



## Senate Budget and Fiscal Review

# Subcommittee No. 1 2010 Agendas

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## California State Senate

COMMITTEE  
ON  
BUDGET AND FISCAL REVIEW

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**Agenda**  
**January 19, 2010**  
**11:30 a.m.**  
**Room 112**  
**(Overflow rooms in Rooms 113 and 2040)**

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*Overview of the  
Governor's Special Session Budget Proposals  
for K-12 and Higher Education*

***I. Proposition 98 Budget & Higher Education Overview:***

*Jennifer Kuhn, Director of K-12 Education, Legislative Analyst's Office  
Steve Boilard, Director of Higher Education, Legislative Analyst's Office*

***II. Governor's Special Session Education Budget Proposals:***

*Jeannie Oropeza, Program Budget Manager, Department of Finance*

***III. Agenda Issues, Legislative Analyst's Office & Department of Finance:***

***Page 1 – Proposition 98 – Recertification of the 2008-09 Guarantee***

***Page 2 – Proposition 98 – Reduction of 2009-10 Funding***

***Page 3 – Proposition 98 – K-12 Savings to Achieve 2009-10 Reduction***

***Page 4 – Prepayment of QEIA in 2009-10***

***Page 5 – Proposition 98 – Reappropriations for K-12 Programs in 2009-10***

***Page 6 – Proposition 98 – Child Care Rate Changes***

***Page 7 – Community Colleges – Career Technical Education***

***Page 8 – Student Aid Commission – Cal Grants – Suspension of New Awards***

***IV. Public Comment***

**6110 California Department of Education**

Governor’s Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**6110-001-0001 & 6870-001-0001 Department of Education & California Community Colleges**

**Proposition 98 – Recertification of the 2008-09 Guarantee.**

-\$83 million      -\$81 million

The Governor proposes to reduce the Proposition 98 minimum funding guarantee – as statutorily certified – by \$82.9 million in 2008-09, in order to align the guarantee with more current estimates of expenditures.

Chapter 3 (4<sup>th</sup> Extraordinary Session of 2009) certified the Proposition 98 minimum guarantee at \$49.1 billion in 2009-10. The Governor proposes to reduce this amount to \$49.0 billion, a reduction of \$82.9 million.

The Governor proposes this change to align the Proposition 98 guarantee with expenditures, which have declined as a result of revenue limit savings in 2008-09.

The Administration proposes to amend provisions of Chapter 3, to recertify Proposition 98 funding in 2008-09, in order to reflect this change.

**6110 California Department of Education**

Governor’s Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**6110-001-0001 & 6870-001-0001 Department of Education & California Community Colleges**

**Proposition 98 – Reduction of 2009-10 Funding.**      -\$568 million      \$103 million

The Governor proposes \$49.9 billion in Proposition 98 funding in 2009-10. This equates to a reduction of \$568 million compared to the 2009-10 Budget Act, and provides funding at the minimum guarantee level, as calculated by the Governor.

[The Administration proposes to reduce Proposition 98 funding in 2009-10 through program savings for K-12 programs, as described in the following agenda item.]

The Governor’s estimates of the minimum guarantee in 2009-10 and 2010-11 are based upon his interpretation of the constitutional provisions of Proposition 98. These interpretations are at odds with the July budget agreements -- pursuant to Chapter 3 (4<sup>th</sup> Extraordinary Session of 2009) – and have the effect of lowering the guarantee in both years. Per the LAO, these interpretations may not meet constitutional obligations.

In addition to recertifying the 2008-09 minimum guarantee discussed in the previous section, Chapter 3 certifies \$11.2 billion in maintenance factor obligations owed in 2008-09. (This amount includes \$1.3 billion in obligations owed at the end of 2007-08.) Payment for these maintenance factor obligations would commence in 2010-11, per Chapter 3.

In calculating the minimum guarantee for 2009-10 and 2010-11, the Governor now assumes that \$1.3 billion in maintenance factor--owed through 2007-08--is paid off in 2008-09. The Governor also proposes postponing commencement of the payments required by Chapter 3 from 2010-11 to 2012-13.

Per the LAO, in addition to constitutional issues, the minimum guarantee for 2009-10 and 2010-11 could also increase due to changes in the Governor’s revenue estimates for 2008-09.

**6110 California Department of Education**

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**6110-001-0001 Department of Education**

**Proposition 98 – K-12 Program Savings to Achieve 2009-10 Reductions.**

-\$340 million (CSR Savings)      -\$210 million (CSR Savings)

The Governor proposes to achieve \$568 million in Proposition 98 through K-12 program savings, primarily from the Class Size Reduction program and from revenue limit apportionments.

Class Size Reduction (CSR) Savings: The Governor's Budget proposes to reduce funding for the CSR program by \$340 million in 2009-10 to reflect anticipated savings for the program. Penalties for increasing class size were reduced beginning in 2008-09 in order to give school districts greater flexibility in meeting budget shortfalls. However, due to increasing class sizes, school districts are losing some funding from remaining penalties, which results in program savings for the state.

-\$228 million (Revenue Limit & Other Adjustments)      -\$27 million (Revenue Limit & Other Adjustments)

Revenue Limit Adjustments: The Governor's Budget reflects a net reduction of \$228 million in 2009-10 resulting primarily from revenue limit savings for school districts and county offices of education, offset by small adjustments for a few other programs. Revenue limit savings result from a decrease in average daily attendance, as well as, unemployment insurance and retirement costs. The savings from other programs reflect workload adjustments.

**6110 California Department of Education**

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**6110-001-0001 & 6870-001-0001 Department of Education & California Community Colleges**

**Prepayment for the Quality Education Investment Act (QEIA) program in 2009-10**

\$280 million    -\$280 million

The Governor proposes to prepay \$280 million in future QEIA payments for K-12 schools and community colleges in 2009-10. The Governor proposes this prepayment in order to ensure our state meets maintenance-of-effort requirements pursuant to the federal American Recovery and Reinvestment Act (ARRA).

Current statute appropriates \$450 million in General Funds annually for the QEIA program for a specified period. The Governor proposes to prepay \$280 million of the 2010-11 payment in 2009-10. This amount includes \$250 million for K-12 education and \$30 million for community colleges.

This funding would be provided on top of other funds appropriated for QEIA in 2009-10, pursuant to the 2009 budget package.

Per the Administration, this prepayment is required to increase state education appropriations in 2009-10 in order to ensure compliance with federal maintenance-of-effort requirements for the ARRA State Fiscal Stabilization Fund program.

**6110 California Department of Education**

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**6110-001-0001 Department of Education**

**Proposition 98 – Reappropriations for K-12 Programs in 2009-10.**

The Governor proposes to reappropriate \$38.4 million in one-time Proposition 98 savings in 2009-10 to provide increased funding for two programs.

\$18.4 million

\$20 million

The Governor proposes to reappropriate \$38.4 million in one-time Proposition 98 savings in 2009-10, for the following programs:

**Charter Schools Facilities Grant Program:**

The Governor proposes an increase of \$18.4 million to convert the Charter Schools Facilities Grant Program from a reimbursement-based to a grant program, consistent with statute enacted as a part of the 2009 budget package. This program offsets 75 percent of the facility rental or lease costs of charter schools operating in low-income areas. Funding is restricted to charter schools that are unable to secure public or other facilities.

**Categorical Flexibility Funding – New Schools:** The Governor proposes a \$20 million increase to provide categorical funding to newly-established schools in 2008-09 and 2009-10. These funds are intended to allow new schools to receive categorical funds from more than 40 programs that were subject to categorical flexibility beginning in 2008-09. Under categorical flexibility statutes, statewide programs are adjusted annually for growth, but allocations are limited to existing schools.

**6110 California Department of Education**

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**6110-196-0001 California Department of Education**

**Child Care Reimbursement Rate.**

The trailer bill would reduce the regional market rate ceiling from 85 percent to 75 percent of the 2005 survey for voucher-based programs.

The trailer bill would also reduce the reimbursement rate for license-exempt providers from 90 percent of the ceilings for licensed providers to 70 percent.

*[Please see the February 2 Human Services hearing agenda for discussion of CalWORKS Stage 1 child care reductions.]*

TBL

-\$77.1 million GF  
(Proposition 98 funds)

Reduce the provider reimbursement rates to achieve savings in the 2010-11 Budget.

The \$77.1 million General Fund savings is comprised of: \$12 million from alternative payment programs, \$37 million from CalWORKS Stage 2, and \$28.1 million from CalWORKS Stage 3.

The provider contracts are signed in the Spring. Including the new rates in the contracts prior to the start of the 2010-11 fiscal year would allow the capture of a full year of savings.

Most providers would receive a lower reimbursement for providing child care services. Some providers are contractually already under the 85 percent ceiling, and those providers would not see as dramatic a drop in their reimbursement rate.

**6870 California Community Colleges**

Governor’s Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**6870-101-0001 California Community Colleges**

**Categorical Flexibility – Career Technical Education (CTE)**

The Governor proposes trailer bill language to remove the CTE funding from the categorical flexibility.

TBL

\$68 million

2009-10 Budget Act appropriation for CTE is \$48 million from Prop 98 funds and no changes are proposed to that amount. The enacted budget places the CTE categorical program in CCC's “flex item”. The proposal is to remove the program from this flex item and make the funding restricted to CTE.

Proposed for 2010-11: \$20 million from Prop 98 funds and \$48 million from QEIA (issue not in special session).

If CTE is removed from categorical flexibility, then all of the program funding is protected but the CCC districts’ ability to respond to local needs by shifting funds between CTE and another categorical program are diminished.

The CTE program was established in 2005. The purpose of the program is to develop and strengthen CTE partnerships and linkages among K-12, community colleges, industry, and other organizations.

**7980 Student Aid Commission**

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**7980-101-0001 Student Aid Commission**

**Suspend New Competitive CalGrant Awards**

TBL \$45.5 million  
GF

The Competitive CalGrant serves continuing and non-traditional students.

The Governor proposes to suspend any new Competitive CalGrant awards. Those students who already have a Competitive CalGrant award would continue to receive funding.

Approximately 22,500 students annually are offered a Competitive CalGrant.

The proposed trailer bill would make the Competitive CalGrant contingent upon appropriation in the Budget Act.

If the grants are to be suspended, a decision to do so needs to be made before the grants are awarded on March 2, since Competitive CalGrants are awarded in the Spring for the following Fall Semester.

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**

**Chair, Carol Liu**

**Member, Robert Huff**

**Member, Roderick Wright**

**Thursday, March 11, 2010  
9:30 a.m. or Upon Adjournment of Senate  
Room 3191, State Capitol**

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

**Highlights of the Governor’s K-12 Education Budget –  
Department of Finance, Jeannie Oropeza**

**Comments on the Governor’s K-12 Education Budget --  
Lupita Cortez Alcalá, California Department of Education,  
on behalf of State Superintendent Jack O’Connell**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
<b>6110</b>	<b>Department of Education</b>	
Item 1	Governor’s January 2010 Proposition 98 Proposals	Page 2
Item 2	Governor’s Budget –2009-10 Expenditure Proposals	Page 7
Item 3	Governor Budget -- 2009-10 Savings Proposals	Page 10
Item 4	Governor’s Budget – 2010-11 Class Size Reduction Savings	Page 12
Item 5	Governor’s Budget – 2010-11 Revenue Limit Reductions School District Non-Instructional Services	Page 14
Item 6	Governor’s Budget – 2010-11 Revenue Limit Reductions -- School District Contracting Out	Page 17
Item 7	Governor’s Budget – 2010-11 Revenue Limit Reductions – County Office of Education Consolidation	Page 21
Item 8	Governor’s Budget –2010-11 Cost-of-Living Adjustments	Page 24
	Public Comment	

**ITEM 1: Governor’s January 2010 Proposition 98 Proposals**

**DESCRIPTION:** The Governor’s January 2010 budget proposes to reduce 2008-09 Proposition 98 spending by **\$82.9 million** to align the guarantee with more current estimates of expenditures. The Governor proposes to reduce the level of funding certified by Chapter 3 (4<sup>th</sup> Extraordinary Session of 2009) to accomplish this change. In accordance with the Governor’s various assumptions about Proposition 98 funding in 2008-09, he proposes to reduce Proposition 98 to \$49.9 billion in Proposition 98 funding in 2009-10. This equates to a reduction of **\$568 million** compared to the 2009-10 Budget Act. In addition, the Governor proposes \$50 billion in Proposition 98 funding, which equates to an increase of **\$103 million** above his proposed 2009-10 funding level. This level of funding requires programmatic reductions of approximately **\$1.9 billion** for K-12 education – excluding child care.

The issues discussed in this agenda item will be covered by the K-12 and Proposition 98 Funding Overview presented by the Legislative Analyst’s Office to the Subcommittee today. This agenda item is meant to provide background information about the Governor’s overall Proposition 98 funding proposals in preparation for hearing the remaining items on the Subcommittee agenda today.

**BACKGROUND:** The Proposition 98 minimum funding guarantee is determined by one of three “tests”, which are formulas established in the State Constitution. These three tests are outlined by the LAO chart below.

### Proposition 98 Basics

#### Three Formulas (“Tests”) Used to Determine K–14 Funding:

Test 1—Share of General Fund. Provides roughly 40 percent of General Fund revenues to K–14 education. From 1988–89 through 2007–08, this test was applied only once (1988–89).

Test 2—Growth in Per Capita Personal Income. Adjusts prior–year funding for changes in attendance and per capita personal income. This test was operative 13 of the last 20 years.

Test 3—Growth in General Fund Revenues. Adjusts prior–year funding for changes in attendance and per capita General Fund revenues. Generally, this test is operative when General Fund revenues grow more slowly than per capita personal income. This test was operative 6 of the last 20 years.

The Governor's January 2010 budget proposals assume that Test 1 continues to be operative in 2008-09, 2010-11, and 2011-12.

## **GOVERNOR'S BUDGET PROPOSALS:**

**1. Proposition 98 – Recertification of the 2008-09 Guarantee.** The Governor proposes to reduce Proposition 98 minimum funding – as statutorily certified – by \$82.9 million in 2008-09, in order to align the guarantee with more current estimates of expenditures.

Chapter 3 (4<sup>th</sup> Extraordinary Session of 2009) certified the Proposition 98 minimum guarantee at \$49.1 billion in 2009-10. The Governor proposes to reduce this amount to \$49 billion, a reduction of \$82.9 million.

The Governor proposes this change to align the Proposition 98 guarantee with expenditures, which have declined as a result of revenue limit savings in 2008-09.

The Administration proposes to amend provisions of Chapter 3, to recertify Proposition 98 funding in 2008-09, in order to reflect this change.

**2. Overall Proposition 98 Funding Levels for 2009-10 and 2010-011.** The Governor proposes \$49.9 billion in Proposition 98 funding in 2009-10. This equates to a reduction of **\$568 million** compared to the 2009-10 Budget Act, and provides funding at the minimum guarantee level, as calculated by the Governor.

In 2010-11, the Governor proposes \$50.0 billion in Proposition 98 funding, which equates to an increase of **\$103 million** above the Governor's proposed 2009-10 funding level. This level of funding also provides funding at the minimum guarantee, as calculated by the Governor.

The Governor's estimates of the minimum guarantee in 2009-10 and 2010-11 are based upon his interpretation of the constitutional provisions of Proposition 98. These interpretations are at odds with the July budget agreements -- pursuant to Chapter 3 (4<sup>th</sup> Extraordinary Session of 2009) – and have the effect of lowering the guarantee in both years.

In addition to recertifying the 2008-09 minimum guarantee discussed above, Chapter 3 certifies \$11.2 billion in maintenance factor obligations owed in 2008-09. (This amount includes \$1.3 billion in obligations owed at the end of 2007-08.) Payment for these maintenance factor obligations would commence in 2010-11, per Chapter 3; although, per the LAO, other provisions of Chapter 3 could be interpreted to suggest that payment begins in 2009-10.

In calculating the minimum guarantee for 2009-10 and 2010-11, the Governor now assumes that \$1.3 billion in maintenance factor obligation --owed through 2007-08--is paid off in 2008-09. The Governor also proposes postponing the commencement of the payments required by Chapter 3 by one year -- from 2010-11 to 2011-12. (The LAO believes that Chapter 3 requires payments commencing in 2009-10, so from their perspective this is a two year delay.)

**TRAILER BILL:** The Governor proposes statutory changes to Chapter 3 in order to lower the level of Proposition 98 funding certified in 2008-09 by \$82.9 million. The Governor also proposes to change provisions of Chapter 3 to delay the repayment of “in lieu” maintenance factor from 2010-11 to 2011-12.

### **LAO COMMENTS:**

**Unclear if Constitutional Obligations Would Be Met; Obligations Could Increase Significantly.** Per the LAO, the Governor’s Proposition 98 assumptions for the 2008-09, 2009-10, and 2010-11 fiscal years may not meet constitutional obligations, and therefore has some legal risks. Under the provisions of Chapter 3, the state enters the 2009-10 year owing \$11.2 billion in maintenance factor. Under this current-law scenario, the Proposition 98 minimum guarantee would be **\$2.2 billion** higher in 2009-10 and **\$3.2 billion** higher in 2010-11, than proposed by the Governor.

**Minimum Guarantee Could Increase Due to Changes in Revenues.** In addition to constitutional issues, the LAO points out that the minimum guarantee for 2009-10 and 2010-11 could also increase due to changes in the Governor’s revenue estimates for 2008-09. There are five factors that affect the underlying tests and minimum guarantee calculations – General Fund revenues, local property taxes, personal income, state population, and K-12 population. Changes in these factors – most likely changes in revenues – could change operative tests for Proposition 98 in 2008-09, which would in turn change the operative tests for 2010-11 and 2011-12. In addition, the Governor’s minimum guarantee could increase even further due to interaction with some his revenue proposals, such as the revenue increases that are “triggered” if federal funding solutions are not successful.

### **LAO RECOMMENDATIONS:**

The LAO offers two courses of action for approaching Proposition 98 funding as alternatives to the Governor’s proposals. The LAO will present their alternative to the Subcommittee today as a part of their K-12 and Proposition 98 Funding Overview.

In summary, the LAO believes that the Legislature has two basic alternatives—both of which involve their own difficult choices. The first option is to suspend the Proposition 98 minimum guarantee. Per the LAO, this option is the safest legal course of action and offers the Legislature the most flexibility in building both the education and the overall state budget. The second option would be to increase education spending above the Governor’s funding level to meet the higher current-law funding requirements—either by reducing spending more in other areas or by raising additional revenues.

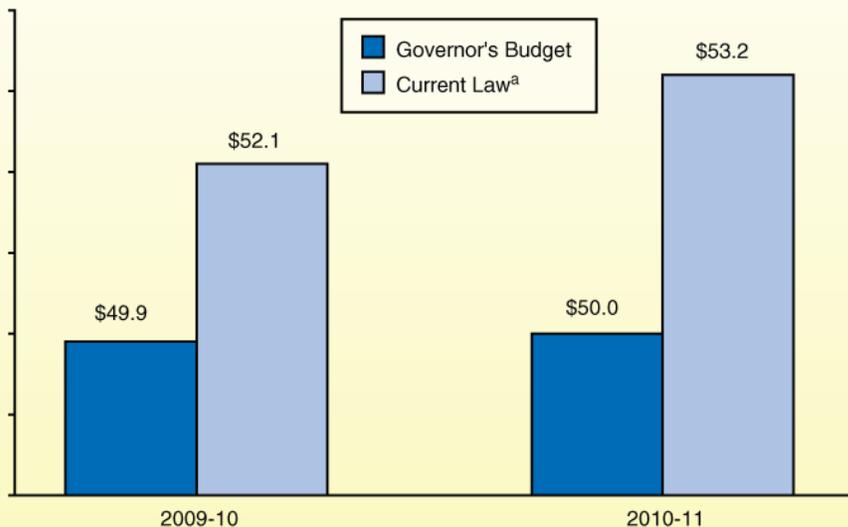
The following excerpts from the LAO's recent publication - *The 2010-11 Budget: Proposition 98 and K-12 Education* -- offer additional detail about the LAO's alternatives, which will be presented at the Subcommittee hearing today.

- Suspend Proposition 98.** Suspending Proposition 98 in 2009-10 and 2010-11 would allow the state to decide the level of funding it could afford for K-14 education, regardless of the Proposition 98 formulas, constitutional interpretations of maintenance factor, and otherwise interacting revenue proposals. Suspension requires a two-thirds vote of each house of the Legislature. (Under suspension, the state creates a new maintenance factor obligation, which would require additional payments in future years.)
- Raise Additional Revenues or Cut Other Spending to Meet Higher Current-Law Funding Levels.** The Legislature could take another course of action and either raise enough additional revenues or make further spending reductions elsewhere in the budget to meet the higher current-law K-14 funding level for 2010-11 (\$3.2 billion). (See LAO chart below.) To the extent the Legislature used new tax revenues to provide this supplemental funding, the initial \$3.2 billion gap would grow. This is because without suspending Proposition 98, every new dollar of General Fund revenue increases the Proposition 98 minimum guarantee by 40 cents to 50 cents. For example, **if the Legislature were to take this approach relying entirely on tax revenues, it would need to raise roughly \$6 billion in new revenues, with essentially all of the new funding used for K-14 education.** (We assume the state would be able to meet a higher funding obligation in 2009-10 through “settle-up” payments in future years.)

Figure 6

### Comparing Proposition 98 Funding Levels

(Dollars in Billions)



<sup>a</sup>Current law assumes the state entered 2009-10 with an \$11.2 billion maintenance factor. It also assumes the Governor's baseline revenue forecast, excluding his policy proposals.

**STAFF COMMENTS:** The remaining issues in this agenda reflect the Governor’s spending proposals (savings and expenditures) that conform to his proposed Proposition 98 funding levels in both 2009-10 and 2010-11. The LAO chart below summarizes the Governor’s major spending proposals – many of which will be covered today.

**Proposition 98: Governor’s Major Spending Proposals**  
(In Millions)

<b>Midyear 2009–10 Proposals</b>	
Recognize K–3 Class Size Reduction (CSR) savings	–\$340
Make various other baseline adjustments	–228
	–
<b>Total Changes</b>	<b>\$568</b>
<b>2010–11 Proposals</b>	
Backfill prior–year one–time solutions	\$1,908
Make various other adjustments	238 <sup>a</sup>
Reduce K–12 revenue limits:	
Spend less on non-instructional activities	–1,184
Remove restrictions on contracting out	–300
Consolidate County Office of Education functions	–45
Make K–14 cost–of–living adjustments (–0.38 percent)	–230
Recognize additional K–3 CSR savings	–210
Reduce CalWORKs Stage 3 child care funding	–123
Reduce child care reimbursement rates	–77
Fund CCC apportionment growth (2.21 percent)	126
<b>Total Changes</b>	<b>\$103</b>

<sup>a</sup> Includes growth for revenue limits, special education, and child nutrition. Also includes funding for three K–12 mandates.

In summary, the Governor proposes to reduce Proposition 98 funding by **\$568 million** in 2009-10 through program savings for K-12 programs, as described later in the agenda.

While the Governor’s proposal results in a net increase of **\$103 million** in Proposition 98 funding from 2009-10 to 2010-11, this masks a reduction of approximately **\$1.9 billion** in support for K-12 education programs (excluding \$200 million in child care reductions). Reductions of this size were required to backfill one-time savings solutions utilized in 2009-10. All of the Governor’s major proposals tied to the 2010-11 reductions are also covered later in this agenda.

Decisions about the level of Proposition 98 will not likely be made until after May Revise, when factors affecting the Proposition 98 requirements are updated.

**ITEM 2: Governor's Budget –2009-10 Expenditure Proposals**

**DESCRIPTION:** The Governor proposes to reappropriate **\$38.4 million** in Proposition 98 funds in 2009-10 to provide increased funding for two programs.

**GOVERNOR'S BUDGET PROPOSALS:** As a part of the Governor 2009-10 budget proposal, the Governor proposes to appropriate **\$38.4 million** in one-time Proposition 98 savings in 2009-10, for the following programs:

- 1. Charter School Facility Grant Program (6110-220-0001):** The Governor proposes an increase of **\$18.4 million** to convert the Charter Schools Facilities Grant Program from a reimbursement-based to a grant program, consistent with statute enacted as a part of the 2009 budget package. This program offsets 75 percent of the facility rental or lease costs of charter schools operating in low-income areas. Funding is restricted to charter schools that are unable to secure public or other facilities.
  
- 2. Categorical Flexibility Funding – New Schools:** The Governor proposes a **\$20 million** increase to provide categorical funding to newly-established schools in 2008-09 and 2009-10. These funds are intended to allow new schools – including charter schools - - to receive categorical funds from more than 40 programs that were subject to the five year categorical flexibility beginning in 2008-09. Under the original categorical flexibility statutes enacted as a part of the February 2009 budget package, statewide programs are adjusted annually for growth, but local growth allocations are locked into proportions established for the base year of the program. The July budget package added language to allow schools established after the base year to receive categorical allocations if they are administering programs as they existed before they were flexible.

**TRAILER BILL LANGUAGE:** The Governor proposes to amend the 2009-10 budget act to reappropriate Proposition 98 savings for the Charter School Facility Grant program and to provide funding to allow new schools to receive categorical funding subject to flexibility.

**LAO COMMENTS/LAO RECOMMENDATIONS:**

**Charter School Facility Grant Program.** The LAO recommends that funding for the Charter School Facility Grant program be continued on a reimbursement basis in 2009-10 and 2010-11, which result in savings of **\$34 million** over the two year period, compared to the Governor's Budget. This includes \$15 million in one-time savings in 2009-10 and \$19 million in 2010-11.

- **Categorical Funding for New Schools.** The LAO has concerns and about how the Governor's proposal for providing categorical funds within the new categorical cut/flex program would work and how much it would cost. The LAO recommends clarifying the eligibility requirements and usage parameters before allocating categorical funds for new schools.

- Preliminary data and information gathered by the LAO from the Department of Education indicates that approximately 180 schools applied for categorical funding in 2008-09 and 2009-10. Of this total, 123 were charter schools, 46 were community day schools and 11 were new district schools other than community day schools. It is unclear whether the enrollment for these new schools is redirected enrollment, which is not funded under current law. It is also unclear if new schools would have to meet the program requirements for some period of time under the Governor’s proposal, or whether their funding would be flexible right away.

**STAFF COMMENTS:**

**Charter School Facility Grant Program.** The Governor proposes **\$45.5 million** for the Charter School Facility Grant program in 2009-10 and **\$61.0 million** in 2010-11. The Department of Education estimates that eligible grants total **\$34.0 million** in 2009-10 and **\$37.0 million** in 2010-11.

Staff notes that funding for the Charter School Facility Grant program has grown significantly in recent years, as indicated by the table below. In a period of declining school enrollments, this program has experienced enrollment growth from new schools and expanded enrollments at existing schools. Even with the across-the-board categorical reductions beginning in 2008-09, the Charter School Facility Grant program has sufficient funding, as proposed, to provide full funding for its enrollment growth in 2008-09 and 2009-10.

<b>Charter School Facility Grant Program</b> <i>(Dollars In Millions)</i>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10 Proposed</b>	<b>2010-11 Proposed</b>
<b>Budget Appropriation</b>	<b>10.0</b>	<b>7.7</b>	<b>7.7</b>	<b>9.0</b>	<b>9.0</b>	<b>18.0</b>	<b>31.6</b>	<b>45.5</b>	<b>61.0</b>
<b>Grants Funded</b>	<b>5.3</b>	<b>7.7</b>	<b>7.7</b>	<b>9.0</b>	<b>9.0</b>	<b>18.0</b>	<b>31.6</b>	<b>34.0</b>	<b>NA</b>
<b>Eligible Grants (Demand)</b>						<b>23.6</b>	<b>32.3</b>	<b>34.0</b>	<b>37.0</b>

**Categorical Funding for New Schools.** Staff notes that that the Governor’s proposal implements statute to address an existing problem with the five year categorical cut/flexibility program enacted in 2009. However, as noted by the LAO, there are several questions about the Governor’s proposal that need to be resolved in order to develop an appropriate implementation plan.

**STAFF RECOMMENDATIONS:**

**Charter School Facility Grant Program.** Staff recommends that following May Revise, the Subcommittee adopt the LAO recommendation to delay conversion of the Charter School Facility Grant program from a reimbursement program to a grant program. This action will provide an additional **\$34 million** to the state that can be used

to mitigate other K-12 reductions. At the same time, the program will continue to receive annual funding that fully funds enrollment growth.

**Categorical Funding for New Schools.** The Governor's proposal implements trailer bill language added as a part of the 2009-10 budget to address an oversight in the original categorical cut/flex program. However, the Governor's current proposal may have unintended consequences from both a policy and fiscal standpoint. For these reasons, staff recommends that the Subcommittee request the Legislative Analyst to work with the Department of Finance and Department to refine the Governor's proposal to better define eligibility and usage parameters - as recommended by the LAO - while better reflecting true enrollment growth and avoiding double counting.

### **SUGGESTED QUESTIONS:**

1. The Charter School Facility Grant program provides funds for lease and rental costs. What other costs are allowed under the program?
2. The Charter School Facility Grant program is intended to provide funding charter schools that are unable to secure public or other facilities. However, the CDE website indicates that the program can be used by charter schools to reimburse school districts for the rental or lease costs of their facilities. How often does this occur?
3. Can you provide more background on the rapid enrollment growth in the Charter School Facility Grant program?
4. Are Charter School Facility Grants distributed fairly evenly throughout the state or does the program serve a more limited number of counties or districts in the state?

**ITEM 3: Governor Budget -- 2009-10 Savings Proposals**

**DESCRIPTION:** The Governor proposes to reduce Proposition 98 spending in 2009-10 by capturing an estimated **\$568 million** in K-12 program savings. This amount includes a **\$340 million** (19 percent) reduction for the K-3 Class Size Reduction program that results from lower program participation, as estimated by the Administration. In addition, the Governor proposes **\$228 million** in other savings, largely from revenue limits, that results from lower K-12 enrollments.

**BACKGROUND:**

For revenue limit apportionments and other K-12 categorical programs, funding *earned* by local educational agencies may be more or less than funding *appropriated* in the annual budget act. These differences are most often affected by K-12 attendance factors or other workload adjustments. When actual K-12 enrollments drop below budgeted levels, Proposition 98 savings are created for many programs at the state level.

As a part of the across-the-board categorical reductions and categorical funding flexibility options approved in February 2009, additional funding flexibility was provided for the K-3 Class Size Reduction Program. More specifically, school districts may now increase K-3 sizes to 25 students or more and retain up to 70 percent of their program funds. Under the previous rules, districts lost all program funding (100 percent) if class sizes exceeded 21.9 students. The new flexibility laws are in effect for a four year period beginning in 2008-09. As districts increase class sizes, they will lose funding, which translates into Proposition 98 savings at the state level.

**GOVERNOR'S BUDGET PROPOSAL:**

1. **Revenue Limit and Other Workload Adjustments:** The Governor's Budget reflects a net reduction of **\$228 million** in 2009-10 resulting primarily from revenue limit savings for school districts and county offices of education, offset by small adjustments for a few other programs. Revenue limit savings of **\$236 million** result from a decrease in average daily attendance as well as unemployment insurance and retirement costs. These reductions are offset by additional costs of **\$8 million** resulting from property tax adjustments and other workload adjustments for various Proposition 98 programs.

2. **K-3 Class Size Reduction Program Savings:** The Governor's Budget proposes to reduce funding for the CSR program by **\$340 million** in 2009-10 to reflect anticipated "natural" savings for the program. Penalties for increasing class size were reduced beginning in 2008-09 in order to give school districts greater flexibility in meeting budget shortfalls. However, due to increasing class sizes, school districts are losing some funding from remaining penalties, which results in program savings for the state.

#### **LAO COMMENTS/RECOMMENDATIONS:**

- **Governor's CSR Savings Estimates Too Optimistic.** The LAO believes that the Governor's assumptions regarding the likely increases in K-3 class sizes are overstated. The LAO states that "while data show that some districts did increase K-3 class sizes in 2009-10, the increase in class size appears to be more modest than the administration assumes, with few districts likely to experience large reductions in their class allocations."
- The LAO states that better estimates cannot be calculated without actual program participation data, which will not be available from the Department of Education until June 2010. Until that time, the LAO recommends that the Legislature assume **\$200 million** in 2009-10 savings, instead of the \$340 million (19 percent) currently estimated by the Governor.

#### **STAFF COMMENTS/RECOMMENDATIONS:**

The Legislature will not have data to better estimate the savings from the Class Size Reduction program until late May or June 2010.

Following Proposition 98 updates at May Revise, if the Legislature decides to reduce the 2009-10 Proposition 98 budget, "natural" program savings provide the most reasonable way to reduce funding for K-12 education within the school year.

However, if there is no need to reduce Proposition 98 funding in 2009-10, the savings identified by the Governor can be used to offset existing 2009-10 reductions or additional reductions proposed for 2010-11.

#### **SUGGESTED QUESTIONS:**

1. How did the Administration develop their savings estimates for the Class Size Reduction program in 2009-10?
2. What data are available about school district participation in the K-3 Class Size Reduction program in 2009-10?

**ITEM 4: Governor's Budget – 2010-11 Class Size Reduction Program Savings**

**DESCRIPTION:** The Governor proposes to capture **\$550 million** in savings from the K-3 Class Size Reduction (CSR) program in 2010-11. This equates to program savings of nearly 30 percent. This level of savings assumes an additional \$210 million in savings in 2010-11, on top of the \$340 million in CSR savings anticipated by the Governor in 2009-10.

**BACKGROUND:**

The K-3 CSR program was established in 1996 as a voluntary program. Participating school districts received per pupil incentive funding for their classes that maintained average K-3 class sizes below 20.4 students. Districts received graduated funding penalties – losses – for a classes sized above this level. If an average class size exceeded 20.4 students, districts received a penalty of 100 percent -- no CSR funding for that class.

In 2004, the K-3 CSR funding program was amended to allow a class to increase up to 21.9 students and still receive 20 percent of their funding rate. The 100 percent penalty was applied to classes with average class size of more than 21.9 students.

As a part of the across-the-board categorical reductions and categorical funding flexibility options approved in February 2009, additional funding flexibility was provided for the K-3 Class Size Reduction Program. More specifically, school districts may now increase K-3 sizes to 25 students or more and retain up to 70 percent of their program funds. Under the previous rules, districts lost all program funding (100 percent) if class sizes exceeded 21.9 students. The new flexibility laws, which are summarized below, are in effect for a four year period beginning in 2008-09 through 2011-12.

- 5 percent penalty if average class size greater or equal to 20.5 but less than 21.5;
- 10 percent penalty if average class size greater or equal to 21.5 but less than 22.5;
- 15 percent penalty if average class size greater or equal to 22.5 but less than 23.0;
- 20 percent penalty if average class size greater or equal to 23.0 but less than 25.0;
- 30 percent penalty if average class size greater than 25.0.

**GOVERNOR'S BUDGET PROPOSAL:**

The Governor estimates that participation in the K-3 CSR program will decline even further in 2010-11. As a result, the Governor anticipates **\$550 million** (30 percent) in K-3 CSR savings in 2010-11. This level of savings adds another **\$210 million** to the Governor's savings estimate of **\$340 million** in 2009-10.

**LAO COMMENTS/RECOMMENDATIONS:**

As was the case with the Governor's 2009-10 proposal, the LAO believes the Governor's K-3 CSR savings estimate for 2010-11 is also overstated. However, rather than providing an alternative savings estimate, the LAO recommends a different approach, as follows:

- **Recommend Placing K-3 CSR Program in K-12 Flex Item.** The LAO recommends that the K-3 CSR program be added to the K-12 cut/flex program, which currently covers approximately 40 categorical programs. In so doing, the LAO recommends that districts receive funding equal to their 2007-08 allocation less 20 percent—which would equate to funding levels for other programs in the categorical cut/flex program. This would result in K-3 CSR savings of \$382 million in 2010-10. Districts would continue to receive funding regardless of class size increases.
- **Parallels LAO Recommendations to Provide More Flexibility, Budget More Transparently.** Per the LAO, their approach offers districts greater flexibility by allowing them to determine class sizes within the context of their overall fiscal situation and education priorities. While their approach means the state might forego additional CSR savings if districts were to increase class sizes even further in the future, the LAO questions the benefit of continuing the program under the existing program rules. In the LAO's view, many schools now receiving K-3 CSR funding are not really running a K-3 CSR program anymore. According to the LAO, schools that chose to increase K-3 class sizes above 20 students prior to January 2009 are essentially locked out of the program whereas other schools that waited until after January 2009 to increase class sizes continue to receive funds.

