budget - COLA</p> <p>Governor's Budget fails to provide Cost-of-Living Adjustments for either Apportionments or select Categorical Programs.</p>	<p><u>Staff Recommendation:</u> Approved (2-1)</p> <p>Deny Governor's proposal, adopt partial COLA, <i>per Proposition 98 package.</i></p>
<p>3. May Revision – Enrollment Growth (Issue 715)</p> <p>May Revision provides an additional \$35.4 million (for a total of \$95.6 million) to fund 1.67 percent enrollment growth at the Community Colleges. The LAO recommends augmenting by \$2.2 million to provide growth equivalent to 1.7 percent. The community colleges estimate 2008-09 enrollment growth to be approximately 3 percent.</p>	<p><u>Staff Recommendation:</u> Approved (2-1)</p> <p>Approve May Revision and augment by \$18 million to provide funding for 2 percent growth, <i>per Proposition. 98 package.</i></p>

6870 California Community Colleges

Program Description	Comments
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6870-602-0001 California Community Colleges

6870-488

6870-492

<p>May Revision (Issues 705) – Partially Reimburse Colleges for Current-Year Property Tax Shortfall.</p> <p>May Revision reappropriates \$68.9 million in unspent funds from (1) prior year community college enrollment growth and (2) the After School Education and Safety Program (Proposition 49) to backfill the loss of property tax revenues to the community colleges in the current year. In addition, student fee revenues in excess of the amount budgeted in the current year (approximately \$5.9 million) will continue to be held by districts, bringing the total "backfill" amount to \$74.8 million.</p> <p>Community Colleges estimate that the loss of revenues from the budgeted amount will exceed \$90 million by the end of the fiscal year.</p>	<p><u>Staff Recommendation:</u></p> <p>Approved May Revision (3-0); Note, final property tax numbers subject to change during budget conference committee.</p>
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6870 California Community Colleges

Program Description	Comments
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6870-101-0001 California Community Colleges

<p>May Revision - Reduce Local Property Tax Revenues (Issue 711)</p> <p>May Revision assumes a decrease of \$138.7 million in property tax revenue for the community colleges as a result of changing statewide circumstances.</p>	<p><u>Staff Recommendation:</u></p> <p>Approved May Revision (3-0). Note, final property tax numbers subject to change during budget conference committee.</p>
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7980 Student Aid Commission

Program Description	Comments
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7980-101-0001 California Student Aid Commission

<p>April Letter - California Student Aid Commission, Cal-SOAP (Issue 046)</p> <p>Governor's April proposal shifts \$5.7 million of the California Student Opportunity and Access Program (Cal-SOAP) funding currently being provided by the General Fund to federal funds (derived from a new federal grant); augments that amount by \$1.6 million (using federal funds); and earmarks \$1.0 million of the new funds for outreach associated with Career Technical Education.</p> <p>Student Aid has expressed concerns with Cal-SOAP taking task of administering a new outreach program, and has instead expressed its preference that the Cash for College program be charged with these new activities.</p>	<p><u>Staff Recommendation:</u> Approved April Letter with the following Legislative Changes (Vote 2-1):</p> <p>(1) Allocate \$500,000 of the augmented funds to Cal-SOAP, consistent with its current statutory functions;</p> <p>(2) Allocate \$500,000 or the augmented funds to the Cash for College program (clarification: for existing statutory purposes).</p>
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7980 Student Aid Commission

Program Description	Comments
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7980-101-0001 California Student Aid Commission

<p>May Revision – Extension of EdFUND Sale Authority</p> <p>The Administration proposes to extend the provisions of current law, which authorize the sale of EdFUND, from January 10, 2009 to January 10, 2011.</p>	<p><u>Staff Recommendation:</u></p> <p>Approved May Revision (3-0).</p>
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University of California

Item 6440-001-0001

Add Provision X: Of the amount appropriated in Schedule (1), \$15 million shall be redirected from funds budgeted for compensation of administrators of the University of California, including administrators at the campuses and in the Office of the President, to support salary increases and a step pay system for low wage service employees.

~~Amend Provision 10. The Legislature expects the University of California to enroll a minimum of 198,455 state-supported FTES during the 2008-09 academic year, reflecting the budgeted state-supported FTES enrollment in 2007-08. This enrollment target does not include nonresident students and students enrolled in non-state-supported summer programs. The University of California shall report to the Legislature by March 15, 2009, on whether it has met the *its* 2008-09 enrollment goal. For purposes of this provision, enrollment totals shall only include state-supported students. If the University of California does not meet its state-supported enrollment goal by at least 250 FTES, the Director of Finance shall revert to the General Fund by April 1, 2009, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met.~~

Amend Provision 11. *Of the funds appropriated in Schedule (1), \$1,050,000 is to support 70 full-time equivalent students in the Program in Medical Education (PRIME) at the Irvine, Davis, San Diego, and San Francisco campuses. The primary purpose of this program is to train physicians specifically to serve in underrepresented communities.* The University of California shall report to the Legislature by March 15, 2009, on its progress in implementing the PRIME program and the use of the total funds provided for this program from both state and non-state resources.

Amend Provision 8. *Of the funds appropriated in Schedule (1), \$1,897,200 is for the California State Summer School for Math and Science (COSMOS).* The University of California shall report on the outcomes and effectiveness of COSMOS every five years, commencing April 1, 2011.

Provision X. Of the funds appropriated in Schedule (1), \$693,000 is for the Welfare Policy Research Project, pursuant to Article 9.7 (commencing with Section 11526) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions Code.

Provision X. Of the funds appropriated in Schedule (1), \$427,500 shall be expended for the Center for Earthquake Engineering Research, contingent upon the center continuing to receive federal matching funds from the National Science Foundation.

Provision X. Of the funds appropriated in Schedule (1), \$346,500 shall be expended for viticulture and enology research, contingent upon the receipt of an equal amount of private sector matching funds.

Provision X. Of the funds appropriated in Schedule (1), \$16,200,000 is for substance abuse research at the Department of Neurology at the University of California, San Francisco.

Provision X. Of the funds appropriated in Schedule (1), \$693,000 shall be used for lupus research at the University of California, San Francisco.

Provision X. Of the funds appropriated in Schedule (1), \$1,385,100 shall be used to expand spinal cord injury research.

Provision X. Of the funds appropriated in Schedule (1), \$3,463,000 is to fund the Medical Investigation of Neurodevelopment Disorders (MIND) Institute, including \$3,150,000 for a research grants program.

Provision X. Of the funds appropriated in Schedule (1), \$5,400,000 is to support research on labor and employment and labor education throughout the University of California system. Of these funds, 60 percent shall be for labor research and 40 percent shall be for labor education.

Amend Provision 14. *Of the funds appropriated in Schedule (1), \$19,300,000 is for student academic preparation and education programs (SAPEP) and is to be matched with \$12,000,000 from existing university resources, for a total of \$31,300,000 for these programs.* The University of California shall provide a plan to the Department of Finance and the fiscal committees of each house of the Legislature for expenditure of both state and university funds for student academic preparation and education programs (SAPEP) by September 1 of each year. *It is the intent of the Legislature that the university report on the use of state and university funds provided for these programs, including detailed information on the outcomes and effectiveness of academic preparation programs consistent with the accountability framework developed by the university in April 2005. The report shall be submitted to the fiscal committees of each house of the Legislature no later than April 1, 2009.*

Amend Provision 15. The amount appropriated in Schedule (1), reflects a ~~10-percent~~ reduction of \$32,300,000 to institutional support.

Add Provision X. It is the intent of the Legislature to treat the university's 2008-09 actual student enrollment and compensation costs as fully funded, with any budget augmentations in 2009-10 to apply to new workload costs only.

California State University

Item 6610-001-0001

Add Provision X. Of the amount appropriated in this item, \$33,785,000 is provided for student financial aid grants. These financial aid funds shall be provided to needy students according to the nationally accepted needs analysis methodology.

Add Provision X. Of the amount appropriated in Schedule (1), \$52,000,000 is appropriated for student academic preparation and student support services programs. The university shall provide \$45,000,000 to support the Early Academic Assessment Program and the Educational Opportunity Program. It is the intent of the Legislature that the university report on the outcomes and effectiveness of the Early Academic Assessment Program to the fiscal committees of each house of the Legislature no later than March 15, 2009.