#### **STAFF COMMENTS/RECOMMENDATIONS:**

Staff supports the LAO's alternative proposal for including the CSR program in the categorical cut/flex program. Staff recommends that the Subcommittee adopt the LAO's proposal after May Revise.

#### **SUGGESTED QUESTIONS:**

1. What is the Administration's view of the LAO proposal to place the K-3 CSR program in the categorical cut/flex program?

**ITEM 5: Governor’s Budget – 2010-11 Revenue Limit Reductions – School District Non-Instructional Expenditures**

**DESCRIPTION:** The Governor proposes to reduce school district revenue limits by **\$1.2 billion** in 2010-11 and to impose limits on non-instructional spending for districts. This reduction is the largest piece of the Governor’s **\$1.5 billion** proposal to reduce revenue limit reductions for school districts and county offices of education in 2010-11.

**BACKGROUND:**

Revenue limit apportionments provide general purpose funding for school districts and county offices of education. Revenue limits comprise roughly two-thirds of all Proposition 98 funding. The 2009-10 budget act provides a total of approximately \$30.6 billion in revenue limit funding to school districts and county offices of education. Ongoing K-12 base revenue limit apportionments were reduced significantly in 2008-09 and 2009-10 as a result of the state’s budget shortfall -- \$925 million in 2008-09 and an additional \$2.4 billion in 2009-10. In addition, K-12 base revenue limits were reduced by \$1.5 billion on a one-time basis in 2009-10. Deficit factors have been established for the ongoing base reductions – as well as foregone cost-of-living increases – as a symbol of intent to restore these levels when the state budget allows.

**SUMMARY OF GOVERNOR’S OVERALL REVENUE LIMIT PROPOSALS.**

The Governor’s proposes a total of **\$1.5 billion** in revenue limit reductions – the largest reduction for K-12 education in 2010-11. There are three separate reduction proposals, as summarized below, that are each linked to policy proposals intended to create local savings.

<i>Proposal</i>	<i>Base Funding</i>	<i>Reduction</i>	<i>%</i>	<i>Per ADA* Equivalent</i>
<b>School Districts – Reductions Tied to Limitations on Non-Instructional Service Expenditures</b>	<b>\$31,475 m</b>	<b>\$1,184 m</b>	<b>4%</b>	<b>\$200/ADA</b>
<b>School Districts – Reductions Tied to New Contracting Out Authority</b>	<b>\$31,475 m</b>	<b>\$300 m</b>	<b>1%</b>	<b>\$50/ADA</b>
<b>County Offices of Education – Savings Tied to County Office of Education Consolidation *</b>	<b>\$595 m</b>	<b>\$45 m</b>	<b>7%</b>	<b>Between \$2.40 - \$30/ADA based on CDE estimates. **</b>
<b>TOTAL</b>		<b>\$1,529 m</b>		

*\*Average Daily Attendance.*

The Governor does not propose establishing deficit factors for any of these revenue limit reductions. Instead, the deficit factors would remain unchanged from their 2009-10 levels.

## **GOVERNOR'S BUDGET PROPOSALS: SCHOOL DISTRICT REDUCTIONS FOR NON-INSTRUCTIONAL ACTIVITIES**

The Governor's proposal reduces revenue limits for districts (and charter schools) by **\$1,184,449,000**, and commencing in 2010-11, requires districts to reduce noninstructional expenditures by a minimum of 12 percent compared to 2008-09 spending levels. The Governor specifies five categories of non-instructional expenditure for reduction, which are defined in the California School Accounting Manual. These categories include instructional supervision and administration, general administration, plant maintenance and operations, board and superintendent costs, and centralized data processing.

Per the Governor's proposal, revenue limit reductions for school districts will be allocated per average daily attendance (ADA). For excess tax districts – commonly known as basic aid districts – reductions would be applied to the district's state categorical programs, with the following exclusions: Special Education, Child Care and Development, After School Education and Safety, and Quality Education Investment Act.

The Governor's proposal allows school district governing boards to apply for a hardship exemption from the reductions for noninstructional services if the reduction would result in a serious financial hardship to the district or if the district has already reduced noninstructional expenses to less than 15 percent of the district's current expense of education.

**TRAILER BILL:** The Governor proposes to add new statutes to implement the Governor's proposed revenue limit reductions and to add provisions that would require districts to reduce non-instructional services. The Governor also includes statutory provisions to continue revenue limit deficit factors at 2009-10 levels in 2010-11.

**LAO COMMENTS/LAO RECOMMENDATIONS:** The LAO recommends rejecting the Governor's proposal to require reductions in school district non-instructional services because this would remove local flexibility and limit local decision-making power. The LAO provides the following details for their recommendations:

- **Proposal Has Serious Implementation Problems.** The LAO has serious concerns with how this proposal would be implemented. First, every district would be required to make the same proportional reduction to the targeted expenditure categories regardless of its current mix of spending on administration and instruction. Furthermore, it is unclear who would review expenditure data to ensure districts made reductions in the required places, how this policy would be enforced, and what the penalties would be for noncompliance.
- **Proposal Would Counteract Recent Flexibility Provisions.** The LAO believes that the Governor's proposal also would work at cross-purposes with the flexibility options the state has recently granted to school districts.
- **Recommend Legislature Reject Governor's Proposal, Preserve Local Decision-Making Power.** The LAO recommends that the Legislature reject the Governor's

proposal to place new limits on how much districts spend on noninstructional activities. Districts confronting budget reductions need new options for how to respond, not new constraints.

#### **STAFF COMMENTS/STAFF RECOMMENDATIONS:**

**Overall Revenue Limit Proposals.** Staff supports the LAO's general recommendations that all three of the Governor's revenue limit reductions be delinked from the Governor's policy proposals.

With regard to the level of the Governor's revenue limit reductions for school districts and county offices of education, decisions about major program reduction programs will not likely occur until after May Revise, when the Legislature has determined the appropriate level of Proposition 98 funding in 2010-11.

**School District Non-Instructional Services Proposals.** Staff supports the LAO's position to reject the Governor's proposal to limit non-instructional services in school districts. Staff agrees that this policy conflicts with recently enacted policies that provide local educational agencies with greater flexibility in the use of state funds. For this reason, staff recommends that the Subcommittee reject this policy proposal after May Revise.

#### **SUGGESTED QUESTIONS**

1. Are the Administration's proposals meant to be temporary or permanent?
2. The Administration does not propose deficit factors for the 2010-11 revenue limit cuts. Since the Administration has supported deficit factors for all other revenue limit cuts for the last two years – what's the reason for the change in 2010-11?
3. How will non-instructional reductions be implemented?
4. How will non-instructional reductions be monitored and enforced?
5. What if school districts and county offices have already made significant administrative cuts to their budgets? Will they be protected by the hardship provisions proposed by the Administration?

**ITEM 6: Governor’s Budget – 2010-11 Revenue Limit Reductions – School District Contracting Out**

**DESCRIPTION:** The Governor proposes to reduce revenue limits by **\$300 million** for school districts and to remove existing restrictions affecting the ability of districts to contract out for non-instructional services. This reduction is part of the Governor’s **\$1.5 billion** proposal to reduce revenue limit reductions for school districts and county offices of education in 2010-11.

**BACKGROUND:**

Revenue limit apportionments provide general purpose funding for school districts and county offices of education. Revenue limits comprise roughly two-thirds of all Proposition 98 funding. The 2009-10 budget act provides a total of approximately \$30.6 billion in revenue limit funding to school districts and county offices of education. Ongoing K-12 base revenue limit apportionments were reduced significantly in 2008-09 and 2009-10 as a result of the state’s budget shortfall -- \$925 million in 2008-09 and an additional \$2.4 billion in 2009-10. In addition, K-12 base revenue limits were reduced by \$1.5 billion on a one-time basis in 2009-10. Deficit factors have been established for the ongoing base reductions – as well as foregone cost-of-living increases – as a symbol of intent to restore these levels when the state budget allows.

Under current law, school districts can contract out for many non-instructional services -- such as food service, maintenance, clerical functions, and payroll -- only if certain conditions are met. For example, contracting out for services cannot result in the layoff or demotion of existing district employees.

**SUMMARY OF GOVERNOR’S REVENUE LIMIT PROPOSALS.**

The Governor proposes a total of **\$1.5 billion** in revenue limit reductions – the largest reduction for K-12 education in 2010-11. There are three separate reduction proposals, as summarized below, that are each linked to policy proposals intended to create local savings.

<i>Proposal</i>	<i>Base Funding</i>	<i>Reduction</i>	<i>%</i>	<i>Per ADA* Equivalent</i>
<b>School Districts – Reductions Tied to Limitations on Non-Instructional Service Expenditures</b>	<b>\$31,475 m</b>	<b>\$1,184 m</b>	<b>4%</b>	<b>\$200/ADA</b>
<b>School Districts – Reductions Tied to New Contracting Out Authority</b>	<b>\$31,475 m</b>	<b>\$300 m</b>	<b>1%</b>	<b>\$50/ADA</b>
<b>County Offices of Education – Savings Tied to County Office of Education Consolidation *</b>	<b>\$595 m</b>	<b>\$45 m</b>	<b>7%</b>	<b>Between \$2.40 - \$30/ADA based on CDE estimates. **</b>
<b>TOTAL</b>		<b>\$1,529 m</b>		

\*Average Daily Attendance.

The Governor does not propose establishing deficit factors for any of these revenue limit reductions. Instead, the deficit factors would remain unchanged from their 2009-10 levels.

## **GOVERNOR'S BUDGET PROPOSAL -- SCHOOL DISTRICT REDUCTIONS FOR ADDITIONAL CONTRACTING-OUT AUTHORITY**

The Governor's proposal reduces revenue limits for school district (and charter schools) by **\$300 million**, beginning in 2010-11. In accordance with these reductions, districts are required to use contracting out authority – including new authority proposed by the Governor – to the maximum extent possible.

The Governor's proposal amends existing law governing contracting out for personal services to remove provisions that currently: (1) disallow approval of contracts solely on the basis of cost savings; and (2) disallow contracts if it causes displacement of school employees who previously provided the services.

This new authority would become effective for personal services contracts entered into after January 1, 2011.

Per the Governor's proposal, revenue limit reductions for school districts will be allocated per average daily attendance (ADA). For excess tax districts – commonly known as basic aid districts – reductions would be applied to the district's state categorical programs, with the following exclusions – Special Education, Child Care and Development, After School Education and Safety, and Quality Education Investment Act.

**TRAILER BILL:** The Governor proposes to add new statutes to implement revenue limit reductions and to link reductions to contracting out provisions. In addition, the Governor proposes to amend Education Code Section 45103.1, to remove contracting out restrictions for school districts. These provisions were added by Chapter 894; Statutes of 2002 (SB 1419). The Governor also includes statutory provisions to continue revenue limit deficit factors at 2009-10 levels in 2010-11.

### **RELATED LEGISLATION:**

**SBX8 61 (Huff)** This bill changes existing law governing non-instructional services contracting for school districts, by repealing existing law restricting the conditions under which a school district or community college is authorized to contract for personal services or food service management consulting services. In addition, the bill authorizes these entities to contract for these services if the governing board determines that the contract provides a benefit to the district and the contract is awarded in accordance with "applicable" Public Contract Code provisions. **Status:** Failed Passage in Senate Education on February 25, 2010.

**LAO COMMENTS/LAO RECOMMENDATIONS:** The LAO recommends approval of the Governor's language to remove restrictions on contracting out, but the LAO recommends removing the link between the policy proposal and the revenue limit funding reduction. The LAO provides the following details for their recommendations.

- **Governor Proposes to Modify State Restrictions on Contracting Out.** The Governor proposes to cut an additional \$300 million from school district revenue limits (roughly \$50 per ADA) and to modify restrictions that prohibit districts from contracting externally for non-instructional services. For example, districts would no longer be prohibited from contracting out based solely on savings they would get from lower contractor pay rates or benefits. They also would be able to layoff or demote a district employee who used to perform the service to be contracted out. Easing these restrictions would allow districts to more frequently bid on the open market for non-instructional services.
- **Proposal Could Result in Some Local Savings but \$300 Million Overly Optimistic.** To the extent local districts took greater advantage of contracting out, they likely would realize some cost savings at the local level. However, contractor availability, collective bargaining agreements, and existing service arrangements differ across the state, such that it is uncertain how much savings could be realized or how many districts would take advantage of the new flexibility. The LAO thinks assuming \$300 million in associated savings is overly optimistic. Depending on the percent of non-instructional services contracted out and the incremental reduction in cost, the LAO estimates total savings statewide could be as high as \$250 million or as low as \$50 million.
- **Savings Generated and Cut Applied Unlikely to Match.** Given the proposed cuts are to be spread across all districts regardless of the amount of contract savings they are able to achieve, the LAO thinks it is highly unlikely that the savings a particular district generates will be well aligned with that district's \$50 per ADA revenue limit reduction.
- **Recommend Approving Contracting Out Proposal but Without Link to Revenue Limit Reduction.** The LAO thinks district's identifying the most cost-effective options for meeting their needs makes sense. Therefore, the LAO recommends that the Legislature approve the Governor's proposal to waive the restrictions on contracting out for non-instructional services. Nonetheless, the LAO believes it is inappropriate to equate this proposal with an across-the-board revenue limit savings estimate, as individual districts could save more or less than their share of the \$300 million cut. Thus, the LAO recommends the Legislature make the statutory change on contracting without establishing any link to district revenue limit funding levels.

#### **STAFF COMMENTS/STAFF RECOMMENDATIONS:**

**Revenue Limit Proposals Overall.** Staff supports the LAO's general recommendations that all three of the Governor's revenue limit reductions be delinked from the Governor's policy proposals. With regard to the level of the Governor's revenue limit reductions for school districts and county offices of education, staff notes that decisions about major program reduction programs will not likely occur until after May Revise, when the Legislature has determined the appropriate level of Proposition 98 funding in 2010-11.

**School District Contracting Out.** Staff recommends that when votes on the revenue limit proposals are taken following May Revise the Subcommittee reject the Governor's revenue limit policy proposal that would remove restrictions in current law governing

school contracting out. The Conference Committee rejected a similar proposal in 2009. More recently, SB 61 (Huff) – 8<sup>th</sup> Extraordinary Session – failed passage in the Senate Education Committee

### **SUGGESTED QUESTION**

1. The Administration is proposing amendments to provisions of SB 1419 as a part of its contracting out proposal, instead of full repeal per the Administration's proposal last year. Can the Administration discuss the intent of their proposal?

**ITEM 7: Governor’s Budget – 2010-11 Revenue Limit Reductions –  
County Office of Education Consolidation**

**DESCRIPTION:** The Governor proposes to reduce revenue limit funding by **\$45 million** and to link the reduction to a plan that would require county offices of education to form regional consortia in order to consolidate functions, provide services at the regional level, achieve economies of scale, and reduce administrative costs. This reduction is part of the Governor’s **\$1.5 billion** proposal to reduce revenue limit reductions for school districts and county offices of education 2010-11.

**BACKGROUND:**

Revenue limit apportionments provide general purpose funding for school districts and county offices of education. Revenue limits comprise roughly two-thirds of all Proposition 98 funding. The 2009-10 budget act provides a total of approximately \$30.6 billion in revenue limit funding to school districts and county offices of education. Ongoing K-12 base revenue limit apportionments were reduced significantly in 2008-09 and 2009-10 as a result of the state’s budget shortfall -- \$925 million in 2008-09 and an additional \$2.4 billion in 2009-10. In addition, K-12 base revenue limits were reduced by \$1.5 billion on a one-time basis in 2009-10. In addition, K-12 base revenue limits were reduced by \$1.5 billion on a one-time basis in 2009-10. Deficit factors have been established for the ongoing base reductions – as well as foregone cost-of-living increases – as a symbol of intent to restore these levels when the state budget allows.

There are two basic categories of county revenue limit funding – funding for direct instruction to students and general purpose funding for school district services. While each county office uses this unrestricted portion of its revenue limit differently, activities generally include business support services, professional development, technology services, and credential monitoring for certificated staff.

**SUMMARY OF GOVERNOR’S OVERALL REVENUE LIMIT PROPOSALS.**

The Governor proposes a total of **\$1.5 billion** in revenue limit reductions – the largest reduction for K-12 education in 2010-11. There are three reduction proposals, each linked to policy proposals intended to create local savings, as summarized below.

<i>Proposal</i>	<i>Base Funding</i>	<i>Reduction</i>	<i>%</i>	<i>Per ADA* Equivalent</i>
<b>School Districts – Reductions Tied to Limitations on Non-Instructional Service Expenditures</b>	<b>\$31,475 m</b>	<b>\$1,184 m</b>	<b>4%</b>	<b>\$200/ADA</b>
<b>School Districts – Reductions Tied to New Contracting Out Authority</b>	<b>\$31,475 m</b>	<b>\$300 m</b>	<b>1%</b>	<b>\$50/ADA</b>
<b>County Offices of Education – Savings Tied to County Office of Education Consolidation *</b>	<b>\$595 m</b>	<b>\$45 m</b>	<b>7%</b>	<b>Between \$2.40 - \$30/ADA based on CDE estimates. **</b>
<b>TOTAL</b>		<b>\$1,529 m</b>		

\*Average Daily Attendance.

The Governor does not propose establishing deficit factors for any of these revenue limit reductions. Instead, the deficit factors would remain unchanged from their 2009-10 levels.

### **GOVERNOR’S BUDGET PROPOSALS – CONSOLIDATION OF COUNTY OFFICES OF EDUCATION:**

The Governor’s proposal requires the Legislative Analyst’s Office and Department of Finance – jointly with the California County Superintendents Educational Services Association – to develop a plan that results in a reduction of **\$45 million** in costs for county offices of education statewide. Per the plan, county offices of education would be required to form regional consortia in order to consolidate functions, provide services on the regional level, achieve economies of scale, and reduce administrative costs.

Beginning in 2010-11, funding to county offices of education would be reduced by \$45 million on a per ADA basis. For excess tax county offices, reductions would be applied to the county’s state categorical programs, with the following exclusions: Special Education, Child Care and Development, After School Education and Safety, and Quality Education Investment Act.

**TRAILER BILL:** The Governor proposes to add new statutes to implement this proposal. The Governor also includes statutory provisions to continue revenue limit deficit factors at 2009-10 levels in 2010-11.

**LAO COMMENTS/LAO RECOMMENDATIONS:** The LAO believes the Governor’s proposal has some merit, but recommends implementing a more structured regionalization plan. Specifically, the LAO recommends: (1) reducing general purpose funding for each county office of education by 10 percent (\$33 million), and (2) redirecting an additional 10 percent (\$33 million) into new county office of education regional revenue limits. The LAO provides the following details for their recommendations:

- **Concept Has Merit, Lacks Detail.** While some room for further consolidation of services across county offices likely exists, county offices currently face no explicit prohibitions on working more collaboratively on a regional basis. Because the administration’s plan is not yet fully developed, it remains unclear how the Governor envisions county offices might seek further regionalization of services. The LAO thinks that the Legislature should do more to encourage cooperation than simply cut county office funding and hope they choose to work together.
- **Recommend More Structured County Office Regionalization Plan.** To help address the state’s budget shortfall, the LAO recommends reducing county office revenue limits by 10 percent, or about \$33 million—somewhat less than the Governor’s proposed 15 percent cut. The LAO also recommends creating a new “regional” revenue limit to establish a formal structure for sharing funding and services at the regional level. Specifically, the LAO recommends redirecting an

additional 10 percent of each county office's unrestricted revenue limit funding into a regional COE revenue limit to be shared by all of the county offices in that region.

- **Within New Structure, Regions Have Flexibility.** The LAO's proposed framework would require county offices of education to communicate and collaborate over how to best use limited resources to meet the needs of the school districts in their region. Under the LAO's approach, each of the state's existing 11 education regions would select one county office to be the fiscal agent over their share of this new \$33 million grant. Spending decisions, however, would be shared among all the county offices in the region. The resulting arrangements likely would differ based on the individual characteristics of the regions and the strengths and needs of each county.

#### **STAFF COMMENTS/RECOMMENDATION:**

**Revenue Limit Proposals Overall.** Staff supports the LAO's general recommendations that all three of the Governor's revenue limit reductions be delinked from the Governor's policy proposals. With regard to the level of the Governor's revenue limit reductions for school districts and county offices of education, staff notes that decisions about major program reduction programs will not likely occur until after May Revise, when the Legislature has determined the appropriate level of Proposition 98 funding in 2010-11.

**County Office Consolidation Proposal.** Staff also supports the LAO's view that the Governor's policy proposal to pursue consolidation of the general purpose activities of county offices of education has merit. For this reason, staff recommends that the Subcommittee direct the LAO to work with Department of Finance and the California County Superintendents Educational Services Association to develop a consolidation plan. This approach is in keeping with the Governor's proposal. The plan could be presented to the Subcommittee at or closely following May Revise.

#### ***SUGGESTED QUESTIONS***

1. Is the Governor's plan for county offices tied to any larger, long-term policy goal for county offices of education?
2. Counties offices of education statewide have already organized themselves into eleven contiguous regions reflective of size and proximity. What is the purpose of these regions?

**ITEM 8: Governor's Budget – 2010-11 Cost-of-Living Adjustments**

**DESCRIPTION:** The Governor proposes to apply a negative cost-of-living adjustment (COLA) of **-0.38 percent** for K-12 education programs in 2010-11. This equates to a savings of **\$201 million** for K-12 revenue limit apportionments and categorical funds.

**BACKGROUND:**

Current law requires that a COLA be applied annually to revenue limits and most K-12 categorical programs in order to reflect the higher costs that schools face due to inflation. 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.

The statutory K-12 COLA is based on an index that measures changes in costs experienced by state and local governments. School districts generally use COLAs to provide annual increases to employee salaries and address cost increases for local operating expenses, including employee benefits, utilities, materials, and supplies.

Due to the state budget crisis, the state has not provided COLAs in recent years—foregoing K-12 COLAs of 5.66 percent in 2008-09 and 4.25 percent in 2009-10. Deficit factors were established in both these years to keep track of the foregone COLA for revenue limit programs, so revenue limit funding could eventually be restored to previous base levels. The Legislature is not required to create a deficit factor for revenue limits when no COLA is provided; however, the Legislature has adopted the practice of establishing deficit factors for revenue limit programs -- based upon statutory COLA rates -- when COLA has not been provided.

**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 PROPOSAL:**

The Governor proposes to reduce the K-12 revenue limit and most categorical programs by a total of \$201 million to implement a negative statutory COLA rate of -0.38 percent for these programs in 2010-11. According to the LAO, for the first time in over 60 years,

the index used to calculate the K-12 COLA is negative (-0.38 percent). Per the LAO, this suggests the recession has led to a decrease in government costs; implying school districts might be able to purchase the same goods and services for less money.

The \$201 million in savings created by the Governor’s proposal includes \$150 million which results from school district and county office revenue limits, \$45 million from various categorical programs, and \$6 million for child care, as summarized below.

**Governor’s K-12 COLA Proposal**

<i>Dollars in Millions</i>	<b>Estimated COLA Rate</b>	<b>Revenue Limit Reduction</b>	<b>Categorical Program Reduction</b>	<b>Child Care Reduction</b>	<b>Total</b>
<b>School Districts</b>	-0.38	-\$147 million	-\$45million	-\$6 million	-\$198 million
<b>County Offices of Education</b>	-0.38	-\$3 million			-\$3 million
<b>Total</b>	-0.38	-\$150 million	-\$45 million	-\$6 million	-\$201 million

In addition to the \$201 million in savings for K-12 programs, the Governor proposes savings of \$23 million from applying a -0.38 percent COLA to community college programs.

**LAO COMMENTS/RECOMMENDATION:** The LAO recommends rejecting the Governor’s proposal and, instead, notwithstanding statutory COLA provisions. In the LAO’s view, applying a negative COLA after years of not providing a positive COLA is unreasonable. The LAO does recommend applying the negative COLA to revenue limit deficit factors. More specific detail on the LAO’s recommendations is provided below.

- **Unreasonable to Apply Negative COLA After Not Applying Positive COLAs.** While the recession could be resulting in some lower costs for schools, the LAO believes applying a negative COLA is unreasonable. Given the state did not provide positive COLAs in recent years (and has made program reductions), school funding has not kept pace with inflation over the last few years.
- **Recommend Not Providing COLA.** As it has in the past two years, the LAO recommends the Legislature waive the statutory COLA provisions and avoid making inflationary adjustments to K-12 programs in 2010-11. As the state has continued to adjust the revenue limit “deficit factor” for changes in the cost of living, the LAO would further recommend making the comparable downward adjustment to this future obligation.

**STAFF COMMENTS/RECOMMENDATIONS:**

Staff recommends that at May Revise the Subcommittee approve the LAO recommendation to provide zero COLA for K-12 programs if COLA is still estimated to

be negative at that time. Staff concurs with the LAO that it seems unreasonable to apply a negative COLA since positive COLAs have not been provided for K-12 education programs in either 2008-09 or 2009-10. As a result, assuming the Governor's current levels of Proposition 98 spending in 2010-11, reductions of \$201 million will be required for other education programs, most likely revenue limits.

Staff further recommends that the Subcommittee adopt the LAO's recommendation to adjust the revenue limit deficit factors downward in 2010-11 to reflect the negative COLA. Since deficit factors by their nature track foregone COLA adjustments, it is reasonable to count both positive as well as negative adjustments.

Beginning in 2008-09, the Governor proposed to switch the current COLA index to a modified version of the California Consumer Price Index for Wage Earners and Clerical Workers. The LAO agreed with the need for an alternative, but recommended modifying the current K-14 COLA index to focus more heavily on projected compensation cost increases that the Administration considered. At that time, both the Administration and the LAO had concerns with the existing K-12 COLA Calculation (GDPSL) because it is heavily weighted by costs that do not affect schools and community colleges. For example, the LAO then noted that schools typically spend about 85 percent of their annual budget on employee salaries and benefits, however employee compensation comprises only about 56 percent of the current COLA index. In addition, both the Administration and the LAO recommended that their alternative to the current COLA index take effect in a year when no COLA was being provided. Per the LAO, 2008-09 was an ideal time for the change for this reason.

Prior to May Revise staff also suggests that the Subcommittee reconsider proposals developed by the Administration and LAO to change the basis for calculating COLA to better reflect the costs for K-12 education. These alternative calculations could be presented and discussed at a future Subcommittee hearing. If there is consensus that these alternatives more closely track school expenditures, there may be an opportunity for changing the calculation beginning in 2010-11 when negative COLA factor is being recommended by the Administration.

#### **SUGGESTED QUESTIONS:**

1. Have the Administration or LAO reconsidered their 2008-09 proposals to change the COLA calculations to better reflect school district costs? With a current negative statutory rate, would this be a good time to make the change?

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Thursday, March 18, 2010**  
**9:30 a.m. or Upon Adjournment of Session**  
**Room 3191, State Capitol**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
	<b>Higher Education Overview</b>	
<b>6420</b>	<b>California Postsecondary Education Commission (CPEC)</b>	
<b>6440</b>	<b>University of California</b>	
<b>6600</b>	<b>California State University</b>	
<b>6870</b>	<b>California Community Colleges</b>	
Item 1	Overview of Governor's Budget Proposals	Page 2
Item 2	CPEC Comments on Higher Education Budget	Page 7
Item 3	Federal Maintenance of Effort Requirement	Page 8
Item 4	Student Fees	Page 9
Item 5	Student Completion Rates	Page 12
Item 6	Student Enrollment	Page 13
	<b>Public Comment</b>	

## Item 1: Overview of the Governor's Budget Proposals

### Speakers:

- Steve Boilard, Legislative Analyst's Office
- Chancellor Jack Scott, California Community Colleges
- Patrick Lenz for President Mark Yudof, University of California
- Robert Turnage for Chancellor Charles Reed, California State University
- Lynn Podesto, Department of Finance

### Higher Education Budget History: 2007 to Present

**Higher Education Compact.** In the spring of 2004, the Governor developed a *Compact* with the University of California (UC) and California State University (CSU), which calls for the Governor to provide the UC and CSU with a specified level of General Fund support as part of his annual budget proposal. In exchange for the *Compact's* "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. Among these outcomes was improved course articulation agreements for most majors to facilitate transfers from community colleges to UC or CSU. The Schwarzenegger administration's *Compact* with the higher education systems mirrors past funding agreements between former governors Wilson and Davis and the higher education systems.

It is important to note that the Legislature is not a part of this funding agreement nor was it consulted when the agreement was being developed. Thus, in choosing the appropriate funding level for the higher education segments, the Legislature is in no way bound by the *Compact*.

Some major elements of the higher education compact are:

- Applicable from 2005-06 to 2010-11.
- For 2005-06 and 2006-07, the *Compact* provides a three percent annual General Fund increase to the UC and CSU for cost-of-living adjustments (COLA), salary, and other price increases. From 2007-08 to 2010-11, the *Compact* provides increases of four percent annually in General Fund.
- The *Compact* provides a 2.5 percent enrollment growth annually for its duration. This is approximately 5,000 full-time equivalent students (FTES) at UC and 8,490 FTES at CSU annually.
- Beginning in 2007-08, the *Compact* promises the UC and CSU systems an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
- The *Compact* restricts increases in undergraduate student fees to the rise in per capita personal income, not to exceed ten percent per year. The student fee increases were intended to serve as additional funding to the segments' General Fund, rather than replacement of the State's support.

**Last “Normal” Year.** The Legislative Analyst’s Office (LAO) considers 2007-08 to be the most recent “normal” budget year for the higher education segments. The *2007-08 Budget Act* funded the higher education *Compact*, including enrollment growth and cost-of-living increases for all three segments, no large unallocated reductions were imposed, and no payments for new costs were deferred to future years. The higher education *Compact* was not funded by the Governor in 2008-09 or 2009-10, nor is it proposed for funding in 2010-11.

*UC Funding Reductions.* The total UC General Fund support has declined by about \$660 million from 2007-08 to 2009-10. This is approximately 20 percent of the UC’s General Fund budget. In 2008-09, the UC system received \$716.5 million in one-time American Recovery and Reinvestment Act of 2009 (ARRA) funds that served to backfill most of the lost General Fund support. Between 2007-08 and 2009-10, increased student fees raised about \$300 million for the UC system (after a set-aside for student financial aid).

*CSU Funding Reduction.* The total CSU General Fund support has declined by about \$625 million from 2007-08 to 2009-10. This is approximately 20 percent of the CSU’s General Fund budget. In 2008-09, the CSU system received \$716.5 million in one-time ARRA funds that served to backfill a General Fund cut of the same amount. Between 2007-08 and 2009-10, increased student fees raised about \$260 million for the CSU system (after a set-aside for student financial aid).

*CCC Funding reductions.* Between 2007-08 and 2009-10, the Proposition 98 funding level for CCC was reduced by about \$438 million. Of this amount, \$17.6 million was due to lower than anticipated local property tax revenue. However, once increased student fees (\$80 million), one-time ARRA funds, and deferrals are counted, the total decrease in CCC programmatic funding is \$295 million. The impacts of the recent budget cuts vary widely between community college campuses, because some districts had greater financial reserves that they were able to use to backfill the state cuts. It is important to note that the ARRA funds and local financial reserves were largely one-time funds, so it is possible that if those funds are not backfilled with other revenue there will be reductions to course selections and student services.

## Governor's Proposed 2010-11 Budget

### Higher Education Core Funding

(dollars in millions)

	2007-08 Actual	2008-09 Actual	2009-10 Estimated	2010-11 Proposed
<b>University of California</b>				
General Fund	\$ 3,257.4	\$ 2,418.3	\$ 2,596.1	\$ 3,018.6
Student Fees	\$ 1,116.8	\$ 1,166.7	\$ 1,422.9	\$ 1,794.4
ARRA	\$ -	\$ 716.5	\$ -	\$ -
Lottery	\$ 25.5	\$ 24.9	\$ 28.1	\$ 26.7
<b>Totals</b>	<b>\$ 4,399.7</b>	<b>\$ 4,326.4</b>	<b>\$ 4,047.1</b>	<b>\$ 4,839.7</b>
<b>California State University</b>				
General Fund	\$ 2,970.6	\$ 2,155.3	\$ 2,350.1	\$ 2,723.4
Student Fees	\$ 900.3	\$ 1,092.1	\$ 1,158.1	\$ 1,260.5
ARRA	\$ -	\$ 716.5	\$ -	\$ -
Lottery	\$ 58.1	\$ 42.1	\$ 45.8	\$ 43.6
<b>Totals</b>	<b>\$ 3,929.0</b>	<b>\$ 4,006.0</b>	<b>\$ 3,554.0</b>	<b>\$ 4,027.5</b>
<b>California Community Colleges</b>				
General Fund	\$ 4,202.3	\$ 3,992.1	\$ 3,764.4	\$ 4,009.1
Student Fees	\$ 291.3	\$ 302.7	\$ 357.3	\$ 365.2
Local Property Taxes	\$ 1,970.7	\$ 2,010.7	\$ 1,953.2	\$ 1,913.3
ARRA	\$ -	\$ -	\$ 35.0	\$ -
Lottery	\$ 168.7	\$ 148.7	\$ 160.8	\$ 153.2
<b>Totals</b>	<b>\$ 6,633.0</b>	<b>\$ 6,454.2</b>	<b>\$ 6,270.7</b>	<b>\$ 6,440.8</b>
<b>Hastings College of the Law</b>				
General Fund	\$ 10.6	\$ 10.1	\$ 8.3	\$ 8.4
Student Fees	\$ 21.6	\$ 26.6	\$ 30.6	\$ 35.7
Lottery	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2
<b>Totals</b>	<b>\$ 32.3</b>	<b>\$ 36.8</b>	<b>\$ 39.1</b>	<b>\$ 44.3</b>
<b>California Postsecondary Education Commission</b>				
General Fund	\$ 2.1	\$ 2.0	\$ 1.8	\$ 2.0
<b>California Student Aid Commission</b>				
General Fund	\$ 866.7	\$ 888.3	\$ 1,008.9	\$ 1,110.2
Student Loan Operating Fund	\$ 94.9	\$ 117.3	\$ 124.3	\$ 92.3
<b>Grand Total for Higher Education</b>	<b>\$15,925.4</b>	<b>\$15,794.2</b>	<b>\$15,006.8</b>	<b>\$ 16,512.5</b>

The Governor's Budget for 2010-11 contains increased funding for all of the three segments. The major components are outlined here and discussed in greater detail below.

**University of California (UC)**

- \$305 million increase in General Fund to backfill for lost ARRA funds
- \$51.3 million increase in General Fund for 2.5 percent enrollment growth
- \$564.8 million in new student fee revenue

**California State University (CSU)**

- \$305 million increase in General Fund to backfill for lost ARRA funds
- \$60.6 million increase in General Fund for 2.5 percent enrollment growth
- \$153.5 million in new student fee revenue, including a ten percent fee increase assumed by the Governor but not yet approved by the CSU Board of Trustees

**California Community Colleges (CCC)**

- \$126 million increase in Proposition 98 General Fund to fund apportionments
- \$22.9 million decrease in Proposition 98 General Fund to reflect a -0.38 percent cost-of-living adjustment (COLA)
- \$33.7 million increase in General Fund to offset estimated decreases in local property taxes
- \$163 million increase in Proposition 98 General Fund to reflect an increased Community College deferral from \$540 million to \$703 million
- \$28 million decrease in General Fund for the Career Technical Education (CTE) Pathways Initiative program, offset by a \$48 million increase in Quality Education Investment Act (QEIA) funds for the CTE program, for a total of \$68 million for CTE Pathways Initiative Program

**UC Budget Increase**

The \$305 million General Fund increase proposed by the Governor for the University of California system would be used in some combination for the following expenditures:

- \$184 million to avoid employee furloughs
- \$222.4 million for mandatory cost increases (not including unfunded enrollment)

**UC Estimated Mandatory Cost Increases**

<i>(dollars in millions)</i>	<b>2008-09 and 2009-10 Combined</b>	<b>Estimated 2010-11</b>
Academic merit salary increases	\$ 55.5	\$ 29.5
Employee health benefits	\$ 60.4	\$ 34.1
Annuitant health benefits	\$ -	\$ 14.1
Compensation increases (10/1/07 contract)	\$ 37.8	\$ -
Employer retirement contributions	\$ 20.0	\$ 88.9
Purchased utilities	\$ 64.1	\$ 10.0
Instructional equipment, technology, library	\$ 21.6	\$ 24.6
Professional school cost increases	\$ 25.4	\$ 21.2
<i>Savings from OP restructuring</i>	\$ (28.1)	\$ -
<i>Campus efficiencies</i>	\$ (43.6)	\$ -
<b>Total Unfunded Mandatory Cost Increases</b>	<b>\$ 213.1</b>	<b>\$ 222.4</b>

### CSU Budget Increase

The \$305 million General Fund increase proposed by the Governor for the California State University system would be used for the following:

- \$135 million for mandatory cost increases
- \$170 million for 21,266 full-time student equivalents (FTES)

### CSU unfunded mandatory cost increases since 2007-08

*(dollars in millions)*

#### Mandatory Cost Growth Between 2007-08 and 2009-10

Faculty general salary increase (2%, effective 6/30/08)	\$ 30.6
Faculty merit salary adjustments	\$ 14.0
Health insurance premiums	\$ 29.9
Dental insurance premiums	\$ 2.7
Annualized service-based salary increases	\$ 4.2
New space (utilities/maintenance)	\$ 15.1
Energy price increases	\$ 16.2
<b>Total for 2007-08, 2008-09, and 2009-10</b>	<b>\$ 112.7</b>

#### Mandatory Cost Growth For 2010-11

Health insurance premiums	\$ 9.7
Energy price increases	\$ 7.2
New space (utilities/maintenance)	\$ 5.4
<b>Total for 2010-11</b>	<b>\$ 22.3</b>

**Total Unfunded Mandatory Costs since 2007-08 \$ 135.0**

It is important to note that the \$170 million for student enrollment would pay for existing enrollment at CSU that is currently unfunded. It would fund instruction costs for 21,266 FTES at \$7,965 per student. The cost of enrollment is discussed in greater detail under Issue 6 on page 13.