~~Amend Provision 6. The Legislature expects the California State University to enroll a minimum of 342,893 state supported FTES during the 2008-09 academic year, equal to the budgeted state supported FTES enrollment for 2007-08. This enrollment target does not include nonresident students and students enrolled in non-state supported summer programs. The CSU shall provide a preliminary report to the Legislature by March 15, 2009, and a final report by May 1, 2009, on whether it has met the *its* 2008-09 enrollment goals. For purposes of this provision, enrollment totals shall only include state supported students. If CSU does not meet its state supported enrollment goal by at least 434 FTES, the Director of Finance shall revert to the General Fund by May 15, 2009, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met.~~

Amend Provision 8. The amount appropriated in Schedule (1) reflects a ~~10 percent~~ reduction of \$43,199,000 to institutional support.

Add Provision X. It is the intent of the Legislature to treat the university's 2008-09 actual student enrollment and compensation costs as fully funded, with any budget augmentations in 2009-10 to apply to new workload costs only.

California Community Colleges
(Item 6870-101-0001)

CCC TTIP Budget Bill Language

22. (a) ~~\$21,560,000~~ ~~9,222,000~~ of the funds provided in Schedule (15) for the Telecommunications and Technology Services Program shall be for the purpose of supporting technical and application innovations and for coordination of activities that serve to maximize the utility of the technology investments of the community college system towards improving learning outcomes. Allocations shall be made by the Chancellor of the California Community Colleges, based on criteria and guidelines as developed by the chancellor, on a competitive basis through the RFA/RFP application process for the following purposes as follows:

(1) Provision of access to statewide multimedia hosting and delivery services for system colleges and districts. ~~\$2,000,000, or as much as necessary, shall be available for a statewide digital uplink for the purpose of delivering statewide satellite services to system colleges and districts related to instruction, student support, and administration.~~

(2) ~~\$2,049,000 is for the development and implementation of a~~ Provision of systemwide internet, audio bridging and telephony capability of the 4C Net backbone to facilitate collaboration of faculty, students, and staff in instruction, student services, and shared governance activities.

(3) Technical assistance and planning, cooperative purchase agreements and faculty and staff development in a manner consistent with Provision 17 (b)(3) of Item 6870-101-001 of Section 2.00 of the Budget Act of 1996 (Ch.162,Stats. 1996). ~~The balance of funds shall be available for centers to provide regional coordination for technical assistance and planning, cooperative purchase agreements, and faculty and staff development. All other provisions as specified in Provision 17(b)(3) of Item 6870-101-0001 of Section 2.00 of the Budget Act of 1996 (Ch. 162, Stats. 1996) shall apply.~~ (4) Ongoing support for the California Virtual University distance Education program.

(5) Ongoing support for programs designed to use technology in assisting accreditation and the alignment of curricula across K-20 segments in California.

(6) Support for technology pilots and ongoing technology programs and applications that serve to maximize the utility and economy of scale of the technology investments of the community college system towards improving learning outcomes.

(b) ~~\$11,138,000 of~~ In addition, a portion of the funds provided in Schedule (15) shall be used for the purpose of available for making allocations from the Chancellor of the California Community Colleges for the allocations to districts. It is the intent of the Legislature that these funds to be used by colleges to maintain the technology capabilities specified in Provision 21(a) of Item 6870-101-0001 of the Budget Act of

2003 (Ch. 157, Stats. 2003). These funds shall not supplant existing funds used for those purposes, and colleges shall match maintenance and ongoing costs with other funds as provided by Provision 21(a) of Item 6870-101-0001 of the Budget Act of 2003 (Ch. 157, Stats.2003).

(c) The Office of the Chancellor shall develop the reporting criteria for all programs funded by this item and submit that for review along with an annual progress report on program implementation to the Legislative Analyst, Office of the Secretary for Education, and the Department of Finance no later than December 1 of each year. Reporting shall include summaries of allocations and expenditures by program and by District, where applicable.