### CCC Budget Increase

It is important to note that the community colleges are funded primarily through Proposition 98, which is a funding level determined by mathematical formulas and is largely impacted by the State's General Fund revenues. If the State's revenues fall, there will be fewer Proposition 98 dollars available. If fewer dollars are available, the Legislature's ability to increase community college funding will be severely limited. Conversely, if Proposition 98 obligations increase, more dollars will be available to support the community colleges

The \$126 million General Fund increase proposed by the Governor would be used to support existing enrollment that is currently unfunded. These funds would allow the community college system to continue offering courses to 26,000 FTES (60,000 headcount) students. In 2009-10, due to high enrollment demand, the community colleges are serving approximately 90,000 FTES (200,000 headcount) students above their funded levels. Without these funds, the community college system will further reduce their course offerings for 2010-11, leaving more students without the courses necessary for transfer or completion of degrees.

## Item 2: CPEC Comments on Governor's Budget - Informational

**Speaker:** Karen Humphrey, Executive Director, CPEC

**About CPEC.** The California Postsecondary Education Commission (CPEC) was established in 1974 as the State planning and coordinating body for higher education. CPEC serves a role in integrating policy, fiscal, and programmatic analyses regarding California's entire system of postsecondary education.

The primary statutory purposes of CPEC are to:

1. Develop an ongoing statewide plan for the operation of an educationally and economically sound, vigorous, innovative, and coordinated system of postsecondary education;
2. Identify and recommend policies to meet the educational, research, and public service needs of the State of California; and
3. Advise the Governor and Legislature on policy and budget priorities that best preserve broad access to high quality postsecondary education opportunities.

Notably, CPEC does not license or regulate private postsecondary institutions. The Bureau for Private Postsecondary Education in the Department of Consumer Affairs handles private postsecondary institutions.

**The Improving Teacher Quality (ITQ) State Grants Program.** The ITQ program gives states federal funds to improve teacher quality and raise student learning in the core academic subjects of mathematics, science, arts, civics and government, economics, English, foreign languages, geography, and history. Since federal funds were first allocated to postsecondary institutions for this purpose in 1984, CPEC has administered the grants. CPEC awards the funds through competitive grants to partnerships between California institutions of higher education, local educational institutions and nonprofit organizations for the professional development of current and prospective teachers.

### CPEC Budget

*(dollars in thousands)*

	2007-08	2008-09	2009-10	2010-11
General Fund	\$ 2,105	\$ 1,958	\$ 1,808	\$ 2,013
Federal Funds	\$ 8,637	\$ 8,603	\$ 9,012	\$ 9,033
<b>Total</b>	<b>\$ 10,742</b>	<b>\$ 10,561</b>	<b>\$ 10,820</b>	<b>\$ 11,046</b>

\* Pass-through funds for grant award recipients of the federal teacher training program

**Item 3: Federal Maintenance of Effort Requirement - Informational**

**Speaker:** Steve Boilard, Legislative Analyst’s Office

The American Recovery and Reinvestment Act of 2009 (ARRA) requires that federal ARRA funds not replace state funding for programs, but rather supplement state spending. ARRA sets the 2005-06 fiscal year as the base for state funding that must be maintained into the future as a condition of accepting ARRA funds. The State agreed to meet the maintenance of effort (MOE) as a condition of accepting the funds.

For the Governor’s budget to meet the MOE requirement, deferrals are counted in the fiscal year in which they are programmed, as opposed to received, by colleges. Local property taxes, which are counted in the CCC Proposition 98 limit, are not counted towards the MOE requirement (and thus not shown in the chart below).

**Higher Education General Fund Appropriations**

*(dollars in millions)*

	<b>MOE Base Year 2005-06</b>	<b>2008-09</b>	<b>2009-10</b>	<b>Proposed 2010-11</b>
<b>University of California</b>	\$ 2,839	\$ 2,418	\$ 2,596	\$ 3,019
<b>California State University</b>	\$ 2,596	\$ 2,155	\$ 2,351	\$ 2,723
<b>California Community Colleges</b>	\$ 3,423	\$ 4,306	\$ 3,915	\$ 3,999
<b>Total Higher Education Funding</b>	\$ 8,858	\$ 8,879	\$ 8,862	\$ 9,741
<b>Difference from 2005-06</b>		\$ 21	\$ 4	\$ 883

## Item 4: Student Fees

### Speakers:

- Judy Heiman and Paul Steenhausen, Legislative Analyst's Office
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Erik Skinner, California Community Colleges
- Lynn Podesto, Department of Finance

**Recent Student Fee Increases.** The UC Regents have approved a 9.3 percent student fee increase for 2009-10, and an additional 15 percent mid-year student fee increase for 2009-10, for a total increase of 17.5 percent in 2009-10. The UC Regents also approved a 15 percent student fee increase for 2010-11. These fee increases are projected to provide \$564.8 million in new revenue for the UC system during 2010-11 that backfills for previous General Fund cuts.

The CSU Board of Trustees has approved a 32 percent student fee increase for 2009-10 and proposed a ten percent fee increase for 2010-11, to be "bought out" with General Fund. The Governor denied the fee buy-out and instead assumed an additional 10 percent student fee increase for 2010-11, which would bring \$153.5 million in additional revenues to the CSU system. These new student fee revenues are used to backfill for previous General Fund cuts. The proposed ten percent fee increase would bring the total fee increases at CSU since 2006 to 76 percent.

The CCC fees are set by the Legislature as part of the budget process. The CCC fees were increased by 30 percent from \$20 per unit to \$26 per unit in 2009-10. The Governor is not proposing any increases in CCC fees.

### Student Fees for Resident Undergraduates

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>University of California</b>	\$ 6,141	\$ 6,636	\$ 7,126	\$ 8,373	\$ 10,302
<b>California State University</b>	\$ 2,520	\$ 2,772	\$ 3,048	\$ 4,026	\$ 4,429
<b>California Community Colleges*</b>	\$ 690	\$ 600	\$ 600	\$ 780	\$ 780

*\*For full time student taking 30 units*

**Student Fee Levels Unpredictable.** Student fee increases are not regulated in statute for UC and CSU, and thus can change from year to year with little predictability for students. Student fees have been erratic and unpredictable over the course of the past few years, making it difficult for families to conduct financial planning for higher education costs. Though the higher education *Compact* attempted to create stability in student fee increases, that attempt was not successful due to the State's inability to guarantee stable core funding for the segments.

**California Student Fees Still Competitive Nationally.** The California Postsecondary Education Commission (CPEC) conducts a comparison study of California's undergraduate resident student fees and student fees at comparable institutions nationally. Even with the recent enacted student fee increases, California's student fees are still below average for UC and CSU, and lowest in the nation for CCC.

**Annual Student Fees for UC and Comparison Institutions**

	<b>2009-10</b>
University of Illinois	\$ 12,508
University of Michigan	\$ 12,400
University of Virginia	\$ 9,872
<b>University of California</b>	<b>\$ 9,311*</b>
University at Buffalo, New York	\$ 7,013
<b>Average for Comparison Universities</b>	<b>\$ 10,448</b>

*\*Includes campus fees voted in by the students*

**Annual Student Fees for CSU and Comparison Institutions**

	<b>2009-10</b>
Rutgers University	\$ 11,886
Illinois State University	\$ 10,531
University of Connecticut	\$ 9,886
Wayne State University, Detroit	\$ 9,272
University of Maryland	\$ 8,872
University of Wisconsin	\$ 8,522
University of Texas	\$ 8,186
George Mason University	\$ 8,024
Cleveland State University	\$ 7,920
Georgia State University	\$ 7,298
Arizona State University	\$ 6,846
University at Albany, New York	\$ 6,698
University of Colorado	\$ 6,542
North Carolina State University	\$ 5,474
<b>California State University</b>	<b>\$ 4,893*</b>
University of Nevada, Reno	\$ 4,856
<b>Average Comparison University</b>	<b>\$ 8,054</b>

*\*Includes campus fees voted in by the students*

**Governor's Budget.** The UC fee increases in the Governor's Budget have already been approved by the UC Regents. The Governor's Budget assumes a fee increase of 10 percent for the CSU system that has not yet been approved by the CSU Board of Trustees. There are no fee increases proposed by the Governor for the CCC.

**LAO Alternative.** The LAO proposes increasing fees at the Community Colleges to \$40 per unit. An increase of 53.8 percent to \$40 per unit (from \$26 per unit) would mean that a full-time student taking 30 units per academic year would pay \$1,200. The LAO estimates that these higher fees would generate approximately \$150 million in additional revenues to the CCC system. These revenues would effectively provide funds for CCC enrollment (\$126 million in Governor’s Budget) as well as “buy out” the Governor’s proposal to apply a negative COLA to the system. Even at this higher amount, CCC fees would still be the lowest in the country.

The LAO notes that there are numerous financial aid programs to assist students with higher community college fees: the Board of Governor’s Waiver (BOG waiver), federal American Opportunity Tax Credit (AOTC), Lifetime Learning Credit, and tuition and fee tax deduction. The BOG waiver program has relatively high income cut-offs. For example, a student with one child could have an income up to roughly \$80,000 and still qualify for a waiver. Students taking advantage of AOTC would qualify for a full fee credit—while leaving room to receive up to \$800 as reimbursement for course-materials costs. The LAO estimates that about 90 percent of CCC students would qualify for either a BOG waiver or a full or partial tax offset to their fees, and that roughly three-quarters of these students would effectively pay no fees at all.

**Staff Comment.** Currently, 47 percent of community college FTES receive the BOG waiver. The students who qualify for tax credits, but do not receive BOG waivers, must first pay the education costs themselves and apply for the tax credit. This need to have available cash can make affording college more difficult.

There are many students who receive the BOG waiver but do not apply for federal financial aid grants or loans. This may be because students do not know about federal financial aid, or do not want to go through the more difficult application process for federal financial aid when they can have their tuition paid for with the simple BOG waiver form. Students who qualify for a BOG waiver have such low income levels that many of them would also qualify for federal financial aid.

Fee increases impact those students the most whose families earn just enough to not qualify for state financial aid, but who are not financially independent enough to have established reserves to pay for higher education. These middle-class students may have to take out loans to cover not only their tuition, but living expenses as well. Most State financial aid is structured to cover the full tuition of the student who receives aid (including fee increases) but does not offer partial-aid packages to students whose family income is just above the cut off.

**Staff Recommendation.** Staff recommends the Subcommittee hold this issue open until more accurate state revenue projections become available in the spring.

**Student financial aid will be discussed in greater detail at the April 22 hearing.  
Student fee levels will be discussed in greater detail at the May 6 hearing.**

## Item 5: Student Completion Rates

- Judy Heiman and Paul Steenhausen, Legislative Analyst's Office
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Erik Skinner, California Community Colleges
- Lynn Podesto, Department of Finance

**Budget Impacts on Completion Rates.** It is difficult to predict what impact budget reductions for the segments will have on the student completion rates. It is possible that with fewer course offerings students will take longer to graduate or transfer since the required courses may not have enough space for all students needing the class. However, the full impact of reducing course offerings will not be known for several years.

**UC and CSU.** Higher education completion rates refer to the number of students who successfully acquire a degree. The charts below represent those students who enter the system as freshmen, or who transfer into the system from a community college.

### Undergraduate Student Completion Rates for Freshmen Entering in 2002

	4 Years	5 Years	6 Years
UC	55.8%	78.4%	82.2%
CSU	14.3%	37.7%	48.9%

### Undergraduate Student Completion Rates for Transfers Entering in 2002

	2 Years	3 Years	4 Years	5 Years	6 Years
UC	47.3%	78.7%	84.7%	NA	NA
CSU	NA	50.3%	62.9%	67.9%	70.1%

It is important to note that the CSU system has many students who attend part-time, while the UC system does not have as many part-time students. Attending courses only part-time will extend the amount of time to graduation.

**CCC.** The community college system has students who are taking courses recreationally or for continuing education without the intent to complete a degree. Thus, the CCC system completion rates are tracked as the number of students who complete degrees or transfer, rather than as a percentage of total students.

- **Transfers:** 105,957 in 2007-08
- **Degrees:** 133,812 in 2008-09

**Student outcomes will be discussed in greater detail at the May 13 hearing.**

## Item 6: Student Enrollment

### Speakers:

- Mark Whitman, Legislative Analyst's Office
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Erik Skinner, California Community Colleges
- Lynn Podesto, Department of Finance

**Enrollment Target Background.** Prior to the *2008-09 Budget Act*, the Legislature traditionally provided an enrollment target for each of the higher education segments. This enrollment target constituted the funded Full-Time Equivalent Students (FTES) that the segment was expected to enroll. If the higher education segments enroll more students than their funded FTES, these additional students are not financed by the state and are called unfunded FTES. Each of the higher education segments exceeded the enrollment target provided by the Legislature in the *2007-08 Budget Act*.

### Higher Education FTES for 2007-08

	UC	CSU	CCC
Budgeted FTES	198,455	342,893	1,169,606
Unfunded FTES	5,451	11,021	13,021
<b>Total FTES</b>	<b>203,906</b>	<b>353,914</b>	<b>1,182,627</b>

**Master Plan for Higher Education.** The Master Plan for Higher Education was first developed in the 1960s. It defined roles for all three public higher education segments in California. The UC system is to admit the top 12.5 percent of students. The UC system will also provide PhD degrees and conduct research. The CSU system is to admit the top one-third of students. The CCC system is to admit anyone who may benefit from higher education.

**Segments Response to Budget Cuts Since 2008.** Due to the steep General Fund cuts to each of the segments' budgets in 2008-09, the Legislature eliminated the enrollment targets with the understanding that the segments could decide to address their budget cuts by reducing enrollment.

*University of California and California State University:* Both the UC and CSU have attempted to reduce or eliminate unfunded FTES as General Fund support for the higher education institutions has been reduced. The result has been that fewer freshmen have been admitted into the UC and CSU systems. The CSU system also took steps to force "super-seniors" with more than 142 units completed to graduate or leave the system. The CSU system expects to serve 14,000 fewer students in 2010-11 than in 2007-08. The UC system has grown by about 6,000 students from 2007-08 to 2010-11.

*California Community Colleges:* The CCC is not able to deny admission to students, as their statutory mandate states that they must admit anyone who might benefit from attending a community college. However, students register for classes that have available space on a first-come-first-serve basis. Enrollment restriction occurs when courses do not have available space. The Community College Chancellor’s office estimates that the 2009-10 unfunded FTES reached about 90,000 (200,000 headcount) for the entire system. This number does not include students who attempted to enter the CCC system, but were unable to enroll in courses they needed and left for private colleges or chose not to pursue higher education at all.

**Higher Education FTES Totals**

	<b>2007-08 (Actual)</b>	<b>2008-09 (Actual)</b>	<b>2009-10 (Estimated)</b>	<b>2010-11 (Proposed)</b>
<b>UC</b>	203,906	210,558	212,888	209,977
<b>CSU</b>	353,914	357,223	340,643	339,873
<b>CCC</b>	1,182,627	1,260,497	1,250,000	1,188,129

**Governor’s Budget 2010-11.** The Governor’s proposal for enrollment growth is dependent on the receipt of \$6.9 billion in additional federal funds. If the federal funds do not materialize, which at this point it appears they will not, the shortage of federal funds will “trigger” cuts throughout the budget. The proposed enrollment growth funds are on this trigger cuts list. The Governor proposes the following enrollment growth:

- UC: \$51.3 million General Fund for 5,121 FTES
- CSU: \$60.6 million General Fund for 8,290 FTES
- CCC: \$126 million General Fund for about 26,000 FTES

**Budget Bill Language.** The Governor’s Budget also includes provisional language setting enrollment targets for UC and CSU. Including this language requires the UC and CSU systems to spend their funds to enroll the mandated number of students, but by so doing potentially limits the amount of special services to the students who are already enrolled.

**LAO Recommendation.** The LAO notes that the Governor proposes new enrollment targets for both UC and CSU. These enrollment targets were determined in two steps:

- First, the administration estimated the number of students it assumes the universities would have funding to serve in 2010-11 after current-year, one-time reductions are restored.
- Second, the Governor added 2.5 percent enrollment growth for new budgeted enrollment levels of 209,977 FTE students at UC and 339,873 FTE students at CSU. These levels are less than current-year enrollment for both segments.

The LAO notes that both UC and CSU have adopted plans to reduce the number of new students admitted in 2010-11. In February 2010, UC was planning to curtail freshman enrollment by 1,500 FTE in 2010-11 -- on top of the 2,300 FTE reduction in 2009-10. In

contrast, UC plans a modest expansion of transfer enrollment with an increase of 500 FTE students.

The LAO notes that the CSU has adopted a plan to reduce its enrollment by approximately 30,000 FTE students in the budget year. This would represent a reduction of approximately 9 percent from current-year levels, and a two-year decrease of 13 percent (almost 47,000 FTE students). Similar to UC, CSU indicated the reduction could be less severe if augmentations -- such as those provided in the Governor's budget -- are provided, but that it still expects to reduce enrollment compared to the current year.

In the LAO's view, providing enrollment growth funding for the universities in the budget year does not make sense because neither UC nor CSU would actually enroll more students. In fact, the Governor's proposed enrollment levels, as well as the segments' own plans, call for reduced enrollment in 2010-11. For this reason, the LAO recommends that the Legislature reject the Governor's proposal to provide UC and CSU \$112 million for enrollment growth in 2010-11. As noted in Item 4 (page 11), the LAO recommends that the CCC enrollment growth effectively be paid for with increased student fees.

**Staff Comment.** The funds that are listed as "enrollment growth" in the Governor's Budget should really be viewed as "enrollment preservation". These enrollment growth funds only fund current FTES, which have been funded with one-time funds during the 2009-10 budget year. If the one-time funds are not backfilled in the 2010-11 budget, enrollment could be negatively impacted in the UC, CSU, and CCC campuses. If the enrollment growth funds are not provided, the UC and CSU systems will reduce their enrollment by turning away more potential first-time freshmen in 2010-11. The CCC cannot turn away potential students, but those wanting to enroll in courses will find it much harder to get into the classes they need to graduate or transfer.

**Staff Recommendation.** Hold open until more accurate state revenue projections become available in the spring. Once the state's overall fiscal resources are more clearly determined the Subcommittee will have more clarity into the feasible amount of students for the three segments and the number of FTES enrollment the budget bill language should specify.

**Student enrollment will be discussed in greater detail at the May 6 hearing.**

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Bob Huff**  
**Member, Roderick Wright**

**Thursday, April 8, 2010**  
**9:30 a.m. or**  
**Upon Adjournment of Session**  
**State Capitol, Room 3191**

<b><u>Item</u></b>	<b><u>Departments</u></b>
<b>6110</b>	<b>Department of Education</b>
<b>6870</b>	<b>California Community Colleges</b>

## **Legislative Analyst’s Office – Overview of K-14 Education Mandates & Costs**

- |   |                |
|---|----------------|
| <b>Item 1. Background on K-14 Mandates and Costs (Information Only)</b>                             | <b>Page 2</b>  |
| <b>Item 2. Governor’s Budget Proposal – Ongoing K-14 Mandates</b>                                   | <b>Page 8</b>  |
| <b>Item 3. Legislative Analyst’s Office – Legislative Options for K-14 Mandate Reform</b>           | <b>Page 12</b> |
| <b>Item 4. Governor’s Budget Proposal – K-12 High School Science Graduation Requirement Mandate</b> | <b>Page 20</b> |
| <b>Item 5. Governor’s Budget Proposal – K-12 Mandate on Behavioral Intervention Plans</b>           | <b>Page 24</b> |
| <b>Item 6. Legislative Analyst’s Office – K-12 Flexibility Options</b>                              | <b>Page 29</b> |

## **Public Comment**

## **Attachments**

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

## **ITEM 1. K-14 Education Mandates and Costs (Information Only)**

### **BACKGROUND:**

**State Mandate History.** The California Constitution requires the state to reimburse local governments, including school districts, for certain state mandates. Section 6 of Article XIII B of the Constitution – added by Proposition 4 in 1979 -- provides that, with certain exceptions, whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the state shall reimburse the local government for the costs of the new state-mandated activity.

State statute establishes the process for determining the existence of state mandates and providing local government reimbursements. Specifically, state law authorizes the Commission on State Mandates to hear and decide local government reimbursement claims and establishes procedures for making mandate determinations.<sup>1</sup> State law also establishes procedures for the State Controller’s Office to make annual payments to local governments for activities the Commission on State Mandates has deemed reimbursable state mandates.

In November 2004, state voters approved Proposition 1A, which requires the Legislature to appropriate funds in the annual budget to pay outstanding mandate claims, “suspend” the mandate, or “repeal” the mandate. However, these provisions apply to local governments only and – by definition – do not include school districts or community colleges.

**Mandates Approval Process.** For K-14 education, the mandate process begins when a K-14 local education agency --K-12 school district/county office of education or community college district -- files a test claim with the Commission on State Mandates. Local education agencies are required to submit claims within one year of the effective date of the statute (or executive order). The Commission hears the test case and issues a “Statement of Decision” determining whether a claim is a reimbursable state mandate. If a mandate is determined, the Commission begins the process determining mandate costs based upon mandate claims. In so doing, claimants propose “Parameters and Guidelines (Ps and Gs)” for determining mandate costs. Ps and Gs identify the mandated program, eligible claimants, period of reimbursement, reimbursable activities, and other necessary claiming information. The Commission then adopts the Ps and Gs, which are sent to the State Controller’s Office in order to develop claiming instructions for K-14 local agencies. At this point, K-14 local agencies can file claims. In the end, the Commission

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<sup>1</sup> The Commission on State Mandates is composed of seven members: the State Controller; State Treasurer; Director of the Department of Finance; Director of the Office of Planning and Research; and a public member and two local elected officials appointed by the Governor, subject to Senate confirmation. Members serve four year terms.

estimates the costs of paying claims and reports the amount to the Legislature as the “Statewide Cost Estimate,” for inclusion in the annual budget.

If either the K-14 claimants or the State disagree with the Commission’s decisions during the mandate process, they can seek judicial review.

**Problems with the Mandates Process:** According to the LAO, the mandates process has significant, longstanding shortcomings. Test claims can take many years to be resolved. During this time, state fiscal liabilities increase and K-14 education agencies are not reimbursed for mandated activities. In addition, the LAO identifies the following major problems with the current K-14 mandate system.

### Problems With Current K–14 Mandate System

- » Mandates often do not serve a compelling purpose.
- » Costs can be higher than anticipated.
- » Recent court ruling likely to make containing costs even more difficult.
- » Reimbursement rates can vary greatly without justification.
- » Reimbursement process can reward inefficiency.
- » Reimbursement process ignores effectiveness

Item 3 of the Subcommittee agenda provides more detail on these issues.

**Recent Reforms to Process.** Chapter 890, Statutes of 2004 (AB 2856/Laird) was enacted to simplify the mandate claiming process and reduce the number of audits. Chapter 890 authorized the Commission to adopt a “reasonable reimbursement methodology (RRM)” for state mandates. This methodology was intended to allow the utilization of unit costs based upon a representative local sample, rather than reliance on detailed local claims.

Chapter 329, Statutes of 2007 (AB 1222/Laird) provided further reforms to the mandates process. Specifically, Chapter 329:

- Redefines RRM. Revises the definition of a RRM to remove requirements for providing evidence of actual costs for 50 percent of eligible claimants; base costs on a representative sample of eligible claimants; and require consideration of variations in local costs;
- Allows Joint Development of RRM. Allows the Department of Finance and local agencies to develop a funding methodology and statewide estimate of costs for adoption by the Commission;
- Allows Department of Finance and local agencies to jointly request the Legislature declare a statute a state mandate, approve a funding methodology, and appropriate funds based on the methodology.

## K-14 Education Mandates and Costs

**Number of Approved Mandates and Costs.** Per the LAO, the state currently requires K-14 education agencies to perform approximately 51 mandated activities (Appendix A). Of this total, 36 mandates are claimable by K-12 schools districts only; seven mandates are claimable by community colleges only; three are claimable by school districts and community colleges only; and five are claimable by all local government agencies – including school districts and community colleges.

The LAO has summarized the annual, ongoing costs for K-14 mandates in recent years in the chart below. In 2009-10, the annual costs for all K-14 education mandates total **\$416 million -- \$373 million** for K-12 districts and **\$43 million** for community colleges. The \$373 million for K-12 includes about **\$200 million** in new annual claims for the science graduation requirement mandate.

### Annual Mandate Claims Costs

*(dollars in millions)*

	2007-08	2008-09	2009-10
<b>K-12</b>	\$ 360	\$ 366	\$ 373
<b>Community Colleges</b>	\$ 39	\$ 41	\$ 43
<b>TOTAL</b>	\$ 399	\$ 407	\$ 416

*Source: Legislative Analyst's Office*

**Annual Budget Appropriations for Mandates.** Once approved by the Commission, ongoing and new education mandates are identified (listed) in the annual budget.

**Fund.** The Legislature may appropriate funding for each mandate based upon the State Controller’s Office Statewide Cost Estimate Report.

**Suspend.** Alternatively, the Legislature may choose to “suspend” a mandate by eliminating funding in the budget and adding provisional language stating the mandate is suspended. When a mandate is suspended, local responsibilities for providing the mandate and state obligations for funding the mandate are also suspended. In recent years, five mandates applying to school districts (three of which also apply to community colleges) are suspended.

**Repeal.** The Legislature may also choose to repeal a mandate by eliminating funding in the budget and repealing the underlying statute.

**Recent Budget Mandate Deferrals:** In 2002-03, the Legislature adopted the practice of deferring payments for K-14 education mandates as a means of achieving state budget

savings. With this practice, annual appropriations are virtually eliminated (limited to \$1,000 per mandate) and full payments are deferred to future years, although local agency obligations to provide the mandated services continue. These unpaid, prior year payments have contributed to a growing state obligation that must be paid eventually, once claims are audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

More specifically, the Government Code (Section 17561.5) requires that accrued interest be incorporated into the payment of an initial mandate reimbursement if payment is made more than 365 days after the adoption of the statewide cost estimate for the specific mandate. Interest begins to accrue on the 366<sup>th</sup> day after adoption of the statewide cost estimate for an initial claim. Interest also accrues on unpaid claims for any mandate remaining on August 15 of each year -- following the filing deadline for that year's claim submission. As of June 30, 2009, the state owed **\$117.6 million** in accrued interest on school mandates.

Due to significant one-time funds available in 2006-07, the state was able to retire nearly \$1 billion – a substantial portion -- of prior-year K-14 mandate obligations at that time. However, even in 2006-07, the practice of deferring annual mandate payments continued.

While the Governor proposed suspension of most K-14 mandates in 2009-10, the final 2009-10 budget continued the recent practice of payment deferrals for most of these K-14 mandates.

**Outstanding Mandate Obligations Total \$3.6 Billion.** As a result of annual payment deferrals, the state will owe a total of **\$3.2 billion** in prior year K-14 mandate payments in 2009-10, per the LAO chart below. With the continued deferral of an estimated **\$416 million** in annual payments, the state will owe a total of **\$3.6 billion** in K-14 mandate claims at the end of 2009-10.

### **Outstanding K–14 Mandate Obligations Total \$3.6 Billion<sup>a</sup>**

*(In Millions)*

	2007–08	2008–09	2009–10
Outstanding K–12 claims	\$2,141	\$2,501	\$2,867
Ongoing cost of K–12 claims	360	366	373
Outstanding CCC claims	260	299	340
Ongoing cost of CCC claims	39	41	43
<b>Total Outstanding Obligations</b>	<b>\$2,800</b>	<b>\$3,207</b>	<b>\$3,623</b>
<sup>a</sup> Excludes mandates still in the mandate determination process. Includes mandate relating to high school science graduation requirement.			

**Mandates Pending Commission Approval and Costs.** The Commission is currently considering approval of more than a dozen additional K-14 mandate claims at various stages of review. Two of these pending mandates could carry significant prior year and ongoing costs to the state. These include:

- **Graduation Requirement – Science Classes.** This is the costliest mandate per the LAO -- **\$200 million** per year. This mandate results from determination of a new high school graduation requirement that could result in significant prior-year and ongoing costs for the state. This is an existing mandate that was changed due to a 2004 court decision and subsequent Commission decision in 2008. (Item 4 of the Subcommittee agenda provides additional background and cost detail for this pending mandate.)
- **Behavior Intervention Services.** This is the second costliest mandate per the LAO -- **\$65 million** per year. The Administration is pursuing a court settlement agreement on this pending K-12 mandate related to behavior intervention plans for students with disabilities. As a part of that agreement, the Administration proposes to provide \$65 million in annual, ongoing special education appropriations to K-12 local educational agencies and \$510 million in one-time funds for prior-year payments, scheduled over a six year period. (Item 5 of the Subcommittee agenda describes the Governor’s settlement proposal in full.)

**Newly Re-Established Mandates and Costs.** A 2009 State Appellate Court decision struck down a statute directing the Commission to reconsider three, previously funded mandates related to Open Meetings (Brown Act), Mandate Reimbursement (Claiming) Process, and School Accountability Report Cards. The court decision will require the Commission to reinstate these three mandates, which will result in additional costs to the state. According to the Commission on State Mandates, no appeals were filed to the State Appellate Court decision; so the decision is final. Annual and prior year costs for these three mandates are summarized in the table below:

<i>In Millions</i>	<b>Prior Year Costs</b>	<b>Annual Costs</b>	<b>TOTAL</b>
Open Meetings Act	\$79	\$7	\$86
Mandate Reimbursement Process	155	15	170
School Accountability Report Cards	30	3.5	33.5
<b>TOTAL</b>	<b>\$264</b>	<b>\$25.5</b>	<b>\$289.5</b>

## RECENT COURT DECISIONS.

- **Mandates Deferral Decision – San Diego County Superior Court (December 2008).** In November 2007, five school districts and the California School Boards Association sued the Department of Finance and the State Controller seeking payment of past mandate claims and an end to mandate payment deferrals.

The Court found that the practice of deferring payments for state-mandated programs is an unreasonable and unconstitutional restriction on school districts' rights. "Accordingly," the Court found, "the Legislature in the future is to comply with the Constitutional requirements of article XIII B section 6 by fully funding state mandated programs." This decision as not appealed by the Administration.

- **Reconsideration of Commission on State Mandate Decisions -- State Court of Appeal for Third District (March 2009).** This lawsuit challenges provisions of AB 138 (Chapter 72, Statutes 2005), a budget trailer bill that:

- 1) Directed the Commission to reinstate its decisions on three mandates – the Open Meetings Act, Mandate Reimbursement Process, and School Accountability Report Cards; and,

- 2) Amended state law to specify that the Commission should not find a reimbursable mandate in cases when a law or regulation is "reasonably within the scope of" a voter-approved measure.

The court ruled that the Legislature's direction to the Commission to reconsider mandate decisions was an unconstitutional violation of the separation of powers doctrine. The court voided the three mandate reconsiderations, thereby reestablishing these measures as reimbursable mandates. This decision as not appealed by the Administration.

## AUDIT FINDINGS BY STATE CONTROLLER'S OFFICE.

The State Controller's Office (SCO) is required to conduct audits of education mandates within three years of mandate funding. Last year, the Senate Office of Oversight and Outcomes gathered information on education mandate audits of selected K-12 school districts from the SCO in prior years. This information – presented in Appendix B – covers State Controller audits for four education mandates: Habitual Truancy, Truancy Notification, Mandate Reimbursements, and Graduation Requirements. The audit period covers a several year period for each mandate and includes a small sample of school districts for each mandate. In summary, sample school districts claimed **\$35.8 million** for the four mandates; however, as a result of district audits, **\$20.4 million (57 percent)** of this amount was disallowed by the Controller's Office and returned to the state.

**ITEM 2. Governor's Budget Proposal for Ongoing K-14 Education Mandates  
(Budget Items 6110-295 & 6870-295)**

**DESCRIPTION:** The Governor's January 2010 budget proposes to suspend most ongoing, state mandate payments and mandate requirements for K-14 education agencies in 2010-11. This action would result in estimated savings of about **\$200 million** annually. The Governor also proposes to add **\$14.5 million** in funding for three remaining education mandates he proposes to continue. These proposals were prompted by a 2008 court decision that found the Legislature's deferral of annual education mandate payments unconstitutional.

**GOVERNOR'S BUDGET PROPOSAL:**

The Governor proposes to suspend most ongoing state mandates for K-14 education and to continue three mandates. More specifically, beginning in 2010-11, the Governor proposes to:

- **Provide zero annual funding for 51 ongoing K-14 education mandates, thus suspending both state obligations to pay for mandated activities and local obligations to provide these mandated activities.** Per the Administration, the Governor's proposal would save an estimated **\$200 million** in 2010-11. According to the Administration, a recent court decision requires the state to either pay or suspend all education mandates. In addition, the Administration believes that suspension of annual mandate requirements will increase funding flexibility and potential savings for K-14 education agencies.
- **Provide \$13.4 million in annual funding for three education mandates, including an increase of \$7.7 million for mandated costs related to Inter-District and Intra-District transfers and \$6.8 million for mandated costs related to the California Higher School Exit Exam (CAHSEE).** According to the Department of Finance, the rationale for funding the CAHSEE mandate is that it satisfies an annual student testing requirement under No Child Left Behind (NCLB) and continued funding would ensure compliance with federal accountability requirements. Funding for Inter-District and Intra-District Transfer policies also satisfy federal requirements, specifically with regard to school choice for students who attend schools in Program Improvement. These transfer policies are also consistent with an Administration priority to ensure school choice options for all students and parents.
- **Continue suspension of five K-14 mandates that have been suspended in recent years.** These mandates include two claimable only by school districts (School Bus Safety I–II and County Treasury Withdrawals) and three claimable by both school districts and community colleges (Law Enforcement Sexual Harassment Training, Health Benefits for Survivors of Peace Officers and Firefighters, and Grand Jury Proceedings).

The Governor also proposed suspension of most K-14 education mandates in 2009-10, however, the proposal was not approved by the Legislature. Instead, the 2009-10 budget

continues the practice of deferring most annual K-14 mandate claims costs into future years by providing \$1,000 for each deferred mandate.

#### **LAO COMMENTS/RECOMMENDATION:**

The Governor's mandate reform proposal reduces state education mandate costs by roughly **\$200 million**. While the LAO believes that the Governor's plan reduces state mandate costs and is a better option than continuing to defer costs, the LAO has identified the following shortcomings with the Governor's plan to suspend most education mandates.

- **Suspension Only a Short-Term Solution.** Suspending mandates provides savings only in the budget year but does not provide permanent solutions. Given the recent court ruling, pressure to fund the annual ongoing cost of mandates will persist. Moreover, the cost of many mandates can be reduced on a long-term basis with simple amendments to state law. Especially given the relative ease of creating more lasting solutions, the Governor's budget misses an opportunity to eliminate the costs of ineffective mandates altogether.
- **Suspension Treats All Currently Mandated Activities Alike Regardless of Policy Merits.** The Governor's proposal does nothing to preserve the state policies that underlie some education mandates. For instance, while the graduation requirement mandate in our view would not justify its price tag reimbursed using the existing method, we believe that the state should not weaken its high school science requirements. In the past, lawmakers have found strategies to limit the high cost of some mandates while creating strong incentives for schools to perform valuable educational activities. By suspending mandates, the administration fails to create such incentives.
- **Suspension Creates Confusion for Districts.** Suspension also would lead to confusion among districts about what activities they are required to perform. Rather than actually repeal or amend sections of the Education Code, suspension through the budget act makes sections of law inoperative only for the year in which they are suspended. As a result, districts would be forced to cross-reference the budget act with the Education Code and lengthy CSM decisions to determine what activities they are still required to perform. Moreover, on a practical level, districts cannot dismantle costly programs for a single year if there is a chance the mandate will be reinstated the following year.

The LAO recommends an alternative approach for education mandate reform that relies on making determinations for individual mandates that would eliminate most mandates, continue some mandates, and modify other mandates. The LAO's alternative is covered in Item 3 of the Subcommittee agenda.

## **STAFF COMMENTS:**

**Governor's Plan Better Than Deferring Mandate Costs.** Staff agrees with the LAO that the Governor's suspension plan reduces state mandate costs is a better option than continuing to defer costs. As a result of education mandate deferrals in recent years, the state will owe **\$3.6 billion** for K-14 education mandate claims by the end of 2009-10. (This amount includes \$2.3 billion for the science graduation mandate and \$1.3 billion for the remaining backlog of other education mandates.) This means that when state General Fund growth improves and funding is restored for schools, the state will be facing enormous mandate debts, in addition to revenue limit deficit factor restorations. Ironically, funding to restore important categorical funding streams will not be available because the state will be paying for mandates that in some cases may be less critical to student success.

**Hard to Preserve Mandates While Many Important State Categorical Programs Are Subject to Funding Flexibility.** While the state continues to defer most K-14 mandates, over 41 categorical programs are now subject to full funding flexibility for five years beginning in 2008-09. Under the categorical program flexibility, local districts are given discretion for allocating resources as most needed; however, school districts are not given flexibility over many state mandates that may be viewed as less essential to the Legislature.

**However, Suspension Gives Unclear Message to the Field.** As the LAO points out, suspension for one year gives school districts mixed signals. While districts are relieved of obligations, they may need to restore services in the next year. Maintaining staffing and services in this situation is tricky, at best.

**Suspension Avoids Important Determinations by Legislature for Individual Mandates.** Suspension has some appeal for stopping costs and providing school districts flexibility similar to what has been provided in the across-the-board categorical cut/flexibility program. Suspension also has some appeal for getting the mandates reform underway. However, the better policy approach is to have the Legislature – working together with the Administration – make individual determinations based upon agreed-upon criteria.

**STAFF RECOMMENDATIONS:** Staff recommends that the Legislature consider the LAO's proposal for more comprehensive mandate reforms. However, staff suggests that suspension of most K-14 mandates be viewed as a default – as an alternative to deferrals - to get mandate reforms started. Under this scenario, suspension can be viewed as a kind of “zero-basing” of mandates, if accompanied by provisions that required mandates to be re-approved by the Legislative policy committees now that the mandated costs are known.

## SUGGESTED QUESTIONS:

1. Can you explain more fully *why* the Administration has proposed to suspend funding and requirements for most K-14 education mandates? As we understand, the Administration's primary reasons involve: (1) a recent court decision that found the Legislature's "deferral" of annual education mandate payments unconstitutional; and (2) a desire to increase funding flexibility and savings to local education agencies and stop the clock on mounting state mandate costs in the face of budget shortfalls.
2. Does the Administration plan to continue K-14 mandate suspension for one year or for a number of years? Does the Administration plan to eventually restore these mandates?
3. Under the Administration's suspension proposal, what effect will "stopping" and "starting" mandated services have on school districts and community colleges?
4. Would the Administration consider a longer mandated suspension period to meet its goals for flexibility and budget savings? For example, recent budget actions enacted categorical cuts and flexibility for most K-12 state categorical programs over a **five year period** beginning in 2008-09.
5. Because of the constitutional separation of powers, the 2008 San Diego County Superior Court Decision cannot force the Legislature to make budgetary appropriations. However, according to the LAO, the court decision increases pressure on the state to pay the annual ongoing costs of education mandates. Does the Administration agree? If the court cannot force the state to appropriate funds, could K-14 LEAs sue directly for relief from compliance based on this decision?
6. Estimates of annual K-14 education mandate costs rely on un-audited mandate claims. Reportedly, the State Controller's Office (SCO) routinely disallows a significant portion of annual claims as a result of its audits. Some evidence of this is provided in Appendix B of the agenda. What is the Administration's view of this issue?
7. The Governor's suspension proposal would result in **\$200 million** in direct state savings from local mandate costs. Are there other indirect savings associated with the Governor's proposal? For example, are there any audit savings for the State Controller's Office or other savings for the Commission on State Mandates?

### **ITEM 3. Legislative Analyst’s Office -- Options for K-14 Education Mandate Reform**

**DESCRIPTION:** Instead of suspending virtually all K-14 mandates in 2010-11, as proposed by the Governor, the LAO recommends that the Legislature adopt a more comprehensive reform package that evaluates each mandate and make determinations on a case-by-case basis. In so doing, the LAO makes recommendations to continue, eliminate, or modify these mandates in 2010-11. The LAO’s recommendations would save the state approximately **\$363 million** annually by no longer requiring non-essential or ineffective services. The LAO would also fund more than **\$30 million** in ongoing mandates to support essential services.

#### **BACKGROUND:**

**Existing Mandate System Has Well-Recognized, Longstanding Problems.** The LAO believes that virtually every aspect of the K-14 mandate system is broken. More specifically, the LAO has identified the following longstanding problems with California’s education mandate system:

- **Mandates Often Do Not Serve Compelling Purpose.** Mandated activities do not necessarily serve a more compelling purpose than other policies that are not mandated. Oftentimes, a law becomes a mandate not because it serves an essential function, but because the original legislation did not phrase its requirements very carefully. Further, many mandated activities are of altogether questionable value.
- **Costs Can Exceed Expectations.** Frequently, when an activity required by law is deemed a reimbursable mandate, the price of funding the activity exceeds anticipated costs. This mismatch can occur for several reasons. In some cases, the state can end up being required to reimburse local educational agencies (LEAs) for activities that were not intended to increase total education costs. In other cases, lawmakers do not anticipate the range of activities that eventually will be deemed reimbursable. In addition, costs can vary dramatically depending on the number of districts that file claims, the reimbursement period, the activities deemed allowable, and subsequent statutory decisions and legal rulings. Consequently, legislators cannot always predict the fiscal ramifications of their policy decisions.
- **Recent Court Ruling Likely to Make Containing Costs Even More Difficult.** A 2009 Appellate Court ruling found unconstitutional the Legislature’s practice of referring mandates back to CSM in an attempt to reduce associated costs through “reconsideration.” Specifically, the court ruled the Legislature cannot refer any previously decided mandate back to CSM without a consistent process for doing so. This is significant because legal developments after a mandate’s initial determination can occasionally reduce the cost of a mandate and the Legislature has wanted a way to recognize these savings. Nonetheless, as a result of the 2009 ruling, CSM has no way to revise its decisions in light of new legal precedent until a new process is

developed that is consistent with the court’s findings. Thus, the recent ruling further limits the state’s options for lowering the cost of an established mandate.

- LEAs Claim Vastly Different Reimbursement Amounts.** The mandate process also allows districts to claim widely different amounts and receive widely different reimbursement levels for performing the same activities. The variation often reflects local record keeping and claim-filing practices more than substantive cost differences in implementing policy objectives. The table below provides an example of the notable variation in reimbursement amounts. As shown in the chart below, reimbursements for science graduation requirements range from \$6 to \$264 per pupil—a vast difference. High school exit exam mandate claims range from \$3 to \$26 per pupil.

### Mandate Reimbursement Claims Vary Widely

School District	2005–06 Claims Per Pupil <sup>a</sup>
<b>Graduation Requirement</b>	
Clovis Unified	\$264
Grossmont Union High	203
Los Angeles Unified	81
Visalia Unified	6
<b>High School Exit Exam</b>	
Colusa Unified	\$26
East Side Union High	18
Clovis Unified	8
Los Angeles Unified	3

<sup>a</sup> Ranges in per-pupil claims differ by roughly the same magnitude when claims are averaged over several years

- Reimbursement Process Can Reward Inefficiency.** Districts also receive more in mandate funding by claiming more activity, not by performing an activity efficiently. Many mandates are reimbursed based on the amount of time devoted to a required activity and the salary of the staff member performing it. In other words, the more time devoted to an activity and the higher the staff member’s rank, the greater the reimbursement.
- Reimbursement Process Ignores Effectiveness -- No Accountability for Results.** The state also has little power to hold LEAs accountable for performing mandated activities effectively. The LEAs can claim expenses for performing an activity regardless of whether they achieve its underlying policy objectives. The state cannot avoid liabilities for ineffective implementation of a mandated activity.
- Little Justification for Treating Mandates and Categorical Programs So Differently.** In stark contrast to the state’s treatment of K–14 mandates, the amended 2008–09 Budget Act removed requirements associated with more than 40 categorical programs that arguably serve more compelling purposes, such as requirements related to summer school, programs for suspended or expelled students, instructional materials, and professional development.

**LAO RECOMMENDATIONS – OVERALL:** Rather than suspending most K-14 mandates at once, the LAO recommends a more systemic approach to comprehensive K-14 mandate reform. More specifically, the LAO recommends reviewing mandates on a case-by-case basis and making determinations for each (see chart below.) For most mandates, the LAO recommends either funding or eliminating them, although some are eliminated while still preserving underlying policies that serve a compelling purpose. For a few mandates, however, the LAO recommends a hybrid approach whereby certain activities associated with the mandate would be funded and the remaining activities eliminated.

<i>(Dollars in Thousands)</i>		<b>Annual Fiscal Effect<sup>a</sup></b>	
<b>Recommendation</b>	<b>Number of Mandates<sup>a</sup></b>	<b>Cost</b>	<b>Savings</b>
<b>K–12 Mandates</b>			
Fund	11	\$26,379	—
Eliminate	19	—	\$271,052
Hybrid	6	7,165	16,934
<b>Community College Mandates</b>			
Fund	1	\$1	—
Eliminate	6	—	\$32,322
Hybrid	—	—	—
<b>K–14 Mandates</b>			
Fund	—	—	—
Eliminate	2	—	\$42,167
Hybrid	1	\$54	54
<b>Totals</b>	<b>46</b>	<b>\$33,599</b>	<b>\$362,529</b>
<small><sup>a</sup> Based on estimated 2009–10 claims. Excludes the five mandates that apply to all local governments and the Behavioral Intervention Plan mandate. Also excludes the five currently suspended mandates, which we recommend eliminating.</small>			

In 2010-11, the LAO’s recommendations would save the state approximately **\$363 million** annually by no longer requiring non-essential or ineffective services. The LAO would also fund almost **\$34 million** in ongoing mandates to support essential services.

In making determinations, the LAO utilizes the following criteria:

- Statute has resulted in a true mandate by requiring local governments to establish a new program or provide an increased level of service.
- The mandate serves a statewide interest.
- The mandate has produced results consistent with the Legislature’s intent and expectations.
- The benefits achieved by the mandate are worth the cost.
- The goal of the mandate cannot be achieved through a less-costly alternative.

Specific LAO recommendations for individual K-12 education and community colleges mandates are presented below. Appendix C includes excerpts from the LAO report entitled, *Education Mandates; Overhauling a Broken System*. These excerpts provide detail on each of the LAO’s recommendations.

## K-12 Mandates

<b>Mandate</b> <i>(dollars in thousands)</i>	<b>LAO Recommendation</b>	<b>Cost</b>
High School Exit Exam	Fund	\$ 8,458
Immunization Records - Hepatitis B	Fund	\$ 6,160
Immunization Records – Original	Fund	\$ 4,821
Charter Schools I-III	Fund	\$ 2,325
Pupil Health Screenings	Fund	\$ 1,570
School District Fiscal Accountability Reporting	Fund	\$ 2,612
County Office Fiscal Accountability Reporting	Fund	\$ 404
Differential Pay and Reemployment	Fund	\$ 11
School District Reorganization	Fund	\$ 9
Pupil Safety Notices	Fund	\$ 6
Missing Children Reports	Fund	\$ 3
Truancy – Notification	Eliminate	\$ 15,900
Truancy - Habitual Truants	Eliminate	\$ 6,883
Notification to Teachers of Mandatory Expulsion	Eliminate	\$ 6,818
Scoliosis Screening	Eliminate	\$ 3,652
Physical Performance Tests	Eliminate	\$ 2,325
Law Enforcement Agency Notifications	Eliminate	\$ 1,894
Removal of Chemicals	Eliminate	\$ 1,289
Caregiver Affidavits	Eliminate	\$ 975
Pupil Residency Verification and Appeals	Eliminate	\$ 348
Expulsion Transcripts	Eliminate	\$ 13
Teacher Incentive Program	Eliminate	\$ 6
Physical Education Reports	Eliminate	\$ 2
Agency Fee Arrangements	Eliminate	\$ 75
High School Science Graduation Requirement	Keep policy	\$ 200,000
Stull Act	Keep policy	\$ 19,166
Inter/Intradistrict Attendance	Keep policy	\$ 5,792
Pupil Suspensions, Expulsions, and Expulsion Appeals	Keep policy	\$ 3,849
Criminal Background Checks I and II	Keep policy	\$ 1,713
Financial and Compliance Audits	Keep policy	\$ 427
Collective Bargaining	Keep policy	\$ 42,092
Annual Parent Notification	Hybrid	\$ 10,147
AIDS Prevention I-II	Hybrid	\$ 1,495
Comprehensive School Safety	Hybrid	\$ 5,041
Juvenile Court Notices II	Hybrid	\$ 1,230
Pupil Promotion and Retention	Hybrid	\$ 3,128
School Accountability Report Cards	Hybrid	\$ 3,057
CalSTRS Service Credit	Hybrid	\$ 108
<b>TOTAL</b>		<b>\$ 363,804</b>

## Community College Mandates

<b>Mandate</b> ( <i>dollars in thousands</i> )	<b>LAO Recommendation</b>	<b>Cost</b>
Sex Offenders: Disclosure by Law Enforcement	Fund	\$ 1
Law Enforcement College Jurisdiction Agreements	Eliminate	\$ 195
Sexual Assault Response Procedures	Eliminate	\$ -
Reporting Improper Governmental Activities	Eliminate	\$ 27
Agency Fee Arrangements	Eliminate	\$ 75
Enrollment Fee Collection and Waivers	Keep policy	\$ 20,000
Integrated Waste Management	Keep policy	Unknown
Health Fee/Services	Keep policy	\$ 12,100
Collective Bargaining	Keep policy	\$ 7,500
CalSTRS Service Costs	Hybrid	\$ 3,000
<b>TOTAL</b>		<b>\$ 42,898</b>

**LAO RECOMMENDATIONS – NEWLY DETERMINED MANDATES.** Chapter 1124, Statutes of 2002 (AB 3000, Committee on Budget), requires the LAO to review each mandate included in CSM’s annual report of newly identified mandates. Since the LAO’s last review, three new education mandates have been identified by CSM. The LAO recommends the following actions:

- Eliminate expanded hearing costs for students mandatorily expelled from school, leaving offenses that now result in a mandatory expulsion to a school district’s discretion, an approach that would automatically eliminate these expanded hearing costs.
- Utilize a hybrid approach for the new mandate involving reporting requirements placed on school districts and community colleges related to the California State Teachers’ Retirement System.
- Eliminate mandate involving the state’s Norm Referenced Test (NRT) that recently completed the entire CSM process. This mandate is longer claimable because the NRT was eliminated during the 2008-09 school year.

**LAO RECOMMENDATIONS – MANDATE PROCESS:** To help preserve certain policies while reducing costs, the LAO also recommends the state establish a new mandate reconsideration process. Toward this end, the Commission on State Mandates (CSM) already has proposed a new process whereby mandates impacted by changes in legal precedent, fact, or circumstance could be reconsidered. While the LAO has some concerns with specific components of CSM’s proposal (particularly with provisions disallowing reconsideration after a set number of years), CSM’s general approach addresses the court’s concerns. With a few refinements, the LAO recommends the Legislature adopt this reconsideration process. Establishing a new reconsideration process would mean the state could reduce mandate costs when certain activities are no longer reimbursable.

**PENDING LEGISLATION:** Bills introduced in the current legislative session that address education mandate funding and reforms include:

**AB 2082 (Committee on Education).** States intent of the Legislature that statutes creating a reimbursable state mandate on school districts be periodically reviewed, and that the Legislature consider recommendations on whether those statutes should be amended, repealed, or remain unchanged. The bill would require the Legislative Analyst to review and report on each reimbursable state mandate relating to local educational agencies that meets prescribed criteria. The bill would specify the information to be provided in the review and report, and would require that the review and report be provided to the chairpersons of the Assembly Committee on Education, the Senate Committee on Education, and the fiscal committees of the Assembly and the Senate, on or before the January 1 following the adjournment of the regular session of the Legislature for which the review was made.

**STAFF COMMENTS:**

**LAO Finds Mandates System Broken in Virtually Every Way and Points to Need for Major Reforms.** Staff supports LAO recommendation to initiate major reforms to the K-14 mandates system. While mandate suspension is a better alternative to deferral, system reform is the more appropriate policy choice.

**LAO Also Highlights Major Problems with the Recent Deferral Process:** At the very least, staff supports the recommendations of both the LAO and the Administration to stop the recent practice of deferring annual mandate payments. For school districts and community colleges, deferral means still having to perform hundreds of activities, which are often of little benefit to students, even amid steep budget cuts. For the state, deferral means the debt owed to schools will grow steeply and, without substantive reform, most mandated policies likely will continue to be implemented ineffectively and inefficiently.

**LAO Highlights Disconnect Between Budget Treatment of Mandates and Categorical Programs.** Staff supports the LAO's recommendation to make tough choices on categorical and mandate programs. The state has continued funding for K-14 mandates through the deferral process. Per the LAO, this approach is in stark contrast to the state's treatment of K-12 categorical funding, which beginning in the 2008-09 Budget Act, removed requirements associated with many categorical programs that may serve a more compelling purposes than many K-14 education mandates.

**STAFF RECOMMENDATIONS:** Staff supports the LAO's mandate reform proposal as an alternative to continuing deferrals of mandates or across-the-board suspension of most K-14 mandates.

**Recommendations for Mandate Process Reforms:** Staff supports the LAO recommendation to implement a mandate reconsideration process for the Commission on State Mandates, with a few refinements. For this reason, staff recommends that the

Subcommittee request that the Commission on State Mandates develop a specific proposal for consideration following May Revise.

**Recommendations on Individual Mandate Reforms.** If the Subcommittee supports mandate reform, staff could develop recommendations -- working with the Department of Finance and other stakeholders and using agreed-upon criteria -- on each of the LAO's mandate recommendations at a later hearing. If the Subcommittee supports this approach, staff recommends that the Subcommittee direct budget staff to develop specific recommendations for consideration following May Revise.

Along these lines, staff has developed some *preliminary* suggestions for community colleges mandates that the Subcommittee may want to consider prior to May Revise.

### **Community Colleges**

1. *Sex Offenders: Disclosure by Law Enforcement:* Staff recommends funding this mandate.
2. *Sexual Assault Response Procedures:* Staff recommends funding this mandate
3. *Law Enforcement College Jurisdiction Agreements:* Staff recommends eliminating this mandate.
4. *Reporting Improper Governmental Activities:* Staff recommends eliminating this mandate.
5. *Agency Fee Arrangements:* Staff recommends eliminating this mandate.
6. *Integrated Waste Management:* Staff recommends suspending this mandate and suggests that the policy committee consider the need for this mandate.
7. *Health Fee/Services:* Staff recommends suspending this mandate and suggests that the policy committee consider the need for this mandate.
8. *Collective Bargaining:* Staff recommends suspending this mandate and suggests that the policy committee consider the need for this mandate.
9. *Enrollment Fee Collection and Waivers:* Staff recommends that the Subcommittee hold this item open.
10. *CalSTRS Service Costs:* Staff recommends that the Subcommittee hold this item open to gather more information about the impact of the proposed changes.

However, in considering implementation of the LAO's proposals, staff suggests that the Subcommittee consider the role of policy committees in this process. In particular, staff suggests that policy committees be involved in any legislation to either eliminate or modify mandates.

If the Subcommittee does not support more comprehensive reform, staff recommends two basic options for the Subcommittee to consider following May Revise. First, the Subcommittee could consider suspension of *most* mandates per the Governor's proposal, but extend suspension through 2012-13 -- consistent with the categorical flexibility reform timeframe -- and require mandates to be approved by legislative policy committees in order to continue after that time period. Second, the Subcommittee could fund *most* mandates in 2010-11. Staff believes -- as does the Administration and LAO -- that both options are preferable to continuing the mandate deferral process.

## **SUGGESTED QUESTIONS FOR LAO:**

- 1.** The 2009 State Appellate Court decision invalidated Legislative directives for reconsideration of decisions by the Commission on State Mandates. Is it your view that the court decision leaves open the ability of the Legislature to establish a process in law that requires some periodic review or update of mandate decisions? Would such a process be beneficial in your view?
- 2.** AB 2855/Laird (Chapter 895; Statutes of 2004), eliminated eight education mandates. Are there lessons learned from this process that would be helpful in considering a more ambitious, case-by-case review for all K-14 mandates? What was the role of budget subcommittees and policy committees in this process?
- 3.** Please describe what impact the LAO alternative would have on the CalSTRS program. Could employee understanding of their benefits and rights be negatively impacted by these proposed changes?
- 4.** To your knowledge, have many local government mandates been suspended since Proposition 1A was passed by state voters in 2004 and what has the effect been on mandated services? Has the new law resulted in elimination or modification of other local government mandates?

**ITEM 4: Governor's Proposal – High School Science Graduation Mandate**

**DESCRIPTION:** The Administration believes that the science high school graduation mandate is not a reimbursable state mandate because funding is available to offset the costs of this requirement. As a result, the Governor's 2010-11 budget does not recognize the high school science graduation mandate, and thus does not eliminate or suspend it. Furthermore, the Administration is seeking a court decision to reject the reimbursement rate methodology adopted by the Commission on State Mandates. This action is intended to reduce the costs for the most expensive K-12 state mandate, which is estimated to cost **\$200 million** per year. In addition, there are roughly **\$2.3 billion** in prior year claims costs for this mandate.

**BACKGROUND:** As part of major education reform legislation in the early 1980s, the Legislature increased the state's high school graduation requirements. Among other changes, the law required that all students complete two high school science classes prior to receiving a diploma (the previous requirement was one science class). This change raised the total number of state-required courses from 12 to 13.

The costs associated with providing an additional science class were the basis of an eventual mandate claim. In 1987, CSM determined that providing an additional science class imposes a higher level of service on districts and, therefore, constituted a reimbursable mandate.

In 2004, a court ruling indicated that school districts had full discretion to increase their total graduation requirements and total instructional costs. Based on this 2004 ruling, CSM decided the state could not increase the number of courses it requires for graduation above 12 courses without providing reimbursement.

The LAO Analysis of the 1983–84 Budget Bill – published the year after the state increased graduation requirements -- anticipated minimal costs for this mandate. Nonetheless, based on a 2004 superior court ruling, which expanded the scope of reimbursable activities, annual claims are estimated to reach about **\$200 million**.

**GOVERNOR'S BUDGET PROPOSAL:**

The Governor's Budget does not suspend, eliminate, defer or provide any other funding for this mandate, because the Administration believes that the cost of the high school science graduation mandate is fully supported through the revenue limit for schools. This belief is at the heart of the Administration's lawsuit against the Commission on State Mandates regarding the reasonable reimbursement methodology (RRM) they adopted for this mandate.

More specifically, the Administration believes the RRM adopted by the Commission failed in at least four ways:

- It did not meet cost efficiency or accuracy requirements of an RRM.
- It did not consider savings and offsetting revenues.
- It failed to limit claims to actual costs.
- It inappropriately allowed for retroactive claims.

The Administration is not seeking to overturn the Commission’s original finding of a mandate. Imbedded in its dispute over the RRM, the Administration contends that this “mandate” is fully supported or “offset” by revenue limit funding provided to schools. The Administration points out that while not typical, there are examples of activities being found to be mandates, but offsetting revenues/fee authority/etc., render any actual claims moot. For these reasons, The Administration does not believe any amount of funding, or even suspension is required at this point. However, to the extent its lawsuit is rejected, the Administration understands it will have to revisit the issue of funding.

**LAO COMMENTS:** The LAO provides the following background on the High School Science Graduation requirement.

- **Court Interpretation Has Led to Great Increase in Estimated Mandate Costs.** The primary factor contributing to high mandate costs relates to a statutory provision that provides school districts with discretion in implementing the high school science graduation requirement. This provision was interpreted differently by various parties, until a 2004 court ruling indicated that school districts had full discretion to increase their total graduation requirements and total instructional costs. Based on this ruling, CSM decided the state could not increase the number of courses it requires for graduation above 12 courses without providing reimbursement. As a result, the state could be forced to pay the full cost of every additional science course for most districts as far back as 1995–96.
- **Absent Action, State Will Face High Price Tag.** The LAO estimates the state would face annual ongoing mandate costs of roughly **\$200 million** if it were to pay the full cost of an additional science course for every applicable LEA. In addition, we estimate retroactive costs would total approximately **\$2.3 billion** (resulting in part from the formula chosen by CSM as the basis for reimbursement).
- **Amend Statute to Avoid Prospective Costs.** The LAO recommends the Legislature avoid prospective science graduation requirement costs by clarifying how districts are to implement the graduation requirement. Specifically, the LAO recommends language clarifying that school districts shall ensure that any modification of coursework relating to the second science course requirement results neither in students needing to take a greater total number of courses for

graduation nor higher district costs. Such an approach has been used in previous test claims and affirmed by a California appellate court.

- **Statutory Change Would Have Minimal Programmatic Impact on Districts, Provide Flexibility in Containing Costs.** In practical terms, this change would have minimal programmatic impact on districts. This is because districts typically require at least a dozen additional year-long courses on top of the state's requirements for 13 year-long courses. Thus, even with the recommended statutory change, school districts still would have substantial discretion both to increase academic requirements beyond the state requirements and require electives. The statutory change also would provide districts with substantial discretion in determining how best to offset any potentially higher costs associated with a science course within their existing base program (consistent with the intent of the original legislation).
- **Addressing Retroactive Costs Is More Complicated.** While eliminating costs prospectively is relatively straightforward, addressing retroactive costs is somewhat more complicated. This is because the Legislature generally cannot apply clarifying statutory language retroactively, even when associated mandate costs have grown far beyond legislative intent. As a result, options available for addressing the **\$2.3 billion** backlog of graduation requirement claims are limited.

#### **LAO RECOMMENDATION:**

With regard to the ongoing costs of the mandate, the LAO recommends modifying the mandate to eliminate state mandated costs. Per the LAO, through a simple change to statute, the requirement that students take two science classes could be preserved at no cost to the state by clarifying that districts need to provide the additional science class as part of their regular course of study. This would save an estimated **\$200 million** per year.

With regard to the **\$2.3 billion** in prior-year claims costs for the science graduation mandate, the LAO suggests the Legislature consider three possibilities:

- (1) Support the Administration's efforts to appeal the Commission on State Mandate's decision;
- (2) Request the Commission CSM to base claims on documented costs rather than a formula; or
- (3) Pay all claims within available Proposition 98 resources.

#### **STAFF COMMENTS:**

**Governor's Proposal Challenges Commission's Reimbursement Rate Methodology Valid.** The Administration's lawsuit challenges the reasonable reimbursement methodology (RRM) adopted by the Commission on State Mandates for the science graduation mandate for several good reasons that have importance for state funding, including failure to meet cost efficiency or accuracy requirements; failure to consider

savings and offsetting revenues; failure to limit claims to actual costs; and inappropriate allowance for retroactive claims.

**Governor’s Proposal May Have Effect of Deferring the High School Graduation Mandate.** The Governor does not recognize the science graduation mandate in the budget. However, because the Governor does not suspend or eliminate the mandate, local claims and obligations, state costs would continue to accrue for this mandate -- at a rate of **\$200 million** per year – if the lawsuit is not successful. It may be better to suspend or eliminate the state mandated cost, while the Administration’s appeal of the Commission’s reimbursement rate methodology is pending.

**STAFF RECOMMENDATION:** Staff supports the Governor’s proposal to appeal the reimbursement rate methodology adopted by the Commission on State Mandates. The LAO also supports this proposal. The Governor’s proposal is critical to addressing an estimated **\$2.3 billion** in existing claims for this mandate and **\$200 million** in ongoing mandate claims costs.

At the same time, staff also supports the LAO recommendation to modify the science graduation mandate to preserve the underlying requirements, while eliminating the mandated cost. This is critical of the Administration’s lawsuit if unsuccessful. For this reason, staff recommends that the Subcommittee request the LAO to develop specific language for consideration following May Revise.

#### **SUGGESTED QUESTIONS:**

1. Is it the Administration’s intent to address the backlog of claims, as well as ongoing costs of the science graduation mandate, as a part of the lawsuit on the reasonable reimbursement methodology?
2. What does the Administration mean by needing to revisit mandate funding if their lawsuit on the reimbursement rate methodology is not successful?
3. The estimated cost of the science graduation mandate is huge – more than double all other K-12 mandates combined. In addition, the backlog of prior year costs covers more 15 years of claims. What does this mandate example say about the mandate process? For example, is it your sense that the Legislature was aware of these potential costs when it passed the change in graduation law?

**ITEM 5. Governor’s Proposal for New K-12 Mandate – Behavioral Intervention Plan (6110-161-0001)**

**DESCRIPTION:** The Governor’s January 2009-10 budget proposes to implement provisions of a settlement agreement with K-12 education agencies regarding a state mandate claim for Behavioral Intervention Plans (BIPs). Specifically, the Administration proposes (1) **\$65 million** in additional, ongoing funds for special education programs beginning in 2010-11; (2) **\$10 million** in one-time funds for administrative costs to county offices of education and special education local planning areas in 2010-11; and (3) **\$510 million** in one-time funds allocated on a per-pupil basis over a period of six years beginning in 2011-12.

The Legislative Analyst will present an alternative proposal that would eliminate ongoing funding for the BIP mandate – for annual savings of \$65 million -- and make changes to the BIP statute to better align its requirements with existing state and federal law.

**GOVERNOR’S BUDGET PROPOSAL:**

In December 2008/January 2009, the Administration and the local education agency (LEA) claimants -- San Diego Unified School District, Butte County Office of Education, and San Joaquin County Office of Education -- reached a settlement in the Behavioral Intervention Plans (“BIP”) Mandated Cost Claim and lawsuit, a claim dating from 1994. The settlement provides for an ongoing increase to special education funding and retroactive reimbursement to school districts, county offices of education, and special education local plan areas (“SELPAs”) for general fund use, contingent on LEA approval.

The settlement provides for the following funding:

- **\$510 million** payable to school districts as general fund reimbursement, in \$85 million installments over 6 years, from 2011-12 through 2016-17, based on average daily attendance (ADA) for 2007-08.
- **\$10 million** payable as general fund reimbursement in 2010-11 as follows:
  - \$1.5 million to county offices based on December 2007 county special education pupil counts
  - \$6.0 million to SELPAs based on December 2007 special education pupil counts
  - \$2.5 million to claimants and others for administrative costs incurred in pursuing the claim (legal costs).
- **\$65 million** added in 2010-11 as a **permanent increase** to the AB 602 special education funding base. Commencing in 2010-11, this amount will be subject to cost-of-living adjustment (COLA) growth to the extent it is added to AB 602 generally.

The settlement amounts are based on results from district and SELPA surveys conducted by the Department of Finance.

In January 2009, the Governor proposed the same settlement plan - with earlier implementation dates - as a part of his 2009-10 budget. This plan was not approved by the Legislature.

**BACKGROUND:** Federal law entitles children with disabilities to a “free and appropriate education” (FAPE) tailored to their unique needs. In order to achieve these goals, districts are responsible for providing special education and related services pursuant to an Individualized Education Program (IEP), which is developed by an IEP team -- including parents -- with special education expertise and knowledge of a child’s particular needs.

Chapter 959, Statutes of 1990 (AB 2586, Hughes), sought to regulate the use of behavioral interventions and encourage the use of positive behavioral strategies with special education students, as a part of the IEP process. In so doing, Chapter 959 required the State Board of Education (SBE) to adopt regulations that (1) specified the types of behavioral interventions districts could and could not use; (2) required IEPs to include, if appropriate, a description of positive interventions; and (3) established guidelines for emergency interventions.

The SBE adopted regulations that require districts to conduct a “functional assessment analysis” and develop a Behavioral Intervention Plan (BIP) for students with disabilities exhibiting serious behavior issues. SBE regulations also require districts to train staff to implement BIPs.

**BIP Regulations Found to Constitute a State Mandate:** In 1994, three school districts filed a claim arguing that BIP-related requirements constituted a reimbursable mandate. In reviewing the claim, the Commission on State Mandates staff found that state statute, “on its face, does not impose any reimbursable state mandated activities,” **however, regulations adopted pursuant to state law were found to constitute a state mandate.**

In 2000, the Commission on State Mandates heard the BIP test claim and ruled in favor of the districts. The Administration appealed this decision; however, rather than proceeding with the court appeal, the Administration reached a settlement with districts outside of the legal process in December 2008/January 2009.

**LAO ANALYSIS/RECOMMENDATIONS:** The LAO makes the following findings and recommendations about the BIP mandate:

**Regulations Exceed Legislative Intent.** Regulations adopted by SBE go beyond what the Legislature intended—being both more extensive and more prescriptive. Regulations adopted by SBE require districts to conduct a particular type of behavioral assessment—a

“functional assessment analysis” —followed by a particular type of behavioral intervention plan (BIP)—a systematic positive BIP—for students with disabilities exhibiting serious behavior issues that interfered with the implementation of his or her IEP. In addition, the regulations require districts to train staff on these strategies.

**Federal Law Now Largely Achieves Original Legislative Goals.** At the time BIP-related regulations were implemented, federal law was silent on the use of behavioral interventions. In 1997, however, federal law was amended to include behavioral interventions in the IEP process. Specifically, federal law now requires IEP teams to consider behavioral interventions, including positive behavioral interventions, when a student’s behavior impedes his or her learning or that of others. Additionally, if an IEP team determines that a behavioral intervention is needed to ensure a child receives a FAPE, the IEP team must include an intervention in that child’s IEP. Federal law, however, does not prescribe the type of behavioral intervention that IEP teams should include.

**LAO Recommendation (Ongoing Costs) -- Eliminate Mandate by Better Aligning Regulations to Federal Law.** Given that activities mandated by federal law are not reimbursable mandates for the state, the LAO recommends eliminating the BIP mandate because federal special education laws now largely overlap with state laws. Per the LAO, under state law, if a student with a disability exhibits behavior that impedes his or her Individualized Education Plan, school districts are required to perform three primary activities: (1) assess the student’s behavior using a “functional analysis assessment,” (2) implement a plan for addressing the behavior (the BIP), and (3) ensure teachers are properly trained to perform BIPs. After state laws and regulations were adopted, the federal government essentially chose to require the same primary activities (see figure below, which highlights federal regulations related to IDEA generally and BIPs specifically). As a result of the new changes in federal law, IDEA funding likely could be used to implement most, if not all, desired BIP activities. The LAO’s recommendation would save the state **\$65 million** in estimated annual ongoing costs.

**New Federal Requirements Offer Sufficient Protection**

Topic	Federal Rules and Regulations
Functional Analysis Assessments	The IDEA “requires the public agency to ensure that the child is assessed in all areas related to the suspected disability...If a child’s behavior or physical status is of concern, evaluations addressing these areas must be conducted.”
Behavioral Intervention Plans	The IDEA “emphasizes a proactive approach to behaviors that interfere with learning by requiring that, for children with disabilities whose behavior impedes their learning...the IEP team consider...the use of positive behavioral interventions. This provision should ensure that children who need behavior intervention plans to succeed in school receive them.”
Related Professional Development	The IDEA requires the state “to ensure that personnel are appropriately and adequately prepared and trained...(IDEA) specifically focuses on professional development for teachers and other school staff to enable such personnel to deliver scientifically based academic and behavioral interventions and provide educational and behavioral evaluations, services, and supports.”

Given the high degree of overlap among state and federal law, most state BIP requirements could be eliminated with minimal impact on students per the LAO. However, given this mandate involves issues related to student safety, the LAO believes the state should use heightened care when repealing state requirements that duplicate federal law.