~~— (c) Of the funds provided in Schedule (15), \$1,200,000 shall be available for grants to districts to fund California Virtual University distance education centers, for instructing faculty in teaching courses online, and other expenses for conversion of courses for distance education. The funds appropriated in this item shall not supplant existing funds and shall be subject to established fiscal controls, annual reporting, and accountability requirements specified by the chancellor. The chancellor shall develop criteria for the allocation of these funds. As a condition of receipt of the funds, colleges are required to submit to the Office of the Chancellor reports in a format specified by the chancellor sufficient to document the value and productivity of this program, including, but not limited to, numbers and nature of courses converted, and the amount of distance education instructional workload services provided as a result of these courses. It is intended that the Office of the Chancellor further develop the reporting criteria for participating colleges and submit that for review along with an annual progress report on program implementation to the Legislative Analyst, Office of the Secretary for Education, and the Department of Finance no later than November 1 of each year, for review and comment.~~

(d) Of the funds provided in Schedule (15), \$1,783,000 is for ongoing support and expansion of the California Partnership for Achieving Student Success Program (Cal-PASS). As a condition of receipt of these funds, the grantee Cal-PASS Program shall submit to the Office of the Chancellor, by October 15 of each year; 1) a report in a format specified by the chancellor that sufficiently documents the value and productivity of the program. The report shall that includes, the numbers and percentages of institutions and school districts that have signed agreements and the number and percentage that have actively submitted data in the current year; 2) the results of an annual program evaluation, as prescribed by the Chancellor, that sufficiently documents the value and productivity of the program; and 3) an annual financial audit, as prescribed by the Chancellor, that includes an accounting of all funding sources and all uses of funds by funding source. It is the intent of the Legislature that all reporting requirements contained in this paragraph shall be completed using funds provided to the grantee.

~~but not be limited to, the numbers percentages of institutions and school districts that have signed agreements with Cal PASS, the number and percentage that have actively submitted data to Cal PASS in the current year, and the results of an annual financial audit as prescribed by the chancellor that includes an accounting of all funding sources of Cal PASS and all uses of funds by funding source.~~

~~(e) The chancellor shall submit an annual report detailing the scope of program activities undertaken by the Telecommunications and Technology Services Program to the Legislative Analyst, the Office of the Secretary for Education, and the Department of Finance not later than December 1 of each year. This report shall include a disclosure of expenditures by program and by district. As a condition of receiving Telecommunications and Technology funds, districts shall furnish any data required by the chancellor for the compilation of this report.~~

June 4, 2008
Part D, Agenda
Prop 98

K-14 Proposition 98 Spending — Ongoing Funds			
	Governor	Sen Sub #1	Comments
2007-08 Special Session	56,601.85	56,601.85	
Technical adjustments	-26.31	-26.31	
Additional CY reductions			
2007-08 Revised	56,575.53	56,575.53	
Technical/Baseline			
Restore funding for ongoing programs	566.60	566.60	
Restore 2007-08 special session reductions	506.70	506.70	
K-12 decline in average daily attendance (ADA)	-128.33	-128.33	
HP program technical adjustment	-29.00	-29.00	
Other technical	9.96	9.96	
Other agencies tech adjustments	-6.28	-6.28	
COE adjustment	-38.03	-40.26	Technical adjustment
Revenue limit ADA growth (higher 07-08 base)	141.98	141.98	
Revenue limit UI & PERS	118.69	118.69	
CTC adjustment	-1.56	-1.56	
Subtotal Technical/Baseline	1140.74	1138.50	
Policy			
Child care	-92.90	0.00	Using one-time funds instead of ongoing.
Charter School facilities	16.04	18.00	
Provide partial COLA to all K-14 programs		2,067.77	Senate funds 3.68 percent COLA (Balancer). Establish revenue limit deficit factor for foregone COLA using current law rates.
Deferred maintenance	-222.62		
Additional Budget Balancing Reductions (BBRs)	-1768.78		Deny BBRs. Conform action on Non-98 GF programs.*
Restore revenue limit base reduction	841.15		
Restore special education base reduction	237.56		Conform federal funds.
CTAP restoration	1.14		
State special schools restoration	5.06	-5.06	Using federal funds to restore.
After School Education and Safety Program	-59.59	-59.59	
Special education		-40.00	Technical adjustment. Assumes additional \$20 m in 2007-08 savings.
K-3 CSR		-23.26	Technical adjustment
Home to School Transportation		-11.00	Technical adjustment
9th grade CSR		-5.00	Technical adjustment
CCC enrollment growth	95.55	113.55	
Restore CCC foster care	0.57		
Total year-to-year change	193.91	3193.91	
2008-09 Proposal	56,769.44	59,769.44	
			* Restore Non-98 GF BBRs for California Association of Student Councils, Advancement Via Individual Determination (AVID), Indian Education Centers. Restore base funds and provide technical and growth related adjustments for Child Nutrition; no COLA.