**LAO Recommendation (Prior-Year Costs) -- State Likely Liable for Retroactive Claims.** While the state can eliminate future BIP-related costs by amending regulations, it is likely still liable for past claims. Even if the Legislature takes action to amend existing regulations, districts have the right to pursue reimbursement for BIP-related costs incurred between 1993, the year regulations were implemented, and the date regulations are repealed. Since these activities occurred in the past, the state would likely be liable for the claim costs. The Administration estimates retroactive claims could reach **\$1 billion**. It has tentatively negotiated the amount down to **\$510 million**, which would be paid to districts in **\$85 million** increments over the course of six years, beginning in the 2011–12 fiscal year.

**RELATED LEGISLATION: AB 661 (Torlakson)** was introduced in 2009 to implement the settlement agreement between the Department of Finance and local educational agencies regarding the Behavior Intervention Plans mandate. Specifically, the measure increases the General Fund appropriations for special education by \$65 million annually on an ongoing basis; provides \$85 million in General Fund reimbursements annually for a six year period beginning in 2011-12; and appropriates \$10 million in one-time funds to county offices of education and special education local planning areas. Status: The bill was held in Assembly Appropriations Committee.

**TRAILER BILL LANGUAGE:** The Governor’s budget includes the \$65 million in ongoing funding in the special education 6110-161-0001 budget act item, and proposes trailer bill language to appropriate \$520 million in one-time funds required in the settlement agreement.

**STAFF COMMENTS:** The BIP mandate is the second costliest K-14 education mandate with annual costs estimated at **\$65 million** and prior-year costs estimated at **\$1 billion**. The Legislature is not a party to the Administration’s settlement proposal, and given its substantial state costs, staff suggests that the Subcommittee explore options for addressing both prior-year and ongoing BIP mandate costs. In particular, staff supports exploration of the LAO recommendations to eliminate BIP mandate costs moving forward – due to overlap with federal law -- while preserving the underlying statute in order to continue important protections for students.

**STAFF RECOMMENDATIONS:** As an alternative to the Governor’s settlement agreement for the BIP mandate, staff recommends that the Subcommittee:

- Direct the LAO to review prior-year BIP mandate claims costs and develop options for funding prior-year claims; and
- Direct the LAO – pursuant to their recommendation – to create a work group that includes special education experts to make recommendations for revising associated state laws and regulations. Per the LAO, the work group could help ensure new federal requirements are implemented effectively and state requirements are rolled back carefully, such that important existing protections for students and districts are not undermined.

### **SUGGESTED QUESTIONS:**

1. For DOF, why did the Administration drop its appeal of the Commission’s ruling on the BIP mandate and decide to settle the issue outside of the Commission mandate process?
2. For DOF, the Administration’s settlement proposal includes **\$510 million** for prior year BIP payments - covers roughly half of the estimated, prior year claims for K-12 schools. How did the Administration arrive at this level of funding?
3. For DOF, would BIP payments be audited by the State Controller under the Administration’s settlement agreement?
4. For LAO, how has federal law changed regarding behavioral services to students with disabilities since the state BIP mandate was enacted?
5. For LAO, if the BIP mandate is eliminated, how can important protections for students with disabilities be retained? Is it possible to eliminate the BIP state mandate costs without eliminating necessary behavior plans, assessments, or services for students with disabilities deemed to be appropriate by the IEP team?
6. For LAO, is it possible to strengthen behavior service protections for students without incurring additional state costs? For example, could the state enact additional behavior intervention prohibitions to protect student safety without incurring state costs?
7. For CDE, how many students currently have a BIP statewide?
8. For CDE, how does the state currently monitor behavior services for these students to assure student safety?
9. For CDE, can the **\$1.2 billion** in new federal ARRA funds for special education be used as a source of funding for behavior services and related staff training?
10. For CDE, can federal special education personnel development grant funds to California, as authorized under IDEA, be used for positive behavior services training?

## ITEM 6. Legislative Analyst’s Office –K-12 Local Flexibility Options

**DESCRIPTION:** The Legislative Analyst’s Office (LAO) recommends a number of additional flexibility options to help school districts deal with limited funding in 2010-11. The LAO will present these options to the Subcommittee. In addition, the LAO will summarize flexibility options added by the 2008-09 budget packages.

### BACKGROUND:

**New Flexibility Provisions for K-12 Schools.** The February and July 2009 budget packages included a number of significant flexibility provisions intended to loosen program funding restrictions and to give school districts more control over spending decisions. Most of these flexibility provisions are in effect for a five year period -- from 2008-09 through 2012-13. The *2009-10 California Spending Plan*, published by the LAO in October 2009, includes the following summary of these new flexibility provisions.

Figure 6

### K-12 Flexibility Provisions Included in 2008-09 and 2009-10 Budgets

2008-09 to 2012-13 (Unless Otherwise Noted)

Provision	Description
<b>Flexibility in Use of Categorical Program Funding</b>	Creates categorical "flex item" whereby districts can use funds from roughly 40 programs for any purpose.
<b>Lesser Penalties for Exceeding K-3 Class Size Reduction Program Guidelines</b>	Allows districts to exceed 20 students per K-3 classroom without losing as much funding as under previous penalties.
<b>Reduced Requirement for Routine Maintenance Deposit</b>	Lowers the percentage districts must set aside for maintenance of school buildings from 3 percent to 1 percent of expenditures. Districts with facilities in good repair are exempt from any set-aside requirement.
<b>Elimination of Local Spending Requirement to Qualify for State Deferred Maintenance Match</b>	Eliminates requirement that districts spend their own funds on deferred maintenance in order to qualify for state dollars.
<b>Access to Categorical Fund Balances</b>	Allows districts to spend leftover categorical funding from 2007-08 or prior years for any purpose (except in seven programs). (2008-09 and 2009-10 only.)
<b>Postponement of Instructional Material Purchase Timeline</b>	Postpones requirement that districts purchase new instructional material packages.
<b>Reduced Instructional Time Requirements</b>	Provides school districts option to reduce length of school year by as many as five days.
<b>Sale of Surplus Property</b>	Allows districts to use the proceeds of surplus property sales for any purpose if property was purchased entirely with local funds.

**Impact of Flexibility Provisions.** The LAO is collecting data that indicates that K-12 school districts are starting to take advantage of the new flexibility provisions added by the 2009 budget packages. The LAO has provided the following findings from their surveys of school districts on the impact of flexibility:

- **Facilitating Local Planning Processes.** Over two-thirds of respondents reported that categorical flexibility made it somewhat or much easier to craft and implement their district's strategic plan.
- **Facilitating Budget Decisions.** A majority of respondents also indicated categorical flexibility made it easier to: develop and balance their budgets, focus on local priorities, make hiring and layoff decisions, and fund programs for struggling or at-risk students.
- **Districts Reprioritizing Categorical Funds.** Data suggest districts are beginning to shift funding away from most of the "flexed" categorical programs. Data suggest funds are being redirected to classroom instruction.
- **Increasing Class Sizes.** Many districts are taking advantage of the ability to increase K-3 class sizes without losing all incentive funding, and indications are that even more will do so in 2010-11.
- **Reducing Local Special Education Expenditures.** About 60 percent of survey respondents report reducing their local contributions to special education in response to increased federal IDEA funds. [The federal American Recovery and Reinvestment Act allows local educational agencies to reduce their local contributions to special education by up to half of any increase in federal Individuals with Disabilities Act (IDEA) funding.]
- **Accessing Prior-Year Balances.** By close of 2008-09, districts had spent almost all funds remaining from 2007-08.
- **Few Districts Shortened 2009-10 School Year.** Despite the option to reduce instructional time, most districts did not shorten the school year in 2009-10.

#### **LEGISLATIVE ANALYST'S K-12 FLEXIBILITY PROPOSALS:**

**LAO Recommends Providing Districts More Flexibility.** The LAO recommends that the Legislature adopt the following additional flexibility options for K-12 schools, in addition to the education mandate reforms covered in the Subcommittee agenda today. (The Governor proposes several options for Community Colleges that will be covered in a future Subcommittee agenda.)

- **Include Additional Programs in K-12 Flexibility Program**
- **K-3 Class Size Reduction (CSR).** The LAO recommends that the K-3 CSR program be added to the K-12 cut/flex program, which currently covers approximately 40 categorical programs. In so doing, the LAO recommends that districts receive funding equal to their 2007-08 allocation less 20 percent—which

would equate to funding levels for other programs in the categorical cut/flex program. Districts would continue to receive funding regardless of class size increases. This proposal would result in K-3 CSR savings of **\$382 million** in 2010-11, compared to \$550 million in reductions proposed by the Governor.

- **Home-to-School Transportation (HTS).** The HTS transportation program was excluded from the flexibility program provisions in 2009 because at the time the program was being funded with special funds that had to be used for transportation purposes. Under the Governor's 2010–11 proposals, the HTS program is funded with Proposition 98 monies. As such, the LAO sees no reason to continue to treat this program differently from most other K–12 programs. The LAO therefore recommends adding the program and its associated funding (roughly **\$500 million**) to the flex item.
  - **After School Education and Safety (ASES).** The LAO recommends that the Legislature ask voters to repeal the existing restriction that roughly **\$550 million** in K–12 funds be used solely for after school services. Specifically, the LAO recommends the Legislature place a measure on the ballot to repeal Proposition 49 (which created the automatic ASES funding requirement), and, if it passes, to add the ASES program into the flex item.
- **Consolidate Funding From Similar Programs.**
- **English Learner Programs - Shift English Learner Acquisition Program (ELAP) Into Economic Impact Aid (EIA).** Currently, ELAP must be used to provide services to English learner (EL) students in grades 4 through 8. The LAO recommends merging ELAP and its associated funding (**\$50 million**) into the more broad-based EIA program, which supports various activities benefiting EL and low-income students. This change would grant districts flexibility to spend the funds on EL and low-income students of any grade level, depending on their areas of greatest need.
  - **Career Technical Education (CTE) Programs - Streamline Funding to Focus on Student Outcomes.** To better coordinate the state's fractured CTE system and increase local flexibility, the LAO recommends combining **\$427 million** in funding from five career technical education programs into one item. These five programs include two programs in the categorical flexibility item -- Regional Occupational Centers and Programs and Specialized Secondary Programs -- and three current stand-alone programs -- Partnership Academies, Apprenticeship, and Agricultural Vocational Education. Once consolidated, the LAO recommends eliminating programmatic requirements in favor of monitoring related student outcomes. By holding districts more accountable for student engagement and outcomes, the state could ensure students receive the positive benefits of CTE while providing more flexibility to districts in developing effective high school programs.

➤ **Relax or Remove Local Requirements.**

- **Contracting Out--Ease restrictions on contracting out for non-instructional services (approve Governor's policy proposal).** The Governor's proposal amends existing law governing contracting out for personal services to remove provisions that currently: (1) disallow approval of contracts solely on the basis of cost savings; and (2) disallow contracts if it causes displacement of school employees who previously provided the services. This new authority would become effective for personal services contracts entered into after January 1, 2011.
- **Teacher Personnel.** Remove requirements that districts give laid-off teachers higher priority and pay for substitute teaching positions. This proposal would: (1) allow districts to choose substitutes from entire pool of candidates on basis of needs and effectiveness rather than seniority of laid-off teachers, and (2) allow districts to determine substitute teacher pay rate rather than requiring districts to pay pre-layoff salary rate.
- **Quality Education Investment Act (QEIA).** Allow QEIA schools qualifying for federal school improvement funding to be subject only to federal requirements, and therefore free from state QEIA requirements. Annual appropriations for the K-12 QEIA programs total \$402 million.

**LAO Also Recommends Aligning State Department Staff Levels With Categorical Flexibility Decisions.** Despite the state's decision last year to essentially eliminate the programmatic and funding requirements associated with roughly 40 state categorical programs, the state has made no corresponding changes to California Department of Education (CDE) staffing for those programs. Per the LAO, CDE now has hundreds of staff members assigned to administering programs that the state is not now operating. To reflect the impact of consolidating categorical programs on state operations, the LAO recommends decreasing CDE's budget by **\$10 million** and eliminating roughly 150 positions. This issue will be explored at a future hearing.

**RELATED LEGISLATION:**

**AB 548 (Chesbro).** Makes changes to the current flexibility provisions for the Class Size Reduction program to address anomalies surrounding base year calculations that limit the amount of funding school districts may receive for the program. This bill is estimated to cost between \$30 and \$100 million. **Status:** Senate Education Committee.

**SB 1298 (Hancock).** Prohibits a district from withdrawing from Regional Occupational Centers and Programs if doing so would negatively impact the career technical education services received by high school pupils of other school districts in the region. The bill further requires that funds appropriated in the budget for the ROP/C program be expended in accordance with the regional plan for occupational course sequences. **Status:** Senate Education Committee.

## STAFF COMMENTS:

- **Most LAO Recommendations for K-12 Flexibility Covered in Other Subcommittee Agendas.** The CSR and contracting out proposals were heard at the Subcommittee's March 11 hearing. Staff recommended support of the LAO proposal to move the CSR program into the categorical cut/flexibility program. However staff did not recommend support for the contracting out proposal, based upon recent actions by the Legislature.
- The LAO's teacher personnel proposals will be covered at a future hearing that also covers the Governor's final teaching proposals, once available. The ASES proposal will be covered in child care hearing on April 22. The LAO's QEIA proposal will be heard at the Subcommittee's April 29 hearing as a part of the federal funds discussion. The LAO's proposal to reduce CDE categorical staffing will also be heard on April 29.
- **Moving Additional Categorical Programs into Flexibility Program Has Merit.** Per LAO, districts are utilizing class size reduction flexibility as a means of meeting budget shortfalls, without eliminating instructional programs. While the Home-to-School Transportation has benefited from transfers into its program in the past, school districts should not be restricted from making adjustments to this program in order to preserve their instructional programs. Additional flexibility for the K-3 Class Size Reduction and Home-to-School Transportation – consistent with flexibility provided for more than 40 other categorical programs – makes sense in another tight budget year for school districts.
- **Moving Some Programs Out of Flexibility Program May Have Merit, But Could Invite Efforts to Protect Other Programs.** The LAO suggests moving two programs out of the categorical cut/flexibility program – Regional Occupational Centers and Programs and Specialized Secondary Programs. The LAO also suggests moving the English Language Acquisition program – currently in the categorical cut-only program – to the Economic Impact Aid program, which is protected from cuts or flexibility. This raises the possibility of moving other programs out of the cut/flexibility program that would be deemed high priority due to their impact on students.

## LAO Recommends Adoption of Three Administration Proposals.

- **Facilitate Contracting Out.** Proposes to ease restrictions on contracting out for non-instructional services (linked to \$300 million revenue limit reduction).
- **Modify Substitute Teacher Policies.** Proposes to remove requirements that districts give laid off teachers priority for substitute positions and pay them at pre-layoff rates.

- **Streamline Teacher Personnel Processes.** Proposes a number of changes to teacher layoff, tenure, and dismissal processes. (The Administration has indicated it is now proposing these changes through policy legislation rather than in a budget trailer bill.)

**STAFF RECOMMENDATIONS:** Staff makes the following recommendations for the three LAO flexibility proposals not covered in other Subcommittee agendas. Staff suggests the Subcommittee take action on these issues following May Revise:

- **Include Home-to-School Transportation in K-12 Flexibility Item.** Staff recommends support. (As a part of the March 11 Subcommittee agenda, staff also recommended support of the LAO proposal to transfer the K-3 CSR program into the K-12 flexibility program.)
- **Shift Funds for English Language Acquisition Program into Economic Impact Aid Program.** Staff recommends support.
- **Consolidate Funds for Career Technical Education in Single Block Grant.** Staff recommends support.

Staff makes two additional flexibility recommendations, beyond those recommended by the LAO, for the Subcommittee to consider following May Revise.

- **Remove California High School Exit Exam (CAHSEE) Supplemental Services program from categorical flexibility.** This program provides supplemental services for students who have not passed CAHSEE and, if they do not pass, will not graduate from high school with a diploma. This is a high stakes program that falls squarely on students. Without supplemental services, some students may not be able to graduate. This recommendation would move CAHSEE Supplemental Services to the cut-only program.
- **Move Cal-SAFE child care component from categorical flexibility program into the Child Care and Development Program.** The Child Care and Development program is a stand-alone program, which is not subject to cut/flexibility provisions. However, the Cal-SAFE program, which provides child care for teen mothers so that they can remain in school, is subject to categorical cut/flexibility provisions. Due to current waiting lists for the Child Care and Development program, there are no assurances that the children of teen mothers can be served. This proposal would shift about \$25 million in Cal-SAFE child care funds to the Child Care and Development program and set these funds aside for teen mothers who are enrolled in school. School completion has policy benefits for the teen mothers and their children, and is generally viewed as good fiscal policy for preventing future state costs.

**SUGGESTED QUESTIONS:**

1. What has the LAO learned about the utilization of categorical flexibility from its surveys of school districts?
2. Can the Department of Education provide information on the number and characteristics of high school seniors who did not pass CAHSEE in 2009-10?
3. Can the Department provide information on the number of teen mothers currently receiving child care via the Cal-SAFE program? Does the Department also collect data on the number of teen mothers who have dropped out of school?

## Appendix A

### Comprehensive List of K–14 Mandates<sup>a</sup>

Claimable Only by K–12 School Districts (36)	
<b>Included in 2009–10 Budget Act</b>	
AIDS Prevention Instruction I–II	Notification to Teachers of Mandatory Expulsion
Annual Parent Notification	Physical Education Reports
Caregiver Affidavits	Physical Performance Tests
Charter Schools I–III	Pupil Health Screenings
Comprehensive School Safety Plans	Pupil Promotion and Retention
County Office of Education Fiscal Accountability Reporting	Pupil Residency Verification and Appeals
Criminal Background Checks	Pupil Suspensions, Expulsions, and Expulsion Appeals
Criminal Background Checks II	Removal of Chemicals
Differential Pay and Reemployment	School District Fiscal Accountability Reporting
Expulsion Transcripts	School District Reorganization
Financial and Compliance Audits	Scoliosis Screening
Graduation Requirements	Teacher Incentive Program
Habitual Truants	<b>Additional Claimable Mandates</b>
Immunization Records	High School Exit Examination
Immunization Records—Hepatitis B	Missing Children
Intradistrict Attendance	Pupil Safety Notices
Juvenile Court Notices II	School Accountability Report Cards
Law Enforcement Agency Notifications	Stull Act
Notification of Truancy	
Claimable Only by Community Colleges (7)	
<b>Included in 2009–10 Budget Act</b>	
Health Fee/Services	<b>Additional Claimable Mandates</b>
Law Enforcement College Jurisdiction Agreements	Enrollment Fee and Waiver
Sex Offenders: Disclosure by Law Enforcement	Integrated Waste Management
	Reporting Improper Governmental Activities
	Sexual Assault Response Procedures
Claimable by Both School Districts and Community Colleges (3)	
<b>Included in 2009–10 Budget Act</b>	
Collective Bargaining	<b>Additional Claimable Mandates</b>
	Agency Fee Arrangements
	California State Teachers’ Retirement System Service Credit
Claimable by Local Governments (5)	
<b>Included in 2009–10 Budget Act</b>	
Mandate Reimbursement Process	<b>Additional Claimable Mandates</b>
Public Safety Officers Procedural Bill of Rights	Absentee Ballots
	Open Meetings Act
	Threats Against Peace Officers
<sup>a</sup> In addition to these 51 mandates, two mandates claimable only for school districts (School Bus Safety I–II and County Treasury Withdrawals) and three mandates claimable for both school districts and community colleges (Law Enforcement Sexual Harassment Training, Health Benefits for Survivors of Peace Officers and Firefighters, and Grand Jury Proceedings) have all been suspended in recent years.	

School district	Audit Period	District claimed	Amount allowed	Amount rejected	Amount to be returned to state*
<b>Habitual Truant</b>					
Anaheim City	7/00-6/03	\$ 312,197	\$ -	\$ 312,197	\$ 312,197
Compton Unified	7/98-6/01	\$ 686,444	\$ 616,479	\$ 69,965	\$ 936,747
Los Angeles Unified	7/99-6/01	\$ 2,262,604	\$ 586,228	\$ 1,676,376	\$ 526,956
San Bernardino City Unified	7/00-6/03	\$ 880,881	\$ -	\$ 880,881	\$ 298,091
Stockton Unified	7/01-6/03	\$ 390,894	\$ 92,803	\$ 298,091	\$ 636,340
West Contra Costa Unified	7/99-6/02	\$ 697,851	\$ 61,511	\$ 636,340	
<b>Mandate Reimbursement</b>					
Los Angeles Unified	7/99-6/01	\$ 1,179,775	\$ 1,097,893	\$ 81,882	\$ 81,882
<b>Notification of Truancy</b>					
Colton Joint Unified	7/99-6/02	\$ 438,174	\$ -	\$ 438,174	\$ 357,568
Compton Unified	7/98-6/01	\$ 615,945	\$ -	\$ 615,945	\$ 497,865
East Side Union	7/03-6/07	\$ 865,273	\$ 839,615	\$ 25,658	\$ 234,552
Fresno Unified	7/99-6/02	\$ 943,847	\$ 525,676	\$ 418,171	
Kern High School	7/00-6/03	\$ 418,643	\$ 418,643		
Moreno Valley Unified	7/99-6/02	\$ 667,854	\$ 64,808	\$ 603,046	\$ 396,038
Oakland Unified	7/98-6/00	\$ 312,804	\$ -	\$ 312,804	\$ 312,804
Ontario-Montclair	7/01-6/04	\$ 348,851	\$ -	\$ 348,851	\$ 348,851
Riverside Unified	7/00-6/02	\$ 399,535	\$ 68,888	\$ 330,647	
San Bernardino Unified	7/00-6/03	\$ 877,640	\$ -	\$ 877,640	\$ 529,148
San Juan Unified	7/99-6/02	\$ 578,710	\$ 470,268	\$ 108,442	\$ 34,709
Santa Ana Unified	7/00-6/03	\$ 736,013	\$ 26,596	\$ 709,417	\$ 160,685
Stockton Unified	7/01-6/04	\$ 612,896	\$ 542,192	\$ 70,704	\$ 70,704
Sweetwater Union High	7/00-6/02	\$ 501,643	\$ 472,974	\$ 28,669	
<b>Graduation Requirements</b>					
Clovis Unified	7/98-6/02	\$ 8,053,465	\$ 4,116,233	\$ 3,937,232	\$ 2,498,848
Fresno Unified	7/99-6/02	\$ 1,809,941	\$ -	\$ 1,809,941	\$ 531,558
Los Angeles Unified	7/99-6/01	\$ 5,760,711	\$ -	\$ 5,760,711	\$ 1,479,636
San Diego Unified	7/99-6/02	\$ 5,492,915	\$ 5,492,915	\$ -	\$ -
<b>TOTAL</b>		\$ 35,845,506	\$ 15,493,722	\$ 20,351,784	\$ 10,245,179

\* The amount auditors direct to be returned to the state varies depending upon how much money the state has already given to school districts. An additional note: Two audits of the Stull Act mandate are under way, according to the controller's office, but have not been completed.

Source: State Controller's Office

## Appendix C

### Appendix A

### LAO Recommends Funding a Dozen Mandates

(In Thousands)

Mandate	Requirements	Annual Cost <sup>a</sup>
<b>K-12 Mandates</b>		
High School Exit Exam	Cover excess costs for administering the California High School Exit Exam.	\$8,458
Immunization Records—Hepatitis B	Request, record, and follow-up on documentation that student is immunized against: hepatitis B, measles, mumps, rubella, diphtheria, tetanus, and pertussis (whooping cough). Exclude students from school if documentation is not provided within a set period.	6,160
Immunization Records—Original		4,821
Charter Schools I-III	Review petitions for charter schools and charter renewals, notify charter schools of reasons for charter revocation, and administer facility rentals.	2,325
Pupil Health Screenings	Inform parents that students must have a health screening before enrollment in kindergarten or first grade, follow up with parents to ensure compliance, and exclude any pupil without a screening after 91 days in school from attending for at most five days.	1,570
School District Fiscal Accountability Reporting/ County Office Fiscal Accountability Reporting	Counties must annually certify that district budgets are financially sound and follow specific timelines for certification and public review of budgets. Includes district compliance activities.	2,612 404
Differential Pay and Reemployment	Maintain a list of certificated employees who have exhausted all sick leave and process paperwork to return that employee to work upon recovery.	11
School District Reorganization	Counties must send district reorganization petitions to the State Board of Education, make petitions public, and review petitions based on established criteria.	9
Pupil Safety Notices	Inform parents when a school does not meet certain safety standards, including for lead, and provide an interpreter anytime a parent does not speak English and wishes to discuss certain safety issues, such as child abuse.	6
Missing Children Reports	Post notices of missing children provided by law enforcement. Notify law enforcement if another school requests the student's records.	3
<b>Community College Mandates</b>		
Sex Offenders: Disclosure by Law Enforcement	Campus police must register students who are sex offenders and live on campus.	\$1

<sup>a</sup> Based on estimated 2009-10 claims. Costs could increase to the extent more districts file claims given our recommendation to simplify the reimbursement process.

## Appendix B

## LAO Recommends Eliminating Most Education Mandates

*(In Thousands)*

Mandate	Requirements	Likely Impact on Students and Teachers	Annual Savings <sup>a</sup>
<b>K-12 Mandates</b>			
Truancy	Notification—Develop truancy procedures. Identify students absent or tardy three or more times as truant. Use a form letter to inform parents their child has been classified as truant.	<b>Minimal impact expected.</b> Almost all mandate costs are generated by form letters, which are reimbursed at a rate of \$17 each and do not substantively increase parent involvement or reduce dropouts. Further, the federal No Child Left Behind Act already requires districts to develop extensive policies for increasing parental involvement.	\$15,900
	Habitual Truants—If a student is truant three or more times: verify prior truancies, inform the parents using a form letter, and request a conference with the parent. After these steps, classify the student as habitually truant.		6,883
Notification to Teachers of Mandatory Expulsion	Document and maintain information on all students in the past three years who have committed suspendable or expellable offenses. Inform teachers of students who have engaged in such activities.	<b>Minimal impact expected.</b> Keeping teachers and students safe is one of the primary responsibilities of any principal. Moreover, compelling liability concerns provide a stronger incentive than a mandate to inform teachers.	6,818
Scoliosis Screening	Screen all female students in grade seven and male students in grade eight for scoliosis. Train staff as needed. Report results to state departments.	<b>Minimal impact expected.</b> Rigorous studies show these tests are costly and do a poor job of identifying students in need of further treatment.	3,652
Physical Performance Tests	Purchase equipment, train staff, conduct assessments, analyze assessment data, and respond to state agency requests associated with administering physical fitness tests in grades five, seven, and nine.	<b>Minimal impact expected.</b> The state already requires two years of physical education in high school and has well-developed curriculum standards for middle school. Data are not used to improve education practices.	2,325
Law Enforcement Agency Notifications	File a report with law enforcement whenever a student violates particular sections of state Penal Code. Maintain records of those reports.	<b>Minimal impact expected.</b> Most districts already inform law enforcement of crimes committed on campus, in part due to compelling liability concerns.	1,894
Removal of Chemicals	Hire consultants to inventory chemicals in science classrooms, review those inventories, and remove all chemicals that are outdated but have not yet become dangerous as defined in Health and Safety Code.	<b>No impact expected.</b> Health and Safety Code requires the removal of dangerous chemicals. Potential lawsuits resulting from harm to students create greater incentives for compliance than a mandate.	1,289
Caregiver Affidavits	For a student living with a caregiver residing in the district: prepare affidavit procedures and approve valid affidavits to allow the student to attend local schools. Perform related administrative tasks.	<b>Minimal impact expected.</b> Schools legally allowed to enroll these students. Attendance funding provides sufficient incentive to prepare an affidavit.	975

(Continued)

APPENDIX

Mandate	Requirements	Likely Impact on Students and Teachers	Annual Savings <sup>a</sup>
Pupil Residency Verification and Appeals	Verify student's residency in the district and U.S. citizenship at times other than annual residency verification, especially if concerns arise over the validity of residency documentation provided. Conduct appeals for students deemed not to be legal residents.	<b>Minimal impact expected.</b> No compelling reason exists to mandate the district verify residency outside of the annual residency period or upon the student's arrival at the district. Districts are still free to perform these activities at their discretion.	\$348
Expulsion Transcripts	Districts cannot charge students for the cost of providing a transcript for expulsion hearings if the family is low-income or the county reverses the district's decision.	<b>Minimal impact expected.</b> Costs are minimal and districts already frequently provide this service when a student's family cannot afford it.	13
Teacher Incentive Program	Inform teachers of a \$10,000 state incentive to receive National Board Certification. Certify to the National Board that the teacher is employed by the district. Submit the application to the California Department of Education.	<b>Minimal impact expected.</b> Additional funding from the state to attract and train qualified teachers is itself sufficient incentive for districts to participate.	6
Physical Education Reports	Report to the California Department of Education on whether students receive 200 minutes of physical education instruction every two weeks.	<b>No impact expected.</b> The state already receives this information as part of its broader district compliance and audit processes.	2
<b>Community College Mandates</b>			
Law Enforcement College Jurisdiction Agreements	Campus police must develop and update (as needed) agreements with local law enforcement agencies concerning which agency has responsibility for investigating violent crimes occurring on campus.	<b>No impact expected.</b> Campus police have already adopted agreements. New statute could allow them to keep in place such policies (or update at their discretion).	\$195
Sexual Assault Response Procedures	Districts must adopt policies and procedures on campus response if students are sexually assaulted.	<b>No impact expected.</b> Districts have already adopted procedures. New statute could allow them to keep in place such policies (or update at their discretion).	—
Reporting Improper Governmental Activities	Districts must pay for all costs of State Personnel Board hearings (as well as certain other related activities) if an employee files a complaint with the Board alleging retaliation by the district for whistleblowing.	<b>Minimal impact expected.</b> State law already provides protections and legal recourses for CCC whistleblowers. By eliminating requirement, CCC would be treated the same as K-12.	27
<b>Shared K-12 and Community College Mandates</b>			
Agency Fee Arrangements	Deduct bargaining unit fees from employees' paychecks. Provide the local bargaining unit representative with any new employee's home address.	<b>No impact expected.</b> Districts involved in bargaining likely already do these activities. Unions can also bargain to have these activities included in contracts.	\$75

<sup>a</sup> Based on estimated 2009-10 claims.

## Appendix C

## LAO Recommends Preserving Core Policies Underlying Some Mandates

*(In Thousands)*

Mandate	Requirements	Likely Impact on Students and Teachers	Annual Savings <sup>a</sup>
<b>K-12 Mandates</b>			
High School Science Graduation Requirement	Require two science classes for graduation (rather than one). Acquire space and equipment for additional science classes. Acquire and produce related instructional materials. Pay teacher salary costs for an additional science course.	<b>No impact expected.</b> A simple statute clarification can eliminate the mandate while preserving the requirement.	\$200,000
Stull Act	Evaluate certificated instructional personnel related to: adherence to curricular objectives and students' progress on state assessments. Review tenured teachers that receive an unsatisfactory evaluation on a yearly basis.	<b>No impact expected.</b> Core evaluation requirements are not part of the mandate. Assessment requirements are covered in other Education Code sections. Districts have a compelling interest in evaluating teachers, including those with previously unsatisfactory performance.	19,166
Inter/Intradistrict Attendance	Prepare policies regarding student transfer. Develop a random selection process for transfers. Determine school site capacity prior to transfer. Study the impact of any transfer on racial and ethnic balances. Within-district transfers are required, but across-district transfers are optional and only require county office oversight.	<b>Minimal impact expected.</b> Within district transfers are required for failing schools under No Child Left Behind and across-district transfers are already optional.	5,792
Pupil Suspensions, Expulsions, and Expulsion Appeals	Automatically suspend students for certain offenses and recommend students for expulsion for certain offenses. Hold expulsion appeals and follow due process. Perform all related administrative activities.	<b>Minimal impact expected.</b> Leave suspension and expulsion decisions to local discretion—most serious offenses likely would still result in suspension or expulsion. (Students expelled for identified offenses would still generate higher funding at community and community day schools.)	3,849
Criminal Background Checks I and II	Conduct criminal background checks prior to hiring all certificated personnel and contractors. Purchase necessary electronic fingerprinting equipment. Prepare all related district policies. Exchange information with the Department of Justice and other law enforcement agencies.	<b>No impact expected.</b> Districts already charge fees for some of these services—the state could allow them to charge fees for all related services.	1,713
Financial and Compliance Audits	Conduct activities required to comply with new audit procedures, submit corrective plans to county offices, respond to requests for financial information, and review audits publicly.	<b>No impact expected.</b> State could streamline the audit process and requirements to correspond with the recent consolidation of state categorical programs.	427

(Continued)

APPENDIX

Mandate	Requirements	Likely Impact on Students and Teachers	Annual Savings <sup>a</sup>
<b>Community College Mandates</b>			
Enrollment Fee Collection and Waivers	Districts must collect enrollment fees and waive fees for certain students (such as financially needy students).	<b>No impact expected.</b> Create a strong incentive for districts to perform these administrative duties by reducing districts' General Fund support by the amount of fee revenues that they decline to collect.	\$20,000
Integrated Waste Management	Districts must divert from landfills a specified percentage of their solid waste through reduction, recycling, and compacting activities. Develop and report annually on their ability to meet solid-waste division goals.	<b>Minimal impact expected.</b> Statewide cost estimate scheduled for January 2010. To the extent that savings and revenues fully offset all costs that districts incur from required activities, retain the mandate. If significant cost, treat CCC the same as K-12 school districts, which are encouraged—but not required—to comply with diversion goals. Like K-12 schools, likely that colleges would participate anyway in waste-division programs.	Unknown
Health Fee/Services	Each district is required to provide students at least the level of health services it provided in 1986-87. Fee districts may charge for health services is capped.	<b>No impact expected.</b> Continue to require districts to provide same level of health services, but eliminate mandate costs by allowing districts to assess a fee amount that covers the full cost to provide current service levels.	12,100
<b>Shared K-12 and Community College Mandates</b>			
Collective Bargaining	Determine appropriate bargaining units and representatives. Hold and certify elections for unit representatives. Negotiate contracts and make them public. Participate in impasse proceedings. Administrate and adjudicate contract disputes.	<b>No impact expected.</b> Recent court decisions suggest most collective bargaining requirements should no longer be considered a mandate. Upon adoption of new reconsideration process, laws could remain unchanged while drastically reducing the associated cost to the state.	\$42,092

<sup>a</sup> Based on estimated 2009-10 claims.

**Appendix D**

**In a Few Cases, LAO Recommends a Hybrid Approach**

*(In Thousands)*

Mandate and Required Activities	Annual Fiscal Effect <sup>a</sup>	
	Fund	Eliminate
<b>Annual Parent Notification</b>		
<b>Inform parents of:</b>		
High school exit exam requirement	\$335	—
Right to exempt students from HIV prevention classes	395	—
Right of students to take necessary medications and receive school support	395	—
Right of student to refuse immunizations and other medical treatment	395	—
Alternative education options	335	—
Sexual harassment policies <sup>b</sup>	—	\$6,712
Local school discipline rules	—	395
Excusable absences	—	395
Dates of in-service training for teachers	—	395
Fingerprinting program for school staff	—	395
Subtotals	(\$1,855)	(\$8,292)
<b>AIDS Prevention I-II</b>		
Provide all middle school students with HIV prevention instruction	\$396	—
Provide professional development on HIV instruction	314	—
Provide all high school students with additional HIV prevention instruction	—	\$396
Notify parents of right to exempt students from HIV instruction	—	75
Provide instructional materials on HIV instruction	—	194
Keep relevant sections of Education Code available for parents	—	120
Subtotals	(\$710)	(\$785)
<b>Comprehensive School Safety</b>		
Develop a schoolwide safety plan <sup>c</sup>	\$151	—
Review and annually update safety plan <sup>c</sup>	—	\$4,890
Subtotals	(\$151)	(\$4,890)
<b>Juvenile Court Notices II</b>		
Maintain private record of students' juvenile court notices	\$154	—
Transfer notices to students' subsequent schools	461	—
Destroy records when student turns 18 years-old	154	—
Distribute notices to teachers	—	\$308
Provide juvenile courts with school's mailing address	—	154
Subtotals	(\$769)	(\$461)
<b>Pupil Promotion and Retention</b>		
Notify parent of teacher's recommendation to retain a student	\$480	—
Discuss recommendation with parent	480	—
Provide appeals process for student recommended for retention	480	—
Provide supplemental instruction for students underperforming on state tests	—	\$563
Provide supplemental instruction for students recommended for retention	—	563
Develop local policies on promotion and retention	—	563
Subtotals	(\$1,439)	(\$1,689)

(Continued)

APPENDIX

Mandate and Required Activities	Annual Fiscal Effect <sup>a</sup>	
	Fund	Eliminate
<b>School Accountability Report Cards</b>		
<b>Schools must report the following information to the state and parents:</b>		
Salaries paid to teachers and staff	\$408	—
Current year dropout rate	203	—
Student assessment data	407	—
Total number of instructional minutes and days	204	—
Average class size	408	—
Credentialing status and qualifications of staff members	407	—
Suspension and expulsion rates	204	—
School average Scholastic Aptitude Test scores when reported <sup>d</sup>	—	\$408
School days devoted to staff development <sup>d</sup>	—	204
Degree to which pupils prepared to enter workforce <sup>d</sup>	—	204
Subtotals	(\$2,241)	(\$816)
<b>California State Teachers' Retirement System (CalSTRS) Service Credit</b>		
Submit sick leave records to CalSTRS for audit purposes	\$18	—
Provide information to CalSTRS regarding reemployment of military personnel	18	—
Certify number of unused excess sick days to CalSTRS for retiring members	18	—
Inform new staff of eligibility for membership in the Defined Benefit Program.	—	18
Alert new employee of right to make an election to CalSTRS or CalPERS and make available written information on the plans	—	18
Maintain new employees' written acknowledgment information was received	—	18
Subtotals	(\$54)	(\$54)
<b>Total Estimated Annual Fiscal Effect</b>	<b>\$7,219</b>	<b>\$16,988</b>
<sup>a</sup> Based on estimated 2009-10 claims. <sup>b</sup> Requirement would not be eliminated entirely, but costs would be reduced substantially by alerting parents of right to obtain sexual harassment policies from the school by request rather than printing entire policy in the notification letter. <sup>c</sup> Proposal would fund cost of developing an initial plan, submitting it to the district, consulting with local law enforcement, conferring with other schools, assessing the current status of school crime, and developing strategies to comply with current safety laws. Any update to the plan would be left to district discretion. <sup>d</sup> Alternatively, state could use these data reporting requirements to collect more useful data rather than simply eliminate the cost.		

**Appendix E**

**Likely Minimal Impact From Eliminating Individual Requirements**

Mandate and Required Activities	Likely Impact of Elimination on Students and Teachers
<b>Annual Parent Notification</b>	
<b>Inform parents of:</b>	
Sexual harassment policies	<b>No impact expected.</b> The majority of costs can be eliminated by informing parents of their right to obtain sexual harassment policies rather than printing the entire policy in the notification.
Local school discipline rules	<b>No impact expected.</b> Clarify districts cannot take disciplinary action against a student unless the student was informed about local rules in advance. This technical change eliminates state costs.
Excusable absences	<b>No impact expected.</b> Clarify schools cannot take any attendance-related disciplinary action against a student without verifying reasons for absence.
Dates of in-service training for teachers	<b>No impact expected.</b> Districts already have a compelling incentive to let parents know which days students are not required to attend school.
Fingerprinting program for school staff	<b>No impact expected.</b> Effectiveness of finger-printing programs and background checks are not contingent on parents' awareness of the programs.
<b>AIDS Prevention I-II</b>	
Provide a second HIV prevention course to all high school students	<b>Minimal impact expected.</b> All middle and high school students would still receive at least one course on HIV awareness and prevention. High school health content standards cover HIV multiple times. Data suggest the vast majority of high schools provide health classes.
Notify parents of right to exempt students from HIV instruction	<b>No impact expected.</b> Already included in annual parent notification.
Provide instructional materials on HIV instruction	<b>No impact expected.</b> Middle and high school content standards include detailed information on HIV prevention. Schools already receive funding for instructional materials.
Keep relevant sections of Education Code available for parents	<b>No impact expected.</b> If a parent wants a copy of the relevant Education Code from the district, it can be accessed online and printed.
<b>California State Teachers' Retirement System (CalSTRS) Service Credit</b>	
Inform new staff of benefit eligibility	<b>No impact expected.</b> All of these requirements could be achieved by allowing CalSTRS and CalPERS to charge districts that file benefits information after the deadline the cost of processing the material.
Alert new employee of right to make an election to CalSTRS or CalPERS	
Maintain employees' written acknowledgment	

(Continued)

APPENDIX

Mandate and Required Activities	Likely Impact of Elimination on Students and Teachers
<b>Comprehensive School Safety</b>	
Review and annually update safety plans <sup>a</sup>	<b>Minimal impact expected.</b> Schools would still be required to update their plans if they determine the original plan is no longer sufficient to protect student safety. Liability concerns create a stronger incentive than the mandate to update safety plans.
<b>Juvenile Court Notices II</b>	
Distribute notices to teachers	<b>Minimal impact expected.</b> Similar to Notification to Teachers of Mandatory Expulsion, schools already have strong incentives to alert teachers when students are expelled or commit a crime.
Provide juvenile courts with school's mailing address	<b>No impact expected.</b> Courts can find this information online.
<b>Pupil Promotion and Retention</b>	
Provide supplemental instruction for students underperforming on state tests or recommended for retention	<b>Minimal impact expected.</b> Accountability systems provide incentives for improving student performance and already require supplemental instruction. Also, research suggests an hourly after-school model often does not reach students most in need of help.
Develop local policies on promotion and retention	<b>No impact expected.</b> Districts already develop these policies. Moreover, protecting students' due process rights requires districts to have a rational basis for making retention decisions.
<b>School Accountability Report Cards</b>	
<b>Schools must report the following information to the state:</b>	
School average Scholastic Aptitude Test scores when reported	<b>Minimal impact expected.</b> Districts only collect data for students who report scores. As a result, scores are not representative of the student body.
School days devoted to staff development	<b>No impact expected.</b> Requirement does not tell families or the state anything about the quality of professional development.
Degree to which pupils prepared to enter workforce	<b>No impact expected.</b> The state has not found an effective way to measure or operationalize this reporting requirement.
<sup>a</sup> Includes cost of developing a plan, submitting it to the district, consulting with local law enforcement, conferring with other schools, assessing the current status of school crime, and developing strategies to comply with current safety laws.	

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Thursday, April 15, 2010**  
**9:30 a.m. or Upon Adjournment of Session**  
**Room 3191, State Capitol**  
**OUTCOMES**

<u>Item</u>	<u>Department</u>	<u>Page</u>
<b>6110</b>	<b>Department of Education</b>	
<b>Item 1</b>	<b>Financial Status of School Districts – Presentation by Fiscal Crisis &amp; Management Team (Information Only)</b>	<b>Page 2</b>
<b>Item 2</b>	<b>Governor’s Budget Proposal -- Emergency Repair Program</b>	<b>Page 7</b>
<b>Item 3</b>	<b>Legislative Analyst’s Proposal -- Kindergarten Entrance Date</b>	<b>Page 11</b>
<b>Item 4</b>	<b>DOF April Letters – Various State Operations &amp; Local Assistance Adjustments (Consent Vote)</b>	<b>Page 15</b>
<b>Item 5</b>	<b>DOF April Letters – State Special Schools – Capital Outlay Project Reappropriations (Consent Vote)</b>	<b>Page 21</b>
<b>6360</b>	<b>Commission on Teacher Credentialing</b>	
<b>Item 6</b>	<b>DOF April Letters – Credential Web Interface Project Reappropriation (Consent Vote)</b>	<b>Page 22</b>

Public Comment

**ITEM 1. Fiscal Status of School Districts – Presentation from Fiscal Crisis & Management Assistance Team (Information Only)**

**DESCRIPTION:** Joel Montero, Chief Executive Officer, Fiscal Crisis & Management Assistance Team (FCMAT), will provide a presentation on the financial status of local education agencies, including an update on the number of LEAs with negative and qualified 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.

**LEA Certification.** As a part of these reports, LEAs must certify whether they are able to meet their financial obligations. The certifications are classified as positive, qualified, or negative.

- A positive certification is assigned when an LEA will meet its financial obligations for the current and two subsequent fiscal years.
- A qualified certification is assigned when an LEA may not meet its financial obligations for the current and two subsequent fiscal years.
- A negative certification is assigned when an LEA will be unable to meet their financial obligations in the current year or in the subsequent fiscal year.

**First Interim Report.** According to the First Interim Report for 2009-10 – the most recent report available – there are currently **12 school districts with negative certifications** (compared to 16 school districts last year) and **114 school districts with qualified certifications** (compared to 74 districts last year). In summary, the total number of school districts on the negative or qualified lists grew from **90 districts** in 2008-09 to **126 districts** in 2009-10, an increase of 36 districts (40 percent).

The 12 school districts with negative certifications at First Interim in 2009-10 – listed below -- will not be able to meet their financial obligations for 2009-10 or 2010-11.

**Negative Certifications, First Interim Report, 2009-10**

District	County	Budget (\$)
Val Verde Unified	Riverside	401 million
Hayward Unified	Alameda	207 million
Vallejo City Unified	Solano	143 million
Lynnwood Unified	Los Angeles	142 million
Chico Unified	Butte	105 million
Natomas Unified	Sacramento	80 million
Travis Unified	Solano	41 million
King City Joint Union High	Monterey	21 million
John Swett Unified	Contra Costa	16 million
Aromas-San Juan Unified	San Benito	11 million
Colfax Elementary Unified	Placer	4 million
Westwood Unified	Lassen	3 million

Attachment A provides a complete list of LEAs with negative or qualified certifications for the First Interim Report for 2009-10.

**Preliminary FCMAT Reports for Second Interim.** According to FCMAT, the Second Interim Report for 2009-10 will provide a more complete assessment of school district financial status and the number of districts on the negative and qualified list will likely increase when the final report is released by CDE in June or July. The First Interim Fiscal Reports for 2009-10 were prepared by LEAs in Fall 2009, prior to release of the Governor’s January 2010-11 budget, which includes a potential of **\$1.8 billion** in additional revenue limit cuts to LEAs in 2010-11. In addition, new K-12 payment deferrals were enacted for 2010-11 as a part of the March 2010 special session.

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

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

- The State Superintendent of Public Instruction (SPI) shall assume all the legal rights, duties, and powers of the governing board of the district.
- The SPI shall appoint an administrator to act on behalf of the SPI.
- The school district governing board shall be advisory only and report to the state administrator.

- The authority of the SPI and state administrator shall continue until certain conditions are met. At that time, the SPI shall appoint a trustee to replace the administrator.

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

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

**State Emergency Loan Recipients.** Eight school districts have sought emergency loans from the state since 1990. (Attachment B summarizes the amounts of these emergency loans and the status of repayments.) Two of these districts – Emery Unified and Coachella Valley Unified – have paid-off their loans. Six school districts are currently receiving state emergency loans – Emery Unified, King City Joint Union High School, Oakland Unified, Richmond/West Contra Costa Unified, Vallejo City Unified, and West Fresno Elementary.

Of the six districts with current emergency loans from the state, five remain on the negative or qualified lists at First Interim 2009-10. (King City Joint Union Higher and Vallejo City Unified are on the negative list; Emery Unified, Oakland Unified and West Contra Costa Unified are on the qualified list.) The remaining district -- West Fresno Unified – is not currently on either the negative or qualified certification lists for the First Interim Report.

**King City Joint Union High School District.** King City Joint Union High School was the most recent addition to the state emergency loan list. **Chapter 20; Statutes of 2009** (SB 130/Denham) provides a **\$5.0 million** emergency loan appropriation and specifies the terms for loan repayment. The bill authorizes the district to augment the emergency loan with an additional **\$8 million** of lease financing, to effectively increase the loan to **\$13 million**. The bill also requires the district to enter into a lease financing arrangement through the California Infrastructure and Economic Development Bank for the purpose of financing the emergency apportionment, including a restoration of the initial General Fund apportionment. The bill authorizes the district to sell property and use the proceeds to reduce or retire the loan, and would make the district ineligible for financial hardship assistance under the State School Facilities Program. As a requirement of the emergency loan, the Superintendent of Public Instruction (SPI), in consultation with the Monterey County Superintendent, will assume all legal rights, duties and powers of the district's

governing board. The SPI shall appoint a state administrator to act in his behalf, until certain conditions are met.

**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.*

**STAFF COMMENTS:**

- **Number of LEAs with Negative or Qualified Fiscal Status Likely to Increase at Second Interim Report.** According to FCMAT, the number of school districts with negative and qualified certifications will likely increase at Second Interim to reflect the Governor's January Budget proposals and new deferrals enacted in special session last March. Very preliminarily, FCMAT predicts the number of districts on the negative list will likely increase from **12 districts** at First Interim to **13 districts** at Second Interim in 2009-10; and the number of districts on the qualified list will likely increase from **114 districts** to **149 districts**.
- **Number of LEAs with Negative or Qualified Fiscal Status May Increase Significantly from 2008-09 to 2009-10 at Second Interim.** A comparison of FCMAT's preliminary figures for Second Interim also indicates that the total number of districts with negative or qualified status may grow from **110 districts** in 2008-09 to **162 districts** in 2009-10, an increase of 52 districts (**47 percent**). Likewise, the total number of districts with qualified or negative status increased for First Interim from a total of **90 districts** in 2008-09 to **126 districts** in 2009-10, an increase of 36 districts (**40 percent**).
- **FCMAT Budget Reduced for Next Five Years While Workload Increases.** As a part of across-the-board categorical reductions enacted in 2009, FCMAT is subject to the same five-year budget reduction provided for more than 50 categorical programs beginning in 2008-09. As a result, appropriations for FCMAT dropped 15.4 percent (below previous levels) in 2008-09 and 19.8 percent in 2009-10. The budget appropriation for FCMAT is **\$9.2 million** in 2009-10; the Governor's Budget continues at about this same level of funding in 2010-11. At the same time, FCMAT's workload has grown significantly – by at least 40 percent -- in the last year due to increases in the number of districts on the negative and qualified lists.

## SUGGESTED QUESTIONS:

1. Student enrollment has been in decline statewide for the last three years. Does this explain some of the budget reductions being implemented by LEAs? What is the importance of reduction in force (RIF) for LEAs facing enrollment decline?
2. Are you aware of any other LEAs that may be facing financial insolvency and requiring a state emergency loan?
3. What is the extent of FCMAT's work with the six school districts currently receiving state emergency loans? How are these districts progressing?
4. Can you describe the most common problems faced by school districts on the negative list?
5. Have categorical flexibility and access to ending balances helped LEAs balance their budgets? Would additional categorical flexibility be helpful?
6. The 2009 budget package reduced the minimum state requirement for reserves for economic uncertainty for districts to one-third of the previously required level for 2009-10. The budget changes require districts to make progress in restoring reserves in 2010-11 and to fully restore reserves in 2011-12. What is the effect of these changes?
7. How are payment deferrals affecting LEAs, especially in light of the new intra-year deferrals enacted in special session for 2010-11? Are there some types of districts that face more of a challenge with deferrals than others?
8. Do the hardship provisions for the new deferrals in 2010-11 provide adequate protection for districts facing serious financial problems?
9. How is FCMAT handling significant increases in workload while facing a budget reduction of nearly **20 percent**?
10. What advice did FCMAT provide to LEAs about how to budget one-time federal American Recovery and Reinvestment Act (ARRA) funds?
11. There are more than 1,000 school districts of all sizes in California. As a result of budget shortfall, is there any movement among school districts toward unification as a means of achieving efficiencies?

**ITEM 2. Governor's 2010-11 Budget Proposal –Emergency Repair Program**

**DESCRIPTION:** The Governor proposes to appropriate **\$51.0 million** in one-time, Proposition 98 savings from various programs for the Emergency Repair Program (ERP) in 2010-11. This action is intended to provide funding to make up for a shortfall in actual funds compared to authorized funds provided for the program in 2008-09. These new funds will provide funding for the next \$51 million in approved projects on the ERP unfunded list.

**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 authorized 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.

**API Eligibility List.** Education Code Section 1240 sets forth the process for renewing the list of API decile 1-3 schools every three years for purposes of the ERP program. The original list of decile 1-3 schools that were eligible for ERP was established effective 2004-05 through 2006-07 and was based upon the 2003 Base API.

The current list of decile 1-3 schools was established effective 2007-08 based on the 2006 Base API. This list will remain in place until the new list -- based upon the 2009 Base API -- becomes effective in 2010-11.

**Projects Approved:** As of March 24, 2010, the SAB has approved and funded a total of **\$338 million** in ERP projects. According to the SAB, there are an additional **\$73 million** in approved-unfunded projects and **\$664 million** in unapproved projects pending.

**Types of Projects:** ERP staff has provided information about the **\$73 million** in approved projects on the unfunded list. The \$73 million covers 2,716 projects for 47 school districts and 396 schools. While ERP tracks 31 different types of projects, most funding (\$64.2 million) is proposed for six project types: Heating Ventilation and Air Conditioning (\$25.3 million); Roofing (\$15.4 million); Structural Damage (\$9.2 million); Paving (\$6.6 million); Electrical (\$4.3 million); and Fire Detection (\$3.6 million).

**Funding History.** Annual appropriations and expenditures for ERP are summarized below. As mentioned earlier, this program is supported by appropriations of one-time funds from the Proposition 98 Reversion Account. In summary, the state currently has a total of **\$338 million for ERP** since 2005-06. Current law authorizes a total \$800 million over the lifetime of the program, so there is **\$462 million** in remaining authority for ERP.

<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Expenditures</b>
<b>2004-05</b>	5,000,000	0
<b>2005-06</b>	196,024,000	3,500,000
<b>2006-07</b>	136,979,000	36,600,000
<b>2007-08</b>	200,000,000 -250,000,000	171,400,000
<b>2008-09</b>	101,000,000 -51,000,000	100,800,000
<b>2009-10</b>	0	25,703,000
<b>Subtotal</b>	<b>338,003,000</b>	<b>338,003,000</b>
<b>2010-11 (Proposed)</b>	51,000,000	51,000,000
<b>Total</b>	<b>389,003,000</b>	<b>389,003,000</b>

In recent years annual appropriations for ERP required were adjusted to respond to the state's budget shortfall and better align appropriations with expenditures. The 2008-09 budget was adjusted on the natural when anticipated one-time funds did not materialize in the Proposition 98 Reversion Account. The 2009-10 budget did not appropriate any funding for the program in 2009-10, however, due to prior year fund balances for the program, a total of \$25.7 million has been allocated by ERP in 2009-10. As of September 2009, all ERP funds have been allocated and there is no funding available for any of the \$73 million in remaining approved projects.

**GOVERNOR'S BUDGET PROPOSAL:** The Governor's January 10 Budget proposes to appropriate **\$51.0 million** in one-time, Proposition 98 savings from various programs

for the Emergency Repair Program (ERP) in 2010-11. This action is intended to provide funding to make up for a shortfall in actual funds compared to authorized funds provided for the program in 2008-09. More specifically, \$51 million of the \$100 million in one-time Proposition 98 funds reappropriated for ERP in 2008-09 did not materialize in 2008-09. These new funds will provide funding for the next **\$51 million** of the \$73 million projects on the current ERP unfunded list. Projects would be funded based upon the date the project applications were received by the Office of Public School Construction.

**LAO RECOMMENDATION:** The LAO believes that given the state's difficult situation, the Legislature has two reasonable approaches that it could take. The Legislature could meet the provisions of the Williams settlement for 2010-11 by providing at least \$100 million to the Emergency Repair Program. Alternatively, given the state has provided maximum flexibility to school districts and relaxed several requirements related to facility maintenance, the Legislature may want to consider using one-time Proposition 98 funds to backfill reductions in revenue limits or the flex item so that districts have more discretion in making spending decisions.

**STAFF COMMENTS:**

**Dimensions and Impact of the Governor’s Proposal.** The Governor’s proposal would provide \$51 million for approximately 125 school projects. Projects range in size from \$6.5 million to a low of \$485. Approximately 55 percent of projects are grant-based; the remaining 45 percent are reimbursement based. In spite of this diversity, \$40 million of the total approved by the Governor goes to 19 school projects that exceed \$500,000 each.

<b>District</b>	<b>County</b>	<b>School</b>	<b>Amount</b>
Oakland Unified	Alameda	Oakland Senior	6,465,744
Escondido Union Elementary	San Diego	Grant Middle	1,979,191
Moreno Valley Unified	Riverside	Moreno Valley High	1,046,443
Moreno Valley	Riverside	Moreno Valley High	5,958,017
Santa Ana Unified	Orange	Valley High	529,853
Santa Ana Unified	Orange	Saddleback High	3,282,007
Santa Ana Unified	Orange	Saddleback High	965,958
Santa Ana Unified	Orange	Santa Ana High	4,665,825
Santa Ana Unified	Orange	Santa Ana High	1,196,171
Santa Ana Unified	Orange	Wilson Elementary	1,798,250
Santa Ana Unified	Orange	Jackson Elementary	575,559
Santa Ana Unified	Orange	Freemont Elementary	3,126,553
Sacramento City Unified	Sacramento	Kemble Elementary	732,432
East Side Union High	Santa Clara	Hill High	784,061
Sacramento City Unified	Sacramento	Luther Burbank High	537,231
Sacramento City Unified	Sacramento	Sacramento High Charter	517,293
Santa Ana Unified	Orange	Hoover Elementary	1,086,422
Santa Ana Unified	Orange	Saddleback High	4,392,483
Rowland Unified	Los Angeles	Villacorta Elementary	740,644
			<b>40,380,137</b>

**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. In addition, while two of the State Special Schools are ranked in decile 2 of the API, they are also excluded from ERP, in spite of the fact that these schools have some projects that might otherwise be eligible for these funds.

**STAFF COMMENTS:** It is too early to make a recommendation on the ERP program at this time. The Subcommittee will have better information following May Revise when the state has updated revenue and expenditure data for 2010-11. At that time, the Subcommittee will need to consider how to best invest one-time Proposition 98 funds for K-12 education. The Governor's Budget currently proposes about \$1.8 billion in revenue limit reductions for K-12 schools. If reductions of this magnitude are needed in 2010-11, staff would likely recommend that the Subcommittee use the \$51 million in one-time Proposition 98 funds to offset the revenue limits for all 1,000 plus school districts and county offices of education. The \$51 million in funds proposed by the Governor for ERP would also benefit schools and districts – and since most projects are grant-based – the work would presumably stimulate their local economies. However, most of the benefit would be concentrated in fewer than ten school districts in the state.

**QUESTIONS:**

- 1) Can the State Allocation Board summarize the types of emergency repair projects on the approved-unfunded list that would be covered by the Governor's proposal?
- 2) Can the State Allocation Board provide an update of the \$664 million in unapproved-unfunded applications that are currently pending and how that amount compares to approximately \$462 in remaining authority for the program?
- 3) With such a wide range of costs for ERP projects, how can issues of equity and efficiency be assured for this program?
- 4) How many emergency repair projects are funded because districts did not conduct routine maintenance?
- 5) The grant based option was added to the ERP program in July 2007. How has the nature of projects changed since then? With the added grant-based option, do school districts still submit reimbursement- based projects?

### **ITEM 3. Legislative Analyst's Office Proposal – Kindergarten Entrance Date**

**DESCRIPTION:** The Legislative Analyst's Office (LAO) recommends that the Legislature change statute in 2010-11 to move the age of admission to kindergarten back from December 2 to September 1 starting in the 2011-12 school year. The LAO estimates associated savings of approximately \$700 million (Proposition 98) with this proposal.

#### **BACKGROUND:**

**Current Law.** State law does not require children to attend kindergarten. In other words, it is not compulsory. However, if enrolled in kindergarten, a child must meet certain age eligibility requirements. More specifically, a child must turn five years of age on or before **December 2** of the school year to attend kindergarten. State law also allows a waiver of this requirement so that children may be admitted to kindergarten earlier on a case-by-case basis at the discretion of the district.

**Kindergarten Entrance Requirements in Other States.** According to the Education Commission of the States (ECS), states have moved toward establishing earlier kindergarten cut-off dates. As of December 2009, ECS reports that:

- **Thirty-seven states** have kindergarten entrance cut-off dates between August 1 and September 30. Twenty-nine of these states have entrance dates on or before September 2.
- **Three states** – Kentucky, Nebraska, and Maine – have cutoff dates between October 1 and October 15.
- **Four states** – California, Michigan, Connecticut, and Vermont and the District of Columbia – have kindergarten entrance dates between December 1 and January 1.
- **Six states** -- Colorado, Massachusetts, New Hampshire, New Jersey, New York and Pennsylvania -- leave determinations about kindergarten entrance-age to local schools.

In summary, only four states – including California -- have kindergarten entrance dates on or after December 1 each year. Furthermore, 29 states have entrance dates on or before September 2.

**LAO PROPOSAL:** The LAO recommends that the Legislature take action in 2010-11 to move the kindergarten entrance age back to September 1, but make this change beginning in the 2011-12 school year. The LAO's recommendation would require

children to have turned five prior to entering kindergarten. As is current policy, the LAO also recommends allowing parents to seek a waiver if they want to enroll a younger child. Here are excerpts from the LAO's proposal, as contained in their February 2009 publication – *The 2010-11 Budget: Proposition 98 and K-12 Education*:

In California, a child can begin kindergarten in as young as four years and nine months. This is because California's current cut-off date for entering kindergarten is December 2 of the year in which the child turns five years old. This is one of the latest kindergarten entry dates in the nation. In recent years, the California Performance Review, the Governor's Committee on Education Excellence, and numerous legislative proposals have suggested moving the kindergarten entrance date back to September 1.

***Research Suggests Positive Effects on Children.*** Per the LAO, many have argued that entering kindergarten before turning five years of age is too young, and beginning school at an older age would benefit children's academic performance and social development. Data suggest children who are older when they start kindergarten tend to perform better on standardized tests. Some research suggests this change also may lead to other positive student outcomes, including less chance of grade retention and higher earnings as an adult. The research is somewhat varied on the factors that contribute to these positive effects, mentioning family characteristics, preschool experience, and the relative age of the child as important influences on later student outcomes. Taken together, this body of research suggests that changing the kindergarten entry age would be generally positive, with no overall negative effect on children's academic achievement.

***Change Could Lead to Budgetary Savings.*** The LAO's economic forecast suggests the state and schools will face another tight budget situation in 2011-12. Because of the ambiguity surrounding the Proposition 98 minimum guarantee, we are not certain that changing the kindergarten start date would have any effect on the amount the state is required to spend on schools in 2011-12. Even if the change does not result in state savings, however, it could help ease the budget crunch for schools. Changing kindergarten eligibility for roughly 100,000 children born between September and December would mean schools would be required to serve fewer students. The LAO estimates that having 100,000 fewer kindergarteners in 2011-12 could free up roughly **\$700 million** from revenue limits and categorical programs. These funds could be redirected for other K-12 purposes, including a portion for subsidized preschool for any affected low-income children.

**RELATED LEGISLATION:** In recent years, there have been numerous legislative proposals that have suggested moving the kindergarten entrance date back from December 1 to September 1, although none of these bills has been successful to date. There are currently two bills before the Legislature on this topic that would change the date back to September 1:

- **SB 1381 (Simitian).** Moves up the age of admission to kindergarten from December 1 to September 1, but phases-in implementation by moving admission

age up one month each year for three years, beginning in 2012-13. This measure redirects half of the savings to the State Preschool Program. **Status:** Senate Education Committee.

- **AB 1967 (Mendoza).** Moves up the age of admission to kindergarten from December 1 to September 1, by one month each year over a three year period beginning in 2011-12. **Status:** Assembly Education Committee.

#### **STAFF COMMENTS:**

- **LAO Proposals Based on Positive Research and Savings.** The LAO believes that its proposal (1) is supported by research that suggests positive benefits for students from being older in kindergarten and (2) produces savings (without a cut) that can help districts in what is predicted to be another difficult year in 2011-12.
- **Vast Majority of States Have Earlier Entrance Dates Than California.** Only four states – including California -- have kindergarten entrance dates on or after December 1 each year. Thirty-seven states have entrance dates before the end of September, and 29 of these dates have start dates on or before September 2 each year.
- **Strong Legislative Interest in Policy.** There is definitely legislative interest on the policy side of this proposal – as evidenced by the two current bills before the Legislature and the large number of bills in the past.
- **Potential of Significant Savings that Could be Redirected as Needed.** The LAO estimates that changing the start date to September 1 could reduce kindergarten enrollment by approximately 100,000 students in that year, which could free up roughly **\$700 million** from revenue limits and categorical programs such as subsidized preschool for affected children from low-income families.

**STAFF RECOMMENDATIONS:** While the LAO's proposal has provided a preliminary assessment of the possible costs savings for this proposal, staff believes that more information is needed to fully assess this as a budget proposal. For this reason, staff suggests that the Subcommittee request the LAO develop a more complete fiscal analysis of the possible savings for their proposal for the Subcommittee to consider following May Revise. As a part of this fiscal analysis, staff suggests the LAO assume preschool or child care coverage is provided for low-income children affected by the proposal.

#### **SUGGESTED QUESTIONS:**

- 1) The LAO estimates state savings of \$700 million from moving the kindergarten start date back to September 1. Can the LAO provide more information about state savings?

- 2) What are the major variables in determining state savings? For example, how does possible loss of 100,000 kindergarten students in 2010-11 offset by enrollment growth not occurring in kindergarten?
- 3) Would estimated savings affect the amount of funding available for schools within Proposition 98 or could it affect the Proposition 98 base?
- 4) With an estimated savings of \$700 million, the LAO suggests that some of these funds could be redirected for a portion for subsidized preschool for any affected low-income children. Can the LAO provide more detail on this? Could some children be served by the federal Head Start program?
- 5) What are the advantages/disadvantages of implementing this proposal in one year vs. phasing it in over several years? For example, would this approach allow the field more time to adjust to the need for more child care services for young children?
- 6) Is there any data on how many families already wait until their children are five to enroll them in kindergarten?
- 7) What has the experience been for states that have moved their kindergarten cut-off dates back to September 1 in recent years? For example, Hawaii reportedly passed legislation to change the cut-off date from December 31 to August 1, beginning with the 2006-07 school year?
- 8) Given California is one of four states with the latest entrance dates in the country, how important is it that California be more aligned to start dates in the rest of the country?

**ITEM 4.     DOF April Letters – Various State Operations and Local Assistance Federal Fund Adjustments (Consent Vote)**

**DESCRIPTION:** The Department of Finance (DOF) proposes the following technical adjustments to various federal state operations and local assistance items in the 2010-11 budget. These revisions are proposed by the DOF April 1 Budget Letter. 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.

**Federal Funds – State Operations Items**

**1. Add One-Time Carryover Authority for Document Translation Workload (Issue 278).** It is requested that Item 6110-001-0890 be increased by \$250,000 federal Title III funds and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover. These funds will support the continued translation of parental notification and information forms in multiple languages to assist school districts in complying with the requirements of current law. The carryover is a result of delay in securing contracts with vendors to translate parental notification documents.

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

X. Of the funds appropriated in this item, \$250,000 is available in one-time carryover funds to support additional translations of parental notification and information templates.

**2. Add One-Time Reimbursement Authority for Specialty Crop Block Grant Program (Issue 643).** It is requested that Item 6110-001-0001 be increased by \$180,000 in reimbursement authority to reflect one-time federal funds available from the California Department of Food and Agriculture (CDFA). The Specialty Crop Block Grant funds will be used to promote the consumption of fresh fruits and vegetables among preschoolers.

It is further requested that provisional language be added to Item 6110-001-0001 as follows to conform to this action:

X. Of the funds appropriated in this item, \$180,000 is provided in one-time reimbursement authority for Specialty Crop Block Grant Funds from the California Department of Food and Agriculture.

**3. Administration of Commodity Supplemental Food Program (Issue 644).** It is requested that Item 6110-001-0890 be increased by \$45,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the anticipated approval of administrative

funds for the Commodity Supplemental Food Program (CSFP). In 2009-10, the SDE received approval from the United States Department of Agriculture (USDA) to retain an additional \$45,000 to implement the CSFP. The SDE expects to receive this additional allowance in future years but cannot request it until information about final funding is received in December.

It is further requested that provisional language be added to Item 6110-001-0890 as follows to conform to this action:

X. Of the funds appropriated in this item, \$45,000 is for the administration of the Commodity Supplemental Food Program, contingent on approval from the United States Department of Agriculture.

**4. Special Child Nutrition Grants Programs (Issue 645).** It is requested that Item 6110-001-0890 be increased by \$2,235,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the anticipated receipt of special child nutrition grants for the Summer Food Service, Administrative Reviews and Training, Team Nutrition, Direct Certification, and Fresh Fruit and Vegetable Programs. These grants are awarded by the USDA, and the funds would be used to develop and implement training needed to implement federal requirements associated with the Child Nutrition Program.

It is further requested that provisional language be added to Item 6110-001-0890 as follows to conform to this action:

X. Of the funds appropriated in this item, \$2,235,000 is provided for the following special child nutrition grants, contingent on receipt of grant awards from the United States Department of Agriculture: \$1.0 million on a one-time basis for the Summer Food Service grant, \$535,000 for the Administrative Reviews and Training (ART) grant, \$300,000 for the Team Nutrition grant, \$250,000 for the Direct Certification grant, and \$150,000 for the Fresh Fruit and Vegetable grant.

**5. Support for Completion of Child Nutrition Information and Payment System (CNIPS) (Issue 647).** It is requested that Item 6110-001-0890 be increased by \$125,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of funds to extend CNIPS project management contracts through December, 2010. These contracts will support the completion of CNIPS, which is critical to the state's Child Nutrition Program.

It is further requested that provisional language be added to Item 6110-001-0890 as follows to conform to this action:

X. Of the funds appropriated in this item, \$125,000 is available on a one-time basis to extend project management contracts to support completion of the Child Nutrition Information and Payment System implementation.

**6. Support for CNIPS Interface with Federal Computer System (Issue 648).** It is requested that Item 6110-001-0890 be increased by \$247,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect one-time funds available to develop the interface between the state's Child Nutrition Information and Payment System and the United States Department of Agriculture's (USDA's) new computer system. This federally required system compatibility will facilitate tracking orders of food commodities from the USDA.

It is further requested that provisional language be added to Item 6110-001-0890 as follows to conform to this action:

X. Of the funds appropriated in this item, \$247,000 is available on a one-time basis to develop the interface between the Department of Education's Child Nutrition Information and Payment System and the United States Department of Agriculture's new Web-Based Supply Chain Management System.

### **Federal Funds – Various Local Assistance Items**

**7. Item 6110-102-0890, Local Assistance, Learn and Serve America Program (Issue 402).** It is requested that this item be increased by \$585,000 to reflect a \$468,000 increase in the federal grant and \$117,000 in one-time carryover. The Learn and Serve America Program provides opportunities for students to engage in academic based service-learning projects.

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

X. Of the funds appropriated in this item, \$117,000 reflects one-time carryover funds for the Learn and Serve America Program.

**8. Item 6110-103-0890, Local Assistance, Robert C. Byrd Honors Scholarship Program (Issue 649)**—It is requested that this item be increased by \$114,000 Federal Trust Fund to align the budget appropriation with the federal grant award. These funds will be used to recognize exceptionally able high school seniors who show promise of continued excellence in postsecondary education.

**9. Item 6110-112-0890, Local Assistance, Public Charter Schools Grant Program (Issue 723).** It is requested that this item be decreased by \$780,000 federal Public Charter Schools Grant Program (PCSGP) funds. This adjustment includes a decrease of \$1,871,000 to align with the estimated federal grant award and an increase of \$1,091,000 in available one-time carryover funds. The PCSGP provides planning and implementation grants to new startup and conversion charter schools and best practices dissemination grants.

It is further requested that provisional language be added to conform to this action.

X. Of the funds appropriated in this item, \$1,091,000 reflects one-time carryover funds.

**10. Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 291, 292, 297, and 298).** It is requested that Schedule (1) of this item be increased by ~~\$7,810,000~~ \$7,747,000 Title I Migrant Education Program funds. This adjustment includes a decrease of ~~\$590,000~~ \$653,000 to align the Migrant Education Program with the anticipated federal grant award and an increase of \$8.4 million to reflect the availability of one-time federal 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 Schedule (2) of this item be ~~increased~~ decreased by ~~\$1,574,000~~ \$1,907,000 federal Title III funds. This adjustment includes a decrease of ~~\$126,000~~ \$3,607,000 to align the federal Title III English Language Acquisition Program with the anticipated federal grant award and an increase of \$1.7 million to reflect the availability of one-time federal carryover funds. LEAs will use these funds for services to help students attain English proficiency and meet grade level standards.

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

X. Of the funds appropriated in Schedule (1), ~~\$8.4 million~~ \$8,400,000 is provided in one-time carryover funds to support the following existing program activities: (1) extended day/week and summer/intersession programs to help prepare middle and secondary students for the high school exit exam, (2) investments aimed at upgrading curricula, instructional materials, educational software, and assessment procedures, (3) tutorials and intensified instruction, and (4) investments in technology used to improve the proficiency of limited English proficient students.

X. Of the funds appropriated in Schedule (2), ~~\$1.7 million~~ \$1,700,000 is provided in one-time carryover funds to support the existing program.

**11. Item 6110-134-0890, Local Assistance, Title I Basic Elementary and Secondary Education Act Program (ESEA) (Issues 301 and 302).** It is requested that Schedule (4) of this item be increased by ~~\$19,976,000~~ \$37,653,000 federal Title I funds. This adjustment includes an increase of ~~\$15,876,000~~ \$33,553,000 to align the Title I Basic ESEA program with the anticipated federal grant award and an increase of ~~\$4.1 million~~ \$4,100,000 to reflect the availability of one-time federal carryover funds. LEAs will use these funds to support services that assist low achieving students enrolled in the highest poverty schools.

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

X. Of the funds appropriated in Schedule (4), ~~\$4.0 million~~ \$4,100,000 is provided in one-time carryover funds to support the existing program.

**12. Item 6110-136-0890, Local Assistance, McKinney-Vento Homeless Children Education Program and Title I Even Start Program (Issues 293, 295, and 296).** It is requested that Schedule (1) of this item be decreased by \$4,310,000 federal Title I McKinney-Vento Homeless Children Education funds. This adjustment includes a decrease of ~~\$4.7 million~~ \$4,737,000 to align the McKinney-Vento Homeless Children Education Program with the anticipated federal grant and an increase of \$427,000 to reflect the availability of one-time federal carryover funds. LEAs will use these funds to provide services to homeless students.

It is also requested that Schedule (2) of this item be increased by ~~\$640,000~~ \$688,000 federal Title I Even Start funds. This adjustment includes an increase of \$48,000 to align the Even Start program with the anticipated federal grant award and an increase of \$640,000 to reflect the availability of one-time carryover. LEAs will use these funds to improve the educational opportunities of low-income families and to support a unified literacy program that integrates early childhood education and parenting education.

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

X. Of the funds appropriated in Schedule (1), \$427,000 is provided in one-time carryover funds to support the existing program.

X. Of the funds appropriated in Schedule (2), \$640,000 is provided in one-time carryover funds to support the existing program.

**13. Item 6110-166-0890, Local Assistance, Vocational Education Program (Issue 405).** It is requested that this item be increased by \$6,035,000 federal Vocational Education funds to reflect \$6.5 million in one-time carryover and a decrease of \$465,000 in the federal grant. The federal Vocational Education Program develops academic, vocational, and technical skills of students in high schools, community colleges, and Regional Occupational Centers and Programs.

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

X. Of the funds appropriated in this item, \$6.5 million is provided from one-time carryover funds for Vocational Education Programs.

**14. Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issue 144).** It is requested that this item be increased by ~~\$2,272,000~~ \$3,000,000 federal Title II funds to reflect one-time carryover. The Mathematics and

Science Partnership Program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support to mathematics and science teachers.

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

X. Of the funds appropriated in this item, ~~\$2,272,000~~ \$3,000,000 is provided in one-time carryover funds to support the California Mathematics and Science Partnership Program.

**15. Item 6110-240-0890, Local Assistance, Advanced Placement Fee Waiver Program (Issue 650).** It is requested that this item be increased by \$1,578,000 Federal Trust Fund to align the budget appropriation with the federal grant award and to reflect the availability of \$871,000 in one-time carryover funds for the Advanced Placement (AP) Fee Waiver Program. These funds will be used to reimburse school districts for specified costs of AP test fees paid on behalf of eligible students. The AP program allows students to pursue college-level course work while still in secondary school.

It is further requested that provisional language be added to Item 6110-240-0890 as follows to conform to this action:

X. Of the funds appropriated in Schedule (2) of this item, \$871,000 is provided in one-time carryover funds to support the existing program.

**ACTION ITEM: STAFF RECOMMENDATION (CONSENT):** Staff recommends approval of all of the DOF April Letter proposals listed above, including staff revisions highlighted for some issues. These revisions provide corrections to the April Letter requested by both CDE and DOF. No issues have been raised for any of these issues.

**OUTCOME: Approved all issues (#1-15) with revisions per staff recommendation. (Vote: 3-0)**

**6110 CALIFORNIA DEPARTMENT OF EDUCATION**

**ITEM 5. DOF April Letters -- State Special Schools -- Capital Outlay  
Funding Reappropriations --6110-490 (Consent Vote)**

**DESCRIPTION:** The Department of Finance April Letter requests that a new budget item be added to the 2010-11 Budget Act to reflect the reappropriation of the unencumbered balances of the bond funded appropriations for four capital outlay projects at the California School for the Deaf - Riverside.

**DOF APRIL LETTER REQUEST:** Pursuant to Budget Letter 08-33 in December 2008, state departments were directed to suspend any projects that require cash disbursement from Pooled Money Investment Account loans. In order to comply with this budget letter, the California Department of Education (CDE) suspended project activities for four lease-revenue bond funded projects at the State Special School in Riverside. These projects were all authorized in previous state budgets. As a result of suspension, implementation of these projects was delayed in 2008-09 and 2009-10 and it is now necessary to reappropriate the unexpended fund balances for these projects to allow CDE to fulfill its obligations for the identified projects once they are able to resume. The four DOF April Letter requests are outlined below.

**Addition of Budget Bill Item 6110-490, Capital Outlay, Department of Education (Issue 350).** It is requested that Item 6110-490 be added to reappropriate the unencumbered balances of the bond funded appropriations for four CDE projects at the California School for the Deaf - Riverside. Funding for these projects was originally appropriated in the Budget Acts of 2005, 2006, 2007, and 2008. This request will add budget authority in the 2010-11 budget for the unencumbered balances of these four projects, as follows:

- **\$22,467,000** for the New Gymnasium and Pool Center Project – Construction and Equipment.
- **\$18,009,000** for the Career and Technical Education Complex and Service Yard Project -- Construction and Equipment.
- **\$12,273,000** for the Kitchen and Dining Hall Renovation Project – Construction and Equipment.
- **\$9,727,000** for the Academic Support Core, Bus Loop and Renovation Project – Working Drawings, Construction and Equipment.

**ACTION ITEM: STAFF RECOMMENDATION (CONSENT):** *Staff recommends approval* of the DOF April Letter request to allow reappropriation of funds for four capital outlay projects at the School for the Deaf –Riverside. These bond funded projects were approved in previous state budgets with state lease revenue bonds. No issues have been raised for any of these items. **OUTCOME: Approved. (Vote: 3-0)**

**6360 COMMISSION ON TEACHER CREDENTIALING**

**ITEM 6. DOF April Letters – Credential Web Interface Project  
Reappropriation (Consent Vote)**

**DESCRIPTION:** The Department of Finance April Letter requests that funding authority for the Commission on Teacher Credential TC state operations budget be increased by **\$413,000** in the 2010-11 Budget Act to reflect the reappropriation of one-time funds available for completion of the Credential Web Interface Project.

**DOF APRIL LETTER REQUEST:**

**Item 6360-001-0408, State Operations, Add Funding for the Credential Web Interface Project (Issue 150).** Requests an increase of \$413,000 to the budget item for the Test Development and Administration Account, Teacher Credentials Funds to reflect the availability of one-time funds for the completion of the Credential Web Interface Project (CWIP). This project would allow the Commission on Teacher Credentialing (CTC) to capitalize on its existing infrastructure to consolidate data bases into one unified system, streamline the processes for updating and posting information, and eliminate more costly contract services by bringing in-house the internet-based client interface that stakeholders use to access credential data.

The Budget Act of 2009 provided \$413,000 on a one-time basis for this project; however, the development of the business and technical requirements has delayed the Request of Offers. The CTC is currently in the process of selecting a contractor to manage the project and does not anticipate completing the project in the current year. Therefore, the current appropriation will revert.

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

X. Of the funds appropriated in this item, \$413,000 is available on a one-time basis to contract for the completion of the Credential Web Interface Project.

**ACTION ITEM: STAFF RECOMMENDATION (CONSENT):** Staff recommends approval of the DOF April Letter request to allow reappropriation of one-time funds to complete the Credential Web Interface Project. These funds were previously approved in 2009-10. No issues have been raised for this item. **OUTCOME: Approved. (Vote: 3-0)**

## **ATTACHMENT A**

### **First Interim Status Report, 2009-10**

<http://www.cde.ca.gov/fg/fi/ir/first0910.asp>

## **ATTACHMENT B**

### **State Emergency Loans 1991-2010**

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

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Thursday, April 22, 2010**  
**9:30 a.m. or Upon Adjournment of Session**  
**Room 3191, State Capitol**

<u>Item</u>	<u>Department</u>	<u>Page</u>
	<b>California State Library</b> <b>Student Financial Aid</b> <b>Child Care and Development</b>	
<b>6110</b>	<b>California Department of Education</b>	
<b>6120</b>	<b>California State Library</b>	
<b>6870</b>	<b>California Community Colleges</b>	
Item 1	Vote Only Calendar 6120 California State Library 6110 California Department of Education	Page 3
Item 2	6120 California State Library	Page 5
Item 3	Student Financial Aid Background	Page 7
Item 4	BOG Waivers and FAFSA – Informational Item	Page 8
Item 5	Eliminate Competitive CalGrants	Page 9
Item 6	Freeze All CalGrant Levels	Page 11
Item 7	CalGrant Pilot Program Trailer Bill	Page 12

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
Item 8	Sale of EdFund Update Public Comment	Page 14
Item 9	Child Care Background	Page 16
Item 10	Reduction in Provider Reimbursement Rate	Page 19
Item 11	Reduction to CalWORKS Stage 3 Child Care	Page 22
Item 12	Negative COLA	Page 24
Item 13	Migrant Child Care	Page 25
Item 14	After School Education and Safety (ASES)	Page 26
Item 15	ARRA Funds Update	Page 27
Item 16	Quality Improvement Program	Page 28
Item 17	Preschool Assessment	Page 29
Item 18	Child Care Case Files  Public Comment	Page 30

## **ITEM 1: Vote Only Calendar**

### **1. California State Library – Integrated Library System Replacement Project**

**Background.** The California State Library's (CSL) mission is to serve as a public research library to the Legislative and Executive branches, as well as the general public. To maintain and search its collection of over one million books, magazines, newspapers, government publications, maps, and other publications, the CSL used an Integrated Library System (ILS) software tool. The previous ILS, Data Research Associates Classic System, was discontinued and all service support was terminated in February 2009.

The 2007-08 Budget Act provided funding with CSL to conduct a Request for Proposal for a new software tool to manage the state's library collection. In September 2009, the ExLibris Aleph system replaced the original ILS as the CSL system.

**Governor's Proposal.** The Governor proposes \$173,000 GF in ongoing funding (no new positions) to fund ongoing system costs not covered by the initial warranty, plus funding in subsequent years to cover ongoing operations and maintenance after initial warranty periods expire.

**Staff Recommendation.** Staff recommends the Subcommittee approve the proposal.

### **2. California State Library – Relocation for Infrastructure Renovation, Year Three Capital Outlay Project.**

The California State Library (CSL) is housed at the Library and Courts building at 914 Capitol Mall. The building was constructed in 1928. The 2005-06 Budget Act provided capital outlay funds for the renovation of the building. The project consists of fire, life safety, infrastructure improvements, and rehabilitation of historically significant architectural elements of the Library and Courts building. The renovation project was supposed to be completed in June 2011, but due to a delay in the construction start date will not finish until March 2012.

**Temporary Move.** The CSL can not stay in the Library and Courts building while the renovation project is underway. The 60 staffers of the CSL were moved to the nearby Library and Courts II annex at 900 N Street. A separate space was leased in West Sacramento for the CSL's extensive collection of printed materials.

**Governor's Budget.** The Governor's budget requests \$596,000 General Fund for 2010-11 to pay for the third year of lease costs and other costs related to maintaining an offsite venue for the CSL's collection as well as a public reading room in close proximity to the CSL's primary client base of state government agencies and the Legislature.

**Staff Recommendation.** Staff recommends the Subcommittee approve the proposal.

### **3. Department of Education – Child Care Program Local Assistance**

**Background.** The 2009 Budget provided \$250,000 from the Child Care and Development Fund for the Child Care Characteristics Study. In addition, provisional language was included requiring a contract for a one-time study to identify the characteristics of the children, families, and providers served by subsidized child care contracts and to determine the costs of the care provided. The CDE is required to provide a report to the Department of Social Services, the Department of Finance and the Legislative Analyst no later than September 1, 2010.

**April Finance Letter.** The Governor is requesting an extension of time for the completion of the Child Care Characteristic Study from September 1, 2010 to March 1, 2011. The proposal includes the following change to budget bill language:

“13. The State Department of Education shall provide the study on the characteristics of families and costs of care pursuant to Provision 13 of Item 6110-196-0001 of the Budget Act of 2009 to the State Department of Social Services, the Department of Finance, and the Legislative Analyst no later than ~~September 1, 2010~~ March 1, 2011.”

**Staff Recommendation.** Staff recommends that the Subcommittee approve the April Letter extending the due-date of the study.

### **4. Department of Education – 21st Century Community Learning Centers Program**

**Background.** The 21<sup>st</sup> Century program supports the creation of community learning centers that provide academic enrichment opportunities during non-school hours for children, particularly students who attend high-poverty and low-performing schools. The program is intended to help students meet state and local student standards in core academic subjects, such as reading and math; offer students a broad array of enrichment activities that can complement their regular academic programs; and offer literacy and other educational services to the families of participating children.

The program is funded with federal funds. As the state learns the amount of federal funds it will receive there may need to be an adjustment to the budget bill estimate.

**April Finance Letter.** The Governor is requesting a decrease of \$4,433,000 to Item 6110-197-0890, Local Assistance, to reflect current estimates of one-time carryover in the federal 21st Century Community Learning Centers program. This change includes the following budget bill language:

“2. Of the funding provided in this item, ~~\$49,096,000~~ \$44,663,000 is available from one-time carryover funds from prior years.”

**Staff Recommendation.** Staff recommends that the Subcommittee approve the April Letter with a technical dollar adjustment to the 21<sup>st</sup> Century program.

## ITEM 2: California State Library (6120)

### California State Library

(dollars in thousands)

Program	2008-09	2009-10	2010-11
State Library Services	\$ 18,046	\$ 17,700	\$ 18,176
Library Development Services	\$ 3,722	\$ 6,466	\$ 4,855
Local Library Development Services	\$ 41,822	\$ 44,126	\$ 44,626
Information Technology Services	\$ 2,270	\$ 1,150	\$ 1,351
<b>Total</b>	<b>\$ 65,860</b>	<b>\$ 69,442</b>	<b>\$ 69,008</b>

#### Speakers:

- Stacey Aldrich, California State Librarian
- Mark Whitaker, Legislative Analyst's Office
- Lisa Mierczynski, Department of Finance

#### 1. Bond Funds for the California Cultural and Historical Endowment

**California Cultural and Historical Endowment.** The California State Library's (Library) purpose is to preserve California's heritage. AB 716 (Firebaugh, 2002), the California Cultural and Historical Endowment Act, established within the Library the California Cultural and Historical Endowment (CCHE). The CCHE is intended to preserve and protect California's cultural and historical resources. The CCHE provides grants for cultural and historical preservation projects, including artifacts, collections, archives, historic structures, and properties.

**Survey Requirement.** In addition to providing grants, the CCHE has an unfulfilled requirement to conduct a survey of the existing collection of preserved historic and cultural resources in California, and to make recommendations to the Governor and Legislature on statewide policy regarding historic and cultural resource preservation. The survey was supposed to be completed in 2005. The CCHE has yet to begin work on the survey.

**Governor's Budget.** The Governor's Budget proposes \$560,000 million from Proposition 40 bond funds for 2010-11, of which \$60,000 would be for state operations and \$500,000 for local assistance. This proposal also requests Proposition 40 bond funds over the next four years, which along with budget year total \$2.7 million:

- 2010-11: \$560,000 – \$60,000 for state operations; \$500,000 for local assistance
- 2011-12: \$656,000 – all for state operations
- 2012-13: \$554,000 – all for state operations
- 2013-14: \$480,000 – all for state operations
- 2014-15: \$450,000 – all for state operations

**Staff Comment.** The enabling legislation, AB 716 (Firebaugh, 2002), imposes a 5 percent programmatic expenditures cap for Proposition 40 bond funds on the CCHE. Without the \$60,000 for state operations from this proposal, the total CCHE state

operations since 2003 amount to \$6,414,758. The enabling legislation only allows for programmatic expenditures of \$6,421,000. The \$60,000 proposed in the Governor's budget would take CCHE over the administrative funds cap.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open to provide staff and Department of Finance an opportunity to discuss the administrative funds cap in more detail. Staff will return to the Subcommittee with a recommendation at a later hearing.

### ITEM 3: Student Financial Aid Background

**Speaker:**

- Judy Heiman, Legislative Analyst's Office

There are multiple different types of financial aid available to low-income students in California. These can be separated into three broad categories:

*Federal Aid.* There are many types of federal aid available to students. In broad categories, these include grants, loans, and work-study programs. The Free Application for Federal Student Aid (FAFSA) is the core document to determine eligibility for most major federal and state financial aid programs, including CalGrant, Pell Grant, UC and CSU institutional aid, work-study awards, scholarships, and federal student loans.

*CalGrants.* CalGrants is the primary financial aid program run directly by the State of California. To receive a CalGrant, a student must have been a California resident upon graduating high school, be a U.S. citizen or legal resident, have filled out a FAFSA, be enrolled in college at least part-time, meet minimum GPA requirements, and have financial need based on college costs.

The Cal Grant programs provide awards to needy and academically eligible students and include:

1. CalGrant A & B entitlement programs for graduating high school seniors and recent graduates.
2. CalGrant A & B competitive programs for students who begin college more than eighteen months after graduating from high school.
3. CalGrant C for students attending occupational or vocational programs of at least four months in duration.

*Institutional Financial Aid.* Institutional financial aid is a financial aid program run by a higher education segment for the benefit of the students attending its institutions. The University of California and California State University both set aside one-third of their tuition revenue for financial aid to their economically disadvantaged students. The UC has recently pledged to increase the income ceiling of the UC Blue and Gold plan to \$70,000 annually. The California Community Colleges offer Board of Governor's Waivers to financially needy students, which waives tuition fees entirely.

**Role of CSAC.** The California Student Aid Commission (CSAC) was created by the Legislature in 1955. CSAC is the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. CSAC administers CalGrants and through the EdFund serves as a guarantor of federal student loans.

### California Student Aid Commission General Fund Support

*(dollars in millions)*

	<b>Actual 2007-08</b>	<b>Actual 2008-09</b>	<b>Estimated 2009-10</b>	<b>Proposed 2010-11</b>
Grant Aid Programs	\$ 851.7	\$ 877.4	\$ 999.0	\$ 1,099.6
State Operations	\$ 13.6	\$ 10.8	\$ 9.8	\$ 10.6
<b>Total</b>	<b>\$ 865.3</b>	<b>\$ 888.2</b>	<b>\$ 1,008.8</b>	<b>\$ 1,172.7</b>

**ITEM 4: BOG Waivers and FAFSA – Informational Item**

**Speakers:**

- Debbie Frankle Cochrane, The Institute for College Access & Success
- Erik Skinner, California Community Colleges

**BOG Waivers.** The Board of Governors Waiver (BOG waiver) is a tuition fee waiver provided by community colleges for financially needy students. Approximately 900,000, or 30 percent of, community college students receive a BOG waiver. Only legal California residents are eligible for a BOG waiver.

**FAFSA.** The Free Application for Federal Student Aid (FAFSA) is a single application for federal financial aid. Through the FAFSA, a student can receive grants, loans, or work-study. A student does not have to accept loans that are offered.

**CCC Students Less Likely to Apply for Federal Aid.** According to the Institute for College Access & Success, only one third (33 percent) of CCC students apply for federal financial aid, compared to nearly half (46 percent) of community college students in other states. Regardless of family income or many other important characteristics, CCC students are less likely than those in other states to complete the FAFSA. Even full-time students and Pell Grant-eligible students at the CCCs are less likely than those in other states to complete the FAFSA. The Institute for College Access & Success estimates that CCC students leave \$500 million in federal aid on the table, aid that help these students attain their educational goals by requiring them to work less and/or take out fewer loans.

**Pending Legislation.** There is currently pending legislation that would change the way current BOG waiver forms are provided by the community colleges. AB 1997 (Portantino) would do away with blanket authorization for BOG waivers, and instead authorize a community college district to use the simplified form solely for purposes of specified fee waivers provided by the board of governors, solely on a case-by-case basis, and only under certain circumstances.

**Staff Comment.** The students who receive BOG waivers are low-income people, and due to their limited financial resources many of them are also eligible for federal financial aid. Filling out the FAFSA could allow students who are part-time, because they have to work to receive aid for books and living expenses, receive federal funds to pay for those expenses instead, and thus attend college full-time. Full-time students are more likely to succeed in college.

**Staff Recommendation.** Informational item, no recommendation.

**ITEM 5: Suspend Competitive CalGrants**

**Speakers:**

- Ian Johnson, Department of Finance
- Judy Heiman, Legislative Analyst’s Office
- Diana Fuentes-Michel, California Student Aid Commission

**Competitive CalGrants.** The Competitive CalGrant is the only CalGrant available to those individuals who graduated from high school more than 18 months prior to applying. Unlike the entitlement CalGrant, the Competitive CalGrant is not offered to all who meet the minimum criteria and apply. There are two types of Competitive CalGrants:

**CalGrant A Competitive Awards** are for students with a minimum 3.0 GPA who are from low-and middle-income families. These awards help pay tuition and fees at qualifying schools with academic programs that are at least two years in length.

**CalGrant B Competitive Awards** are for students with a minimum 2.0 GPA who are from disadvantaged and low-income families. These awards can be used for tuition, fees, and access costs at qualifying schools whose programs are at least one year in length. A CalGrant B Competitive Award can only be used for access costs in the first year, including living expenses, transportation, supplies, and books. Beginning with the second year, CalGrant B Competitive Awards can be used to help pay tuition and fees at public or private four-year colleges or other qualifying schools.

**Need Exceeds Available Grants.** There are 22,500 Competitive CalGrant awards available annually, but the number of applicants far exceeds the number of awards. In 2008-09, there were 162,044 applications for Competitive CalGrants.

**Recipients of Competitive CalGrants.** The average Competitive CalGrant recipient is about 30 years old, has an income of under \$15,000 annually, an average GPA of 3.28, and a family of three. Approximately 75 percent of Competitive CalGrant recipients attend community college.

Segment	Average CalGrant	Maximum Tuition/Fee	Access Grant
California Community College	\$ 1,240	\$ -	\$ 1,551
California State University	\$ 3,575	\$ 3,048	\$ 1,551
University of California	\$ 7,565	\$ 7,126	\$ 1,551
Independent Colleges	\$ 8,525	\$ 9,708	\$ 1,551
Private Career Colleges	\$ 7,985	\$ 9,708	\$ 1,551

**Governor’s Budget.** The Governor proposes to suspend the Competitive CalGrants in 2010-11 for savings of \$45.5 million General Fund. This proposal includes budget bill language that states that no new awards would be provided in 2010-11. The proposal

also includes trailer bill language that would make any future new Competitive CalGrant awards contingent on appropriation of funds by the Legislature.

Under the Governor's proposal, those people who currently have Competitive CalGrants would keep them, but no new grants would be awarded.

**LAO Recommendation.** The LAO recommends that the Legislature consider alternatives to suspension of the Competitive CalGrants. For example, the Legislature could:

1. Increase Minimum GPA for Cal Grant B Eligibility to 2.5
2. Limit New Competitive Cal Grant Awards to Stipends Only
3. Eliminate Non-Need-Based Fee Waivers

**Staff Comment.** The Competitive CalGrant award is the only State program to offer financial aid to those would-be-students who have been out of high school for longer than 18 months. Without Competitive CalGrants these students will find it harder to afford higher education. Instead of suspending the Competitive CalGrant program, the Subcommittee may wish to consider a modified Competitive CalGrant program as a cost-saving measure, per the LAO's recommendation.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open until after May Revise.

**ITEM 6: Freeze All CalGrant Levels**

**Speakers:**

- Ian Johnson, Department of Finance
- Judy Heiman, Legislative Analyst’s Office
- Diana Fuentes-Michel, California Student Aid Commission

**CalGrant Increases.** Under current practice, as the higher education segments raise student fees, the CalGrant awards increase to cover those student fee increases. Also, income eligibility levels are recalculated annually with a cost-of-living adjustment (COLA).

**Governor’s Budget.** The Governor’s Budget contains a two-part proposal on CalGrants:

1. Freeze all awards at 2009-10 level: savings of \$78 million
2. Freeze income eligibility at 2009-10 level: savings of \$1 million

This reduction is part of the Governor’s “trigger” cuts that would take place if California does not receive the additional federal funds assumed in the Governor’s Budget.

**Staff Comment.** If the CalGrant levels are frozen, any future fee increases must be covered by the student. Currently, if tuition is increased, the CalGrant award increases to cover the increased fee amount. Freezing the award level would place financial burden on very low-income students whenever university fees were raised.

If the Legislature accepts the Governor’s proposal to freeze award levels, the 15 percent UC fee increase that has been approved by the UC Regents and goes into effect for the 2010-11 academic year will not be covered by the CalGrant awards. Also, the 10 percent CSU fee increase assumed by the Governor’s budget but not yet approved by the CSU Board of Trustees would not be covered by CalGrants.

**Student Fees for Resident Undergraduates**

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>University of California</b>	\$ 6,141	\$ 6,636	\$ 7,126	\$ 8,958	\$ 10,302
<b>California State University</b>	\$ 2,520	\$ 2,772	\$ 3,048	\$ 4,026	\$ 4,429
<b>California Community Colleges*</b>	\$ 690	\$ 600	\$ 600	\$ 780	\$ 780

*\*For full time student taking 30 units*

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open until after May Revise.

## ITEM 7: CalGrant Pilot Program Trailer Bill

### Speakers:

- Ian Johnson, Department of Finance
- Judy Heiman, Legislative Analyst's Office
- Diana Fuentes-Michel, California Student Aid Commission

**Background.** The California Student Aid Commission (CSAC) administers a variety of student financial aid grant and loan programs, including several different CalGrant programs. CalGrants provide for tuition and fees up a maximum of \$9,708 per year (for students attending private institutions) for four years. An additional annual stipend of \$1,551 is available for CalGrant B recipients. The CalGrant programs provide awards to needy and academically eligible students and include:

4. CalGrant A & B entitlement programs for graduating high school seniors and recent graduates.
5. CalGrant A & B competitive programs for students who begin college more than eighteen months after graduating from high school.
6. CalGrant C for students attending occupational or vocational programs of at least four months in duration.

**Decentralization Pilot Program.** AB 187 (Committee on Budget, 2009) created a pilot program to decentralize financial aid programs administered by the California Student Aid Commission (CSAC) and granted authority for up to 35 qualifying institutions to voluntarily administer award grants under the CalGrant A and B Entitlement Programs and the California Community College Transfer CalGrant Entitlement Program. Specifically, the University of California (UC), the California State University (CSU) and the California Community Colleges (CCC) would participate in a pilot program to administer CalGrant entitlement awards for students attending the respective institutions. The Regents of the University of California, the Board of Trustees of the California State University, and the Board of Governors of the California Community Colleges would select qualifying campuses from within their respective segments to apply for participation in the pilot program.

AB 187 prohibits CSAC from implementing the pilot alternative delivery system until prescribed conditions are met, including receiving commitments from at least 30, but not more than 35, qualifying institutions electing to participate in the alternative delivery system and to pay the costs associated with developing and implementing the pilot alternative delivery system.

**Regulations.** AB 187 requires CSAC to develop regulations for the program (emergency regulations by June 20, 2010). AB 187 requires the commission to adopt regulations establishing a pilot program for an alternative CalGrant delivery system under which a qualifying institution, if it elects to participate and meets specified requirements, would be authorized to voluntarily administer award grants under the CalGrant A and B

Entitlement Programs and the California Community College Transfer CalGrant Entitlement Program.

**Awards.** For 2009-10, an estimated 292,000 CalGrant new and renewal awards were offered to students. For 2009-10, CSAC estimates that the General Fund will provide approximately \$1,069 million in support for the CalGrant programs.

**Trailer bill.** The Governor's Budget includes trailer bill language that makes changes to the CalGrant's pilot project language. The primary changes are:

1. Eliminate the requirement that a minimum of 30 institutions have to participate to start the pilot. Keeps the requirement that the pilot include no more than 35 institutions.
2. Eliminate the requirement that the California Student Aid Commission approve a qualifying institution's application to participate in the pilot program. Instead, institutions would submit an application to the Commission certifying their compliance with program requirements and the submission of the application would be deemed sufficient to begin the awarding of CalGrants.
3. Clarifies that only the administrative costs associated with the pilot program are to be paid by the participating institutions.

**Staff Comments.** Currently, because the pilot project regulations are not complete, no institutions have volunteered to participate in the pilot program. By allowing a lower number of institutions to participate, it is possible that one or more of the higher education segments will not participate in the pilot project at all.

CSAC is currently developing regulations for the pilot project. All institutions participating in the pilot project must abide by the CSAC regulations for the pilot project. In regards to the regulations, having CSAC approve each participating institution's application separately may not be necessary.

The language of AB 187 was somewhat ambiguous as to which expenditures the institutions would be responsible for in the CalGrant pilot program. AB 187 stated that "all costs associated with developing, implementing, maintaining, and improving" the pilot program would be covered by the participating institutions. This could be read to mean that the institutions were supposed to cover the actual cost of the CalGrant. The trailer bill language clarifies that the institutions cover only the administrative costs.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open until after May Revise.

**ITEM 8: Sale of EdFund Update – Informational Item**

**Speaker:**

- Lynn Podesto, Department of Finance

**EdFund Background.** The EdFund is a statutorily created auxiliary organization of the California Student Aid Commission that 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.

**The Student Aid and Fiscal Responsibility Act.** On March 21, 2010, U.S. Congress passed H.R. 4872, The Student Aid and Fiscal Responsibility Act, which makes significant changes to the federal student loan process. HR 4872 converts all new federal student lending to the Direct Loan program. Beginning July 1, 2010, all new federal student loans will be originated through the Direct Loan program, instead of through the federally-guaranteed student loan program. The Direct Loan program has the U.S. Treasury make direct loans to the student, rather than having banks loan the funds and the State guarantee the loan if the student defaults.

**Impact of the Student Aid and Fiscal Responsibility Act on the EdFund.** 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.

**2007-08 Budget Act.** SB 89, a 2007-08 Budget trailer bill, authorized the sale of the EdFund. At the time, the sale was estimated produce \$1 billion for the General Fund.

**Use of Funds.** On March 23, 2010, the Senate Budget Committee received a letter from CSAC to the Department of Finance, stating allegations of improper use of funds by the EdFund. The letter outlines \$355,000 in expenditures from the off-budget Student Loan Operating Fund. Department of Finance responded on April 13, 2010 directing the Office of State Audits and Evaluations (OSAE) to investigate the allegations.

**Status of EdFund Sale.** Currently, the Department of Finance has issued the Request for Qualifications for potential buyers of the EdFund. Responses were received during the fall of 2009. Final bids for the sale of the EdFund were due on April 15, 2010.

**Staff Comment.** Informational item only.

## ITEM 9: Child Care and Development Background

### Speaker:

- Rachel Ehlers, Legislative Analyst's Office

Under current law, the state makes subsidized child care services available to:

1. Families on public assistance and participating in work or job readiness programs
2. Families transitioning off public assistance programs
3. Other families with exceptional financial need

**CalWORKs Child Care.** Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE), depending upon the “stage” of public assistance or transition the family is in. Stage 1 child care services are administered by the DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by the CDE.

*Stage 2 Child Care.* Families receiving Stage 2 child care services are either (1) receiving a cash public assistance payment (and are deemed “stabilized”) or (2) in a two-year transitional period after leaving cash assistance. Child care for this population is an entitlement for twenty-four months under current law. The State allows counties flexibility in determining whether a CalWORKs family has been “stabilized” for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

*Stage 3 Child Care.* If a family is receiving Stage 3 child care services, they have exhausted their two-year Stage 2 entitlement. The availability of Stage 3 care is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act.

**Non-CalWORKs Child Care Programs.** In addition to CalWORKs Stage 2 and 3, CDE administers general and targeted child care programs to serve non-CalWORKs low-income children at little or no cost to the family. The base eligibility criterion for these programs is family income at or below 75 percent of State Median Income (SMI) relative to family size. Because the number of eligible low-income families exceeds available child care slots, waiting lists for this care are common.

Child care providers are paid through either (1) direct contracts with CDE or (2) vouchers through the Alternative Payment Program.

- *Direct Contractors* receive funding from the state at a Standard Reimbursement Rate (SRR), which pays for a fixed number of child care “slots.” These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is

developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.

- *Alternative Payment Programs (APs)* act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

**2010-11 Budget.** The Governor's proposal for the 2010-11 budget provides \$2.78 billion to support approximately 415,000 children in the state's subsidized child care and preschool systems. This includes \$444 million for CalWORKs Stage 1 child care, run by DSS, and \$2.3 billion for child care programs run by CDE. The proposed amount represents a decrease of approximately \$316 million from the revised 2009-10 expenditure level (\$213 million of this decrease is to CDE-run programs). Of the amount proposed for all child development programs at CDE, 30 percent of the funding will be spent on current and former CalWORKs recipients. Please see the next page for a detailed budget chart.

**ARRA Funds.** Both CalWORKs and non-CalWORKs programs are funded with a combination of Proposition 98 and federal Child Care & Development Fund monies. In the 2009-10 Budget Act, as well as the Governor's 2010-11 budget proposal, these programs also receive one-time funds from the American Recovery and Reinvestment Act (ARRA) that total \$110 million for each year.

## California Child Care and Development Programs

2010–11 (Dollars in Millions)

	2008–09 Actual	2009–10 Revised	2010–11 Proposed	Change From 2009–10	
				Amount	Percent
<b>CalWORKs Child Care</b>					
Stage 1	\$616	\$547	\$444	–\$103 <sup>a</sup>	–18.8%
Stage 2 <sup>b</sup>	505	476	436	–41	–8.5
Stage 3	418	409	262	–147	–36.0
Subtotals	(\$1,539)	(\$1,432)	(\$1,141)	(–\$291)	(–20.3%)
<b>Non–CalWORKs Child Care</b>					
General child care	\$780	\$797	\$794	–\$3	–0.4%
Other child care programs	329	321	303	–18	–5.6
Subtotals	(\$1,109)	(\$1,118)	(\$1,097)	(–\$21)	(–1.9%)
<b>State Preschool</b>	\$429	\$439	\$437	–\$2	–0.4%
<b>Support Programs</b>	106	109	106	–2	–2.2
<b>Totals</b>	<b>\$3,183</b>	<b>\$3,098</b>	<b>\$2,782</b>	<b>–\$316</b>	<b>–10.2%</b>
<b>State Funds</b>					
Proposition 98	\$1,690	\$1,824	\$1,677	–\$147	–8.1%
Non–Proposition 98	28	29	28	–2	–5.3
Other state funds <sup>c</sup>	339	66	—	–66	–100.0
<b>Federal Funds</b>					
Child Care and Development Fund	\$528	\$541	\$540	–\$1	–0.1%
TANF <sup>d</sup>	598	528	427	–101 <sup>a</sup>	–19.2
ARRA <sup>e</sup>	—	110	110	—	—

a Includes \$47 million transferred to county CalWORKs fund, where counties have the option to continue using the funds for child care or another CalWORKs activity.

b Includes funding for centers run by California Community Colleges.

c Includes prior–year Proposition 98 carryover and redirected Child Care Facilities Revolving Fund monies.

d Temporary Assistance for Needy Families.

e American Recovery and Reinvestment Act.

**ITEM 10: Reduction in Provider Reimbursement Rate Ceilings**

**Speakers:**

- Pete Cervinka, Department of Social Services
- Rachel Ehlers, Legislative Analyst’s Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

**Current Provider Reimbursement Rate Ceilings.** The provider reimbursement rate ceiling is determined by a Regional Market Rate (RMR) survey, which is conducted every two years. The most recent survey was conducted in 2009. To determine the reimbursement rate ceiling, the survey looks at the amount charged by a sample of private child care providers in each county. Currently, the maximum subsidized child care reimbursement rate that licensed child care providers may receive is the 85<sup>th</sup> percentile of market rates based on the 2005 RMR survey, while license-exempt providers receive up to 90 percent of what the licensed providers receive.

**Governor’s Proposal.** The Governor’s Budget proposes to reduce the maximum amount state vouchers will reimburse licensed child care providers from the 85<sup>th</sup> percentile to 75<sup>th</sup> percentile of the 2005 RMR survey, for a savings of **\$19 million**. The Governor also proposes to lower the reimbursement rate ceiling for license-exempt providers from 90 percent to 70 percent of the licensed provider reimbursement rate ceiling, for a savings of **\$113 million**. In combination, these rate ceiling reductions generate **a total of \$132 million** in savings (\$77 million Proposition 98). Under this proposal, the state would continue to pay for the same number of child care slots, but the maximum rate ceiling it would pay would be lower for each slot.

**CalWORKs Stage 1 (Department of Social Services)**

- Centers: \$1.6 million
- Family Child Care Homes: \$1.3 million
- License-Exempt: \$51.9 million

**TOTAL Stage 1: \$54.8 million**

**CalWORKs Stage 2 (Department of Education)**

- Centers: \$2.1 million
- Family Child Care Homes: \$1.8 million
- License-Exempt: \$33.1 million

**TOTAL Stage 2: \$37 million**

**CalWORKs Stage 3 (Department of Education)**

- Centers: \$2.8 million
- Family Child Care Homes: \$2 million
- License-Exempt: \$23.3 million

**TOTAL Stage 3: \$28.1 million**

### **Alternative Payment Program**

- Centers: \$1.9 million
- Family Child Care Homes: \$1.2 million
- License-Exempt: \$8.9 million

**TOTAL Alternative Payment Program: \$12 million**

**Stage 1 Child Care.** Please note that the Stage 1 reductions proposed by the Governor are handled by Senate Budget Subcommittee 3. Please see Subcommittee 3 agendas for more information. The Stage 1 rate reduction was heard (and left open) at the February 2, 2010, full Budget Committee Special Session hearing.

**LAO Recommendation.** The LAO recommends that the Legislature develop a provider reimbursement policy that reflects current market conditions and, given the state's fiscal status, is affordable. Specifically, the LAO recommends the Legislature use the 2009 RMR survey and set provider reimbursement ceilings at whatever level is roughly comparable to current-law rates. They estimate this would be at about the 60th percentile.

The LAO thinks that reimbursing license-exempt providers at 70 percent of the licensed rate also seems reasonable, as these providers have lower overhead costs and might be of lower quality (having not met licensing requirements). Also, California's current standard for license-exempt reimbursements is significantly higher than in other states, where the license-exempt rates typically range between 50 percent and 70 percent of the licensed rate. Because they have lower overhead costs and might be of lower quality, the LAO recommends the Legislature reduce reimbursement rates for license-exempt child care providers from 90 percent to 70 percent of the licensed provider rate. Because the LAO's recommended rate for direct contractor providers is higher compared to the Governor's proposal, license-exempt providers would still be reimbursed at higher rates under the LAO's proposal. As such, the state would also realize fewer savings from this change; approximately \$80 million (\$45 million Proposition 98) compared to the Governor's \$113 million.

**Federal Guideline.** As a condition to receiving federal child care funds, states must agree to provide "equal access" to child care. Although "equal access" is not clearly defined in federal law, one guideline suggested is setting reimbursement ceilings at the 75<sup>th</sup> percentile of the market rate. The federal government also recommends that payment rates "reflect the child care market." Should California be deemed to not provide equal access, there is a possibility that federal support for child care programs will be reduced or lost.

**Impact on Families.** If the provider reimbursement rate ceiling is lowered, some families will have to pay more for child care. Families selecting providers that charge more than the state reimbursement ceiling have to make up the difference in price. If a family cannot afford to pay that difference, they will have to find a provider that charges at or below the maximum state reimbursement rate, meaning they will have fewer providers to choose from.

**Staff Recommendation.** Staff recommends the Subcommittee leave this item open.

This chart shows a sample of counties and how the RMR ceiling would change for those counties under the Governor’s proposal to drop ceilings from the 85<sup>th</sup> percentile to the 75<sup>th</sup> percentile using the 2005 RMR survey.

### Comparison of Regional Market Rate Survey Data

*Monthly Full Time Preschool Rates at Child Care Centers*

County	2005 85th Percentile	2005 75th percentile (Governor's Proposal)			2009 50th Percentile (DRAFT Survey Results)		
	Current Law Rate Ceiling	Rate	Change from Current Law		Rate	Change from Current Law	
			dollar	percent		dollar	percent
ALAMEDA	\$859	\$777	-\$82	-10%	\$758	-\$101	-12%
CALAVERAS	\$648	\$566	-\$83	-13%	\$587	-\$61	-9%
CONTRA COSTA	\$830	\$738	-\$92	-11%	\$707	-\$124	-15%
FRESNO	\$661	\$570	-\$91	-14%	\$578	-\$82	-12%
KERN	\$674	\$578	-\$96	-14%	\$564	-\$110	-16%
LOS ANGELES	\$744	\$660	-\$84	-11%	\$635	-\$109	-15%
MARIN	\$1,101	\$960	-\$141	-13%	\$922	-\$179	-16%
MERCED	\$643	\$563	-\$80	-12%	\$547	-\$96	-15%
ORANGE	\$832	\$742	-\$90	-11%	\$689	-\$143	-17%
PLACER	\$737	\$683	-\$54	-7%	\$633	-\$105	-14%
RIVERSIDE	\$684	\$597	-\$87	-13%	\$581	-\$102	-15%
SACRAMENTO	\$686	\$608	-\$78	-11%	\$587	-\$99	-14%
SAN BERNARDINO	\$676	\$581	-\$94	-14%	\$580	-\$96	-14%
SAN DIEGO	\$755	\$680	-\$75	-10%	\$640	-\$115	-15%
SAN FRANCISCO	\$974	\$881	-\$93	-10%	\$898	-\$76	-8%
SAN JOAQUIN	\$680	\$582	-\$98	-14%	\$572	-\$108	-16%
SUTTER	\$643	\$563	-\$80	-12%	\$547	-\$96	-15%

**ITEM 11: Reduction to CalWORKs Stage 3 Child Care**

**Speakers:**

- Pete Cervinka, Department of Social Services
- Sara Swan, Department of Finance
- Rachel Ehlers, Legislative Analyst’s Office
- Camille Maben, California Department of Education

**Governor’s Proposal.** The Governor proposes to reduce the CalWORKs Stage 3 program by **\$123 million** and eliminate about 18,000, or one-third, of all Stage 3 child care slots.

The administration estimates roughly 11,000 of these slots could be eliminated by not backfilling for normal Stage 3 attrition and 7,000 children would have to be disenrolled from current Stage 3 placements, with lower-income families receiving priority for maintaining care.

The Governor’s proposal also includes trailer bill language that would prioritize which families lose subsidized child care first. The families disenrolled first from Stage 3 would be in the reverse order from the enrollment priority order for non-CalWORKs programs.

**Waiting List for Subsidized Care Long.** Presumably, the displaced CalWORKs families would instead seek care from the state’s subsidized non-CalWORKs programs. However, because roughly 200,000 children are on waiting lists for non-CalWORKs slots, the families displaced by the Stage 3 change would not be guaranteed subsidized care. There are concerns about what this might mean for transitioning Stage 2 families who have recently worked their way off of cash aid and likely earn well below the State Median Income (SMI). Any CalWORKs family losing care could be at risk of going back to cash aid if they suddenly lose their child care.

**LAO Recommendation.** The LAO recommends rejecting the Governor’s Stage 3 proposal. Instead, the LAO recommends the Legislature achieve savings by lowering eligibility criteria for Stage 3 subsidized child care from 75 percent to 60 percent of the SMI. This would mean the highest income Stage 3 families would lose care, but services for the lowest income families would be protected. The LAO estimates approximately 4,000 children currently receiving Stage 3 care are from families who earn more than 60 percent of the SMI (60 percent of the SMI equates to a monthly income of about \$3,350 for a family of four.) The LAO estimates this change would lead to about \$15 million in Proposition 98 savings in 2010–11.

The LAO also recommends the Legislature make the same change to the eligibility ceiling for non-CalWORKs subsidized child care. They estimate this would displace approximately 14,000 children from the highest income families currently being served and reduce associated costs by \$115 million. Of this amount, they recommend the state

capture \$60 million in savings while redirecting \$55 million in freed-up funds to serve more of the neediest children. This redirection would expand access for 5,000 to 6,000 children from the lowest income families currently waiting for care. They believe such a redirection would be appropriate because the unmet demand from very low-income families for non-CalWORKs care is so high.

**Staff Recommendation.** Staff recommends the Subcommittee hold this item open until after May Revise.

**ITEM 12: Negative COLA**

**Speakers:**

- Rachel Ehlers, Legislative Analyst’s Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

**Background.** Current law requires that a COLA be applied annually to revenue limits and most K-12, child care programs, and community colleges categorical programs in order to reflect the higher costs that schools face due to inflation.

The statutory K-12 COLA is based on an index that measures changes in costs experienced by state and local governments. School districts generally use COLAs to provide annual increases to employee salaries and address cost increases for local operating expenses, including employee benefits, utilities, materials, and supplies.

Due to the state budget crisis, the state has not provided COLAs in recent years – foregoing K-12 COLAs of 5.66 in 2008-09 and 4.25 percent in 2009-10.

**Governor’s Budget.** The Governor’s budget proposes a COLA of -0.38 percent to child care providers, for a savings of \$6 million.

**LAO Recommendation.** The LAO recommends rejecting the Governor's proposal. According to the LAO, adjusting program funding for a negative COLA after two consecutive years of the state not providing positive COLAs is unreasonable.

**Staff Recommendation.** Staff recommends the Subcommittee hold this item open until after May Revise.

**ITEM 13: Migrant Child Care**

**Speakers:**

- Rachel Ehlers, Legislative Analyst’s Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

**Program Background.** Migrant child care and development programs serve the children of agricultural workers while their parents are at work. The centers are open for varying lengths of time during the year, depending largely on the harvest activities in the area. In addition to these center-based programs, the Migrant Alternative Payment Network Program allows eligibility and funding for services that follow migrant families as they move from place to place to find work in the Central Valley. To be eligible for the program, a family must not have permanent, year-round housing.

**LAO Recommendation.** The LAO’s analysis reveals that the state’s child care program for children of agricultural workers consistently has unspent funds at the end of the year. According to CDE, this is due in part to the changing demographics of the state, with a trend toward fewer eligible migrant families. As a result of less participation, the LAO believes ongoing funding for the program can be reduced by \$3.5 million (from \$36 million to \$32.5 million) without affecting services or slots.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open until after May Revise.

**ITEM 14: After School Education and Safety – LAO Proposal**

**Speakers:**

- Rachel Ehlers, Legislative Analyst’s Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

**Program Background.** The After School Education and Safety (ASES) Program is the result of the 2002 voter-approved initiative, Proposition 49. This proposition amended California Education Code (EC) 8482 to expand and rename the former Before and After School Learning and Safe Neighborhood Partnerships Program.

The ASES Program funds the establishment of local after school education and enrichment programs. These programs are created through partnerships between schools and local community resources to provide literacy, academic enrichment and safe constructive alternatives for students in kindergarten through ninth grade (K-9). Approximately 400,000 students participate in ASES.

Funding is designed to: (1) maintain existing before and after school program funding; and (2) provide eligibility to all elementary and middle schools that submit quality applications throughout California. The current funding level for the ASES program is \$550 million.

**LAO Recommendation.** The LAO recommends the Legislature ask voters to repeal the existing restriction that roughly \$550 million in K-12 funds be used solely for after school services. Specifically, the LAO recommends the Legislature place a measure on the ballot to repeal Proposition 49 (which created the automatic ASES funding requirement), and, if it passes, to add the ASES program into the K-12 flex item. Relaxing restrictions on the ASES program would provide districts with discretion over about \$550 million in previously restricted categorical funds.

**Staff Recommendation.** Staff recommends the Subcommittee hold this item open until after May Revise.

**ITEM 15: ARRA Funds Update**

**Speaker:**

- Camille Maben, California Department of Education

**American Recovery and Reinvestment Act.** On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act (ARRA) of 2009, H.R. 1. The spending and tax-cut plan is intended to help stabilize state budgets and spur economic growth. The ARRA commits a total of \$787 billion nationwide. The funding provides: (1) \$330 billion in aid to the states, (2) about \$170 billion for various federal projects and assistance for other non-state programs, and (3) \$287 billion for tax relief.

**Funds for California.** During 2009, California received \$20.3 billion in ARRA funds. Of this amount \$17.6 million was in grants, \$2.2 billion in contracts, and \$554 million in loans.

**Funds for Childcare.** A \$220 million supplemental grant for CCDF was received by California for child care. These funds are allocated as shown in the following chart:

**Child Development Programs ARRA Funds**

*(dollars in thousands)*

	2009-10	2010-11
<b>General Child Care</b>	\$ 17,347	\$ 17,347
<b>Migrant Centers</b>	\$ 0	\$ 3,087
<b>Alternative Payment</b>	\$ 18,830	\$ 15,743
<b>Stage 2 CalWORKs</b>	\$ 36,272	\$ 36,272
<b>Stage 3 CalWORKs</b>	\$ 18,905	\$ 18,905
<b>Quality Improvement</b>	\$ 18,783	\$ 18,783
<b>Total</b>	\$ 110,137	\$ 110,137

**Staff Recommendation.** Informational item, no recommendation.

## ITEM 16: Quality Improvement Program

### Speakers:

- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

**Federal Requirement.** The federal government requires that four percent of the federal Child Care and Development Fund (CCDF) dollars that California receives must be spent on child care quality improvement. The quality improvement plan includes the federal mandates for infant/toddler capacity building, resource and referral programs, and school-age capacity building.

**2009-10 Budget.** The *2009-10 Budget Act* provides \$96.6 million for the Quality Improvement Program. Of this amount, \$18.7 million is ARRA funds. However, the federal requirement to spend four percent of the CCDF on quality improvement amounts to \$63.1 million.

**Advisory Committee.** SB 1629 (Steinberg, 2008) established a 13-member California Early Learning Quality Improvement System Advisory Committee (Advisory Committee) and called for the creation of the new quality rating and improvement system for child care. The goal of the quality rating and improvement system will be to increase the likelihood that more programs will have the features shown to improve children's readiness for school and for life.

Specifically, the Advisory Committee is to report to the Legislature and the Governor by December 2010 on:

1. An assessment and analysis of the existing early care and education infrastructure, including other state and local early learning quality improvement systems;
2. The development of an early learning quality rating scale for child development programs, including preschool as well as programs for infants and toddlers;
3. The development of a funding model aligned with the quality rating scale for child care and development programs; and
4. Recommendations on how local, state, federal, and private resources can best be utilized to complement a statewide funding model as part of a comprehensive effort to improve the state's child care and development system.

**Staff Comment.** The state is spending more than the minimum required on quality improvement by \$14.7 million. These are funds that could potentially be redirected to backfill for some of the cuts to child care services.

**Staff Recommendation.** Staff recommends that the Subcommittee direct the Legislative Analyst's Office to develop a recommendation for \$14 million in cuts to the Quality Improvement Program that could be redirected to other child care services.

## ITEM 17: Preschool Assessment

### Speakers:

- Sara Swan, Department of Finance
- Camille Maben, California Department of Education
- Rachel Ehlers, Legislative Analyst's Office

**Importance of Preschool.** A RAND report finds that at kindergarten entry, California children begin school with varying levels of readiness, in terms of cognitive and non-cognitive skills that have been shown to be predictive of later school success. Socioeconomically disadvantaged children enter kindergarten with lower levels of readiness than their more advantaged peers. By second and third grades, these readiness gaps are manifested in achievement differences in statewide standardized tests.

Preschool preparation can lower these achievement differences. There is an accumulation of convincing evidence from research that young children are more capable learners than current practices reflect and that good education experiences in the preschool years can have a positive impact on school learning.

**Current Preschool Programs.** The primary options for children attending preschool are public preschool programs, federally funded Head Start programs, or private preschool programs. Approximately 60 percent of California's young children attend public preschool or Head Start programs prior to kindergarten.

**Preschool Data Collection.** The General Child Care program has been in existence since 1943, and the State Preschool program since 1966, without an evaluation system that gives the department and the public a clear sense of its classroom accomplishments. California should be able to provide its own data in order to show the program's impact and to enable the improvement of staff development programs based on program success.

**Staff Proposal.** Staff proposes that the Subcommittee consider an assessment of how learning services are delivered to preschoolers in California. This assessment should consist of data collection and analysis focusing on State Preschool children and classrooms and on children of preschool age (three to five) enrolled in Title 5 regulated children's center classrooms (General Child Care) and their classrooms, and it will consist of a stratified random sample sufficient to establish the reliability and validity of the data. The purposes of the data collection and analysis will be to provide information on the general strengths and weaknesses of these classrooms in basic child development areas such as cognition, language, and math and to track child change over the course of the school year in these same areas. These data will provide evaluation information to the department to assist it in targeting staff development resources and will provide information to the Legislature on the return on its investment.

**Staff Recommendation.** Staff recommends that the Subcommittee appropriate \$200,000 one time Proposition 98 funds for this assessment of preschool program integration and effectiveness.

**ITEM 18: Child Care Case Files**

**Speakers:**

- Camille Maben, California Department of Education

**Department Regulations.** The CDE Child Care and Development Division develops regulations for child care appeal hearings. Regulations section 18120 states that the CDE is entitled to a copy of the child care case file from the contractor. However, regulations remain silent on the ability of the parent to request a copy of their case file.

**Staff Comment.** Staff has heard from some constituents, who allege that they were denied access to their own case files at appeals hearings for child care subsidies.

**Staff Recommendation.** Staff recommends that the Subcommittee hear from the department as to what the current practice for case file access is when appeals hearings for child care subsidies are held. If the Subcommittee concludes that it is not evident that case files are always accessible to the parent at the hearing, staff then recommends that the Subcommittee adopt the following supplemental reporting language:

On or before March 1, 2011, the California Department of Education shall provide a report to the Joint Legislative Budget Committee on actions taken to ensure that parent(s) have access to their case file in appeals hearings when a Notice of Action has been served to remove the parent(s) child care subsidy.

## SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Thursday, April 22, 2010**  
**Outcomes**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
	<b>California State Library</b> <b>Student Financial Aid</b> <b>Child Care and Development</b>	
<b>6110</b>	<b>California Department of Education</b>	
<b>6120</b>	<b>California State Library</b>	
<b>6870</b>	<b>California Community Colleges</b>	
Item 1	Vote Only Calendar 6120 California State Library 6110 California Department of Education	Page 2

## **ITEM 1: Vote Only Calendar**

### **1. California State Library – Integrated Library System Replacement Project**

**Background.** The California State Library's (CSL) mission is to serve as a public research library to the Legislative and Executive branches, as well as the general public. To maintain and search its collection of over one million books, magazines, newspapers, government publications, maps, and other publications, the CSL used an Integrated Library System (ILS) software tool. The previous ILS, Data Research Associates Classic System, was discontinued and all service support was terminated in February 2009.

The 2007-08 Budget Act provided funding with CSL to conduct a Request for Proposal for a new software tool to manage the state's library collection. In September 2009, the ExLibris Aleph system replaced the original ILS as the CSL system.

**Governor's Proposal.** The Governor proposes \$173,000 GF in ongoing funding (no new positions) to fund ongoing system costs not covered by the initial warranty, plus funding in subsequent years to cover ongoing operations and maintenance after initial warranty periods expire.

**ACTION:** Approved

**VOTE:** 2-0 (Wright)

### **2. California State Library – Relocation for Infrastructure Renovation, Year Three**

**Capital Outlay Project.** The California State Library (CSL) is housed at the Library and Courts building at 914 Capitol Mall. The building was constructed in 1928. The 2005-06 Budget Act provided capital outlay funds for the renovation of the building. The project consists of fire, life safety, infrastructure improvements, and rehabilitation of historically significant architectural elements of the Library and Courts building. The renovation project was supposed to be completed in June 2011, but due to a delay in the construction start date will not finish until March 2012.

**Temporary Move.** The CSL can not stay in the Library and Courts building while the renovation project is underway. The 60 staffers of the CSL were moved to the nearby Library and Courts II annex at 900 N Street. A separate space was leased in West Sacramento for the CSL's extensive collection of printed materials.

**Governor's Budget.** The Governor's budget requests \$596,000 General Fund for 2010-11 to pay for the third year of lease costs and other costs related to maintaining an offsite venue for the CSL's collection as well as a public reading room in close proximity to the CSL's primary client base of state government agencies and the Legislature.

**ACTION:** Approved

**VOTE:** 2-0 (Wright)

### **3. Department of Education – Child Care Program Local Assistance**

**Background.** The 2009 Budget provided \$250,000 from the Child Care and Development Fund for the Child Care Characteristics Study. In addition, provisional language was included requiring a contract for a one-time study to identify the characteristics of the children, families, and providers served by subsidized child care contracts and to determine the costs of the care provided. The CDE is required to provide a report to the Department of Social Services, the Department of Finance and the Legislative Analyst no later than September 1, 2010.

**April Finance Letter.** The Governor is requesting an extension of time for the completion of the Child Care Characteristic Study from September 1, 2010 to March 1, 2011. The proposal includes the following change to budget bill language:

“13. The State Department of Education shall provide the study on the characteristics of families and costs of care pursuant to Provision 13 of Item 6110-196-0001 of the Budget Act of 2009 to the State Department of Social Services, the Department of Finance, and the Legislative Analyst no later than ~~September 1, 2010~~ March 1, 2011.”

**ACTION:** Approved

**VOTE:** 2-0 (Wright)

### **4. Department of Education – 21st Century Community Learning Centers Program**

**Background.** The 21<sup>st</sup> Century program supports the creation of community learning centers that provide academic enrichment opportunities during non-school hours for children, particularly students who attend high-poverty and low-performing schools. The program is intended to help students meet state and local student standards in core academic subjects, such as reading and math; offer students a broad array of enrichment activities that can complement their regular academic programs; and offer literacy and other educational services to the families of participating children.

The program is funded with federal funds. As the state learns the amount of federal funds it will receive there may need to be an adjustment to the budget bill estimate.

**April Finance Letter.** The Governor is requesting a decrease of \$4,433,000 to Item 6110-197-0890, Local Assistance, to reflect current estimates of one-time carryover in the federal 21st Century Community Learning Centers program. This change includes the following budget bill language:

“2. Of the funding provided in this item, ~~\$49,096,000~~ \$44,663,000 is available from one-time carryover funds from prior years.”

**ACTION:** Approved

**VOTE:** 2-0 (Wright)

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Thursday, April 29, 2010**  
**9:30 a.m. or Upon Adjournment of Session**  
**Room 3191, State Capitol**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
<b>6110</b>	<b>Department of Education</b>	
<b>Item 1</b>	<b>Federal Funds Update</b>	<b>Page 2</b>
<b>Item 2</b>	<b>Federal Funds – Title I Set Aside &amp; School Improvement Fund Grants</b>	<b>Page 6</b>
<b>Item 3</b>	<b>Federal Funds – Enhancing Education Through Technology Grants</b>	<b>Page 16</b>
<b>Item 4</b>	<b>Department of Education - State Operations – Headquarters</b>	<b>Page 26</b>
<b>Item 5</b>	<b>Curriculum Commission Veto</b>	<b>Page 33</b>
<b>Item 6</b>	<b>4<sup>th</sup> Grade Writing Assessment</b>	<b>Page 38</b>

## **Public Comment**

**6110 CALIFORNIA DEPARTMENT OF EDUCATION**  
**ITEM 1: Federal Funds Update –K-12 Education**

**DESCRIPTION:** According to the latest reports from the federal government, California is estimated to receive **\$7.0 billion** in ongoing federal funds for K-12 education in 2010-11. Also, beginning in 2009-10, the state received nearly **\$6.5 billion** in new, one-time funds in federal stimulus funds authorized by the American Recovery and Reinvestment Act of 2009 (ARRA)

**BACKGROUND:** The LAO has prepared the following table summarizing federal funds for 2010-11 for programs administered by the California Department of Education (CDE).

	2009-10 Actual	2010-11 Estimated	Federal Stimulus
<b>No Child Left Behind (NCLB) Programs</b>			
<i><b>Title I</b></i>			
Title I Basic	1,651.6	1,729.9	1,124.9
School Improvement	64.1	69.2	351.8
Reading First	0.0	0.0	0.0
Even Start	6.9	7.3	0.0
Migrant	139.8	135.3	0.0
Neglected and Delinquent	2.4	2.4	0.0
Impact Aid <sup>d</sup>	65.0	66.7	1.4
Advanced Placement	4.4	4.4	0.0
<i><b>Title II</b></i>			
Improving Teacher Quality	327.1	331.1	0.0
Mathematics and Science Partnerships	20.0	21.2	0.0
Educational Technology	29.1	10.6	71.6
<i><b>Title III</b></i>			
Language Acquisition	168.5	173.3	0.0
<i><b>Title IV</b></i>			
Safe and Drug-Free Schools	35.2	0.0	0.0
21st Century After School	130.9	127.4	0.0
<i><b>Title VI</b></i>			
State Assessments	32.8	32.8	0.0
Rural and Low-income Schools	1.2	1.2	0.0
Small, Rural School Achievement	6.5	6.6	0.0
<b>Non-NCLB Programs</b>			
Homeless Children and Youth	12.8	8.0	13.8
Special Education	1,310.8	1,309.7	1,327.7
Career and Technical Education	139.6	139.2	0.0
Byrd Honors Scholarships	5.0	5.2	0.0
Adult Basic and Literacy Education	66.1	74.9	0.0
English Literacy and Civics Education	15.7	17.3	0.0
Cal-Serve/Service America	2.1	2.1	0.0
Charter Schools	48.0	48.0	0.0
Child Nutrition	2,035.0	2,191.4	12.9
Child Development	523.3	510.6	220.3
State Fiscal Stabilization Fund	0.0	0.0	3,132.0
<b>Total</b>	<b>6,844.0</b>	<b>7,025.8</b>	<b>6,256.4</b>

The federal funds, as summarized in the chart above, include appropriations from the U.S. Department of Education (USDE). In addition, Child Nutrition funds are appropriated through the U.S. Department of Agriculture and Child Development funds are appropriated from the U.S. Department of Health and Human Services.

**State Fiscal Stabilization Funds (SFSF) – Phase II Update.** The federal State Fiscal Stabilization Fund (SFSF) program provides one-time formula grants to states under the American Recovery and Reinvestment Act of 2009 (ARRA) for the purpose of stabilizing state and local government budgets in order to minimize and avoid reductions in education and other essential public services.

States receiving funds under the SFSF program are required to provide assurances in four key areas of education reform:

- achieving equity in teacher distribution,
- improving collection and use of data,
- standards and assessments, and
- supporting struggling schools.

For each area of reform, the ARRA prescribes specific actions that the State must assure that it will implement.

The SFSF grant is issued to states in two phases. California received **\$2.9 billion** for K-12 education in Phase I. California's Phase II application for an additional **\$213 million** is pending with the federal government.

The status of California's Phase II application is not clear. As part of the state's application, each governor must include an assurance that the state will maintain the same level of support --maintenance of effort (MOE) -- for elementary, secondary, and postsecondary education in FY 2009 through FY 2011 as it did in FY 2006. However, the statute authorizes the USDE to waive this maintenance-of-effort requirement under certain conditions. The Governor has requested such a waiver.

**Race to the Top (RTTT) Grant Update.** The federal government authorized a series of separate competitive grants as part of the ARRA legislation in February 2009. Among those grants was the Race to the Top (RTTT) grant. This grant was to be issued in two competitive phases and according to the USDE, California was eligible to receive between **\$350 million** and **\$700 million** in RTTT one-time funding in Phase I.

RTTT is a competitive grant program designed to encourage and reward states that are creating the conditions for education innovation and reform; achieving significant improvement in student outcomes, including making substantial gains in student achievement, closing achievement gaps, improving high school graduation rates, and ensuring student preparation for success in college and careers; and implementing ambitious plans in four core education reform areas:

- Adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy;
- Building data systems that measure student growth and success, and inform teachers and principals about how they can improve instruction;
- Recruiting, developing, rewarding, and retaining effective teachers and principals, especially where they are needed most; and
- Turning around our lowest-achieving schools.

In January the Governor signed two bills SBX5 4 (Romero) and SBX5 1 (Steinberg) that intended to make California's RTTT application more competitive. The bills also placed several new requirements on school agencies, regardless of whether they choose to apply for the RTTT funding locally or not. Some of those new provisions include:

- A definition of "persistently low performing" for purposes of implementing one of four federally defined intervention models;
- Authority for pupils enrolled in low-achieving schools to transfer to another school in the district or another school district;
- Establishment of a Parent Empowerment program that authorizes parents or guardians of pupils to sign petitions in up to 75 schools statewide, that would result in a school being required to implement one or more of four interventions for turning around persistently lowest-achieving schools;
- Establishment of an alternative route for teacher credentialing known as the Science, Technology, Engineering, Math (STEM), and Career Technical Education Educator Credentialing Program; and
- Requirement of state participation in a national consortium or interstate collaborative to develop common core academic standards.

California's RTTT Phase I application was signed and sent to the federal government on January 15, 2010. On March 4, 2010 California was notified that it was not among the finalists to receive Phase I funding. On March 29, 2010, Delaware and Tennessee were the only two states awarded Phase I grants. California ranked 27th out of 41 states that applied.

According to published reports from the USDE, Delaware and Tennessee got high marks for the commitment to reform from key stakeholders, including elected officials, teacher's union leaders, and business leaders. In both states, all school districts committed to implementing Race to the Top reforms. Delaware and Tennessee also have aggressive plans to improve teacher and principal evaluation, use data to inform instructional decisions, and turn around their lowest-performing schools.

**STAFF COMMENTS:** Staff has identified a few federal programs that warrant further discussion by the Subcommittee. These programs include:

- Title I -- Set-Aside Funds & School Improvement Grants
- Enhancing Education Through Technology (EETT)
- Special Education

The Title I Set-Aside Fund and School Improvement Fund Grant programs, as well as, the EETT program are covered later in the Subcommittee agenda today. Federal funding for Special Education will be discussed at a future hearing.

**SUGGESTED QUESTIONS:**

1. Does the Administration plan to apply for the second round of Race to the Top funds? Has the federal government indicated whether they will move the application date back from June 2010?
2. What is the status of California's application for SFSF Phase II funds?
3. Has the federal government raised any concerns with the Governor's approach to meeting the MOE requirements for SFSF funding?
4. Some education advocates have taken issue with the Governor's efforts to meet the federal MOE for requirements for the ARRA Fiscal Stabilization Funds? What is the Administration's response to these concerns?
5. For federal ARRA funds that have been authorized in the state budget, are funds being allocated to local education agencies in a timely basis?

## **ITEM 2: Federal Funds – Title I Set-Aside & School Improvement Grant Funds (6110-134-0890)**

**DESCRIPTION:** Per the LAO, the 2010-11 budget currently provides **\$551.7 million** in base federal funding program improvement (school level and district level). Of this amount, about **\$485.1 million** remains undesignated.

The Administration does not currently have a proposal for utilizing these undesignated federal funds for program improvement. The California Department of Education (CDE) has developed a plan, which has been approved by the State Board of Education (SBE), and is awaiting approval by the federal government.

The LAO will provide background on the amounts available and uses of unobligated federal funds. In addition, the LAO will present its own program improvement plan for utilizing federal funds in 2010-11.

### **BACKGROUND:**

Per the federal No Child Left Behind (NCLB) Act, schools, and local education agencies (LEAS) must meet four sets of requirements to make Adequate Yearly Progress (AYP), the federal calculation utilized to determine if schools and LEAS are meeting performance targets for all students. The requirements include: (1) student participation rate on statewide tests, (2) percentage of students scoring at the proficient level or above in English-language arts and mathematics on statewide tests, (3) API score, and (4) graduation rate (if high school students are enrolled). Numerically significant groups of students at a school or school district also must meet the four requirements.

Numerically significant subgroups are defined by California as 100 students or more or 50 students if they comprise at least 15 percent of the students enrolled at the school. California has one of the largest subgroup size definitions in the nation.

LEAs that receive federal Title I funds and do not meet AYP targets for two consecutive years, are identified for Program Improvement (PI). Title I schools also enter PI after failing to meet AYP for two consecutive years.

**Federal Funding for School Improvement.** The federal government provides two streams of funding to states to be used directly to improve student achievement in Title I schools identified for improvement, corrective action, or restructuring so as to enable those schools to make adequate yearly progress (AYP) and exit PI status.

- **Federal Title I Set-Aside.** NCLB requires states to set aside four percent of their total Title I grant to help schools and districts improve their performance.

- **School Improvement Grant (SIG).** The state also receives federal funding under the School Improvement Grant (SIG). The federal government established the SIG program in 2008 to provide technical assistance for Title I schools in PI under NCLB.

In 2009, the federal American Recovery and Reinvestment Act (ARRA) also provided one-time funding to California under the Title I Set-Aside and the SIG program on top of the base funding provided to California.

As the chart below indicates, after funding existing program obligations, the state has a total of **\$485.1 million** in unobligated SIG and Title I set aside funds combined.

<b>Federal School Improvement Funds<sup>a</sup></b>				
<i>(In Millions)</i>				
	<b>Authority</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
<b>Funds</b>				
Carryover	6110-134-0890 <sup>d</sup>	\$51.0	\$78.2	\$415.9
Reverted Funds <sup>b</sup>		\$12.5	\$0.0	\$0.0
Set Aside	6110-134-0890 <sup>d</sup>	\$65.0	\$65.0	\$66.6
SIG	6110-134-0890 <sup>c</sup>	\$62.0	\$64.1	\$69.2
ARRA - Set Aside	6110-134-0890 <sup>d</sup>	\$0.0	\$45.0	\$0.0
ARRA – SIG	6110-134-0890 <sup>c</sup>	\$0.0	\$351.8	\$0.0
<b>Subtotal</b>		<b>\$190.5</b>	<b>\$604.1</b>	<b>\$551.7</b>
<b>Program Costs</b>				
AB 519 <sup>e</sup>	6110-134-0890 <sup>c</sup>	-\$102.0	-\$25.0	-\$61.0
S4	6110-134-0890	-\$10.0	-\$10.0	-\$10.0
S4 Evaluation		-\$0.3	\$0.0	\$0.0
QEIA	6110-134-0890 <sup>d</sup>	\$0.0	-\$153.2	\$0.0
<b>Subtotal</b>		<b>-\$112.3</b>	<b>-\$188.2</b>	<b>-\$71.0</b>
<b>TOTAL REMAINING</b>		<b>\$78.2</b>	<b>\$415.9</b>	<b>\$485.1</b>

- Continues CDE's practice of funding AB 519 entirely from set aside.
- Funding US ED allowed the state to keep even though it technically reverted in 2008-09.
- Can be used for AB 519, the remainder can be expended pursuant to legislation.
- Authority provided per ABX3 56.
- Assumes funds prorated beginning in 2010-11.

**New Regulations for the Federal School Improvement Grant Program.** In January 2010 the U.S. Department of Education issued new regulations for the SIG program that will influence how states allocate these funds. For example, states are now required to use SIG resources to turn around the **bottom 5 percent** of schools in PI - deemed persistently low performing schools. Per federal rules, schools can receive a minimum of **\$50,000** and maximum of **\$2 million** per year for three years.

As a condition of receiving funds, schools must implement one of **four intensive intervention models**:

1. Close the school.
2. Convert the school into a charter school.
3. Release at least 50 percent of instructional staff and provide certain flexibility related to staffing and instructional time.
4. Give schools considerable flexibility, including control over personnel decisions, budgeting, and length of the school day/year.

The new federal rules also establish **priority for intervention among schools**:

- **First priority** is for schools receiving Title I funds that either are in the bottom five percent of Program Improvement schools, as measured by standardized test scores in math and Language Arts, or high schools with a graduation rate below 60 percent for several consecutive years.
- **Second priority** is for high schools that would have been in the bottom five percent but do not receive Title I funds.
- **Third priority** is for additional schools receiving Title I funds that the state identifies at its discretion.

**California Department of Education CDE) SIG application.** In March 2010, the State Board of Education (SBE) approved CDE's federal SIG application. The application is now pending federal approval. Along with approval of the SIG application, the SBE approved methodology developed by CDE to identify the state's 5 percent persistently low performing schools.

This methodology was applied to 2,708 eligible Title I schools. As a result, a total of **188 schools** were identified as persistently low performing. Of this total:

- 139 were identified as Tier I (First Priority) schools
- 49 were identified for Tier II (Second Priority) schools

While states have the option of identifying a Tier III (Third Priority) schools, the CDE application did not include these schools because the CDE plan anticipates the funds available through the SIG award will only fund the lowest-achieving Tier