K-14 One-Time Spending			
	Governor	Senate Sub#1	Comments
One-Time Spending from Prop 98 Prior Years			
Child Care	323.60	354.70	Using one-time funds instead of ongoing.
Emergency Repair Program	100.00	101.00	
CCC Property tax backfill	68.90	68.90	
CSIS lite	7.90		Using federal funds instead.
PMAT	3.00		Using federal funds instead.
FCMAT audits		0.30	Oakland (\$60,000); Vallejo (\$125,000); West Fresno (\$110,000)
Total	503.40	524.90	
One-time Spending from Other Sources			
CCC excess fee revenue (Redirect for CCC property tax backfill)	5.90	5.90	
Total	5.90	5.90	
Total provided for CCC LPT backfill from all sources	74.80	74.80	
Other			
Settle-up in BY for mandates	150	150	
QEIA	450	450	

SUBCOMMITTEE NO. 1

Committee on Education

Agenda

Chair, Senator Gloria Romero
Senator Dean Florez
Senator Carol Liu
Senator Abel Maldonado
Senator Jenny Oropeza
Senator Darrell Steinberg
Senator Mimi Walters
Senator Mark Wyland



December 10, 2008

1:30 P.M.

Room 112

(Staff: Kim Connor & Amy Supinger)

- I. K-14 Education Budget Proposals (1:30 p.m. – 3:15 p.m.)
 - Legislative Analyst's Office
 - Department of Finance
 - Public Testimony

- II. Higher Education Budget Proposals (3:20 p.m. – 4:30 p.m.)
 - Department of Finance
 - Legislative Analyst's Office
 - Public Testimony

Senate Budget and Fiscal Review Subcommittee #1 (Education)
December 10, 2008

Program Reduction <i>Dollars in Millions</i>		Gov Proposal			LAO Options			November Alternative*			Senate Republican Alternatives			
		2008-09	2009-10	Total	2008-09	2009-10	Total	2008-09	2009-10	Total	2008-09	2009-10	Total	
K-14 Education														
1	Proposition 98 Overall	2,500.0	23.9	2,523.9	1,000.0	2,100.0	3,100.0	**	2,518.0	728.9	3,246.9	**		0.0
1A	Eliminate Partial COLA (0.68%) for K-12 Revenue Limits and Community College Apportionments.	284.0	--	--	284.0	284.0	568.0		284.0	--	--			
1B	Reduce K-12 Revenue Limits and Community College Apportionments and Provide Flexibility to Transfer Funds from Categorical Programs to Backfill. Implement Various Other Funding Flexibility Proposals.	2,216.0	--	--	0.0	0.0	0.0		0.0	--	--			
1C	Reduce Various K-14 Categorical Programs and Raise Community College Fees.	0.0	--	--	716.0	1,816.0	2,532.0		0.0	--	--			
1D	Reduce Various K-14 Categorical Programs and Provide Flexibility to Transfer Ending Balances to Backfill. Implement Various Other Funding Flexibility Proposals	0.0	--	--	0.0	0.0	0.0		2,234.0	--	--			
2	Proposition 98 Settle-Up—Prepay future year Proposition 98 Settle-Up obligations by reclassifying some 2008-09 spending.	0.0	0.0	0.0	0.0	150.0	150.0		0.0	150.0	150.0			0.0
* The November Alternative for K-14 education reflects reductions contained in SB 4X 8, which was passed by the Senate in the Fourth Extraordinary Session of 2007-08. SB 4X 8 was tied to revenue increases contained in SB 4X 6, which was not passed by the Senate during the Fourth Extraordinary Session. ** These figures represent point-in-time savings tied to the Governor's estimates for the Fourth Extraordinary Session of 2007-08.														

Senate Budget and Fiscal Review Subcommittee #1 (Education)
December 10, 2008

Program Reduction <i>Dollars in Millions</i>		Gov Proposal			LAO Options			November Alternative			Senate Republican Alternatives		
		2008-09	2009-10	Total	2008-09	2009-10	Total	2008-09	2009-10	Total	2008-09	2009-10	Total
Higher Education													
1	University of California (UC), California State University (CSU), Hastings College of the Law (Hastings)—Express intent not to fund cost-of-living adjustment (COLA) in 2009-10.			0.0	0.0	120.0	120.0			0.0			0.0
2	UC, CSU, Hastings—Assume additional 5 percent fee increase (above 10 percent increase assumed in our baseline projection) to offset General Fund costs. (Savings are net of increased financial aid costs.)			0.0	0.0	83.0	83.0			0.0			0.0
3	UC and CSU—Increase student-faculty ratio to 20.5 on current funded enrollment base.			0.0	113.6	227.3	340.9			0.0			0.0
4	UC—Reduce specified research programs by 25 percent.			0.0	9.3	9.3	18.6			0.0			0.0
5	UC and CSU—Phase out General Fund support for excess course units (credits beyond 110 percent of those required to complete a degree at UC and 120 percent at CSU).			0.0	0.0	57.9	57.9			0.0			0.0
6	California Student Aid Commission—Raise Cal Grant B eligibility requirement from 2.0 to 2.5 grade point average.			0.0	0.0	12.8	12.8			0.0			0.0
7	Higher Education - Reduce UC, CSU, and Hastings budgets to the 10% across the board funding level	132.1	132.1	264.2	0.0	0.0	0.0	132.1	132.1	264.2			0.0

SUBCOMMITTEE NO. 1

Committee on Education

Agenda

Chair, Senator Gloria Romero
Senator Dean Florez
Senator Carol Liu
Senator Abel Maldonado
Senator Jenny Oropeza
Senator Darrell Steinberg
Senator Mimi Walters
Senator Mark Wyland



December 16, 2008

1:00 P.M.

Room 112

(Staff: Kim Connor & Amy Supinger)

(1) Presentation of Republican Caucus Proposals (Office of the Legislative Analyst)

(2) Public Testimony

Senate Budget and Fiscal Review Subcommittee #1 on Education

Senate Republican's Proposed Solutions for Special Session (December)

(Dollars in Millions)

Program Reduction	2008-09	2009-10	Total
1 Proposition 98 (K-14) - Minimum Guarantee (with flexibility package). Same as Governor's 2008-09 plan to reduce Proposition 98 funding \$2.5 billion by: (1) eliminating K-14 COLA; and (2) reducing K-12 revenue limits and community college apportionments with flexibility to transfer funds from categorical programs to backfill. Proposes unspecified \$6.2 billion reduction in 2009-10 to bring Proposition 98 funding to the minimum guarantee. Proposes additional flexibility options to increase contracting-out for K-14 services and to change the layoff notification period for K-12 certificated employees to 45 days. Also changes the index for calculating the K-14 COLA.	\$2,500.0	\$6,150.0	\$8,650.0
2 Proposition 98 (K-14) - Deferred Maintenance Payments. Reduces Proposition 98 funding an additional \$280 million in 2008-09 beyond the Governor's Plan in order to eliminate funding for the Deferred Maintenance Program.	\$280.0	\$0.0	\$280.0
3 Proposition 98 (K-14) - Proposition 49. Reduce Proposition 49 (After School Education and Safety Program) by submitting an initiative to the voters to allow for program funds to be appropriated annually in the Budget Act. Funds are Proposition 98 and thus would need to be used for another K-14 purpose.	\$0.0	\$550.0	\$550.0
4 Proposition 98 (K-14) - Settle-Up Payments. Scores \$1.1 billion in K-14 funding in 2008-09 as Proposition 98 Settle-Up payments. This lowers the Proposition 98 minimum guarantee by \$1.0 billion in 2009-10.	\$0.0	\$1,000.0	\$1,000.0
5 Higher Education - Repeal of AB 540. AB 540 allows noncitizen students meeting specified criteria to pay in-state fees and tuition. Monetary savings are attributed to this population of students failing to enroll in California Community Colleges, thus saving the state student enrollment costs. While students would also fail to enroll in UC and CSU, the proposal assumes those slots would be backfilled by other "citizen" students. Staff notes, this issue is currently being addressed by the courts.	0.0	75.0	75.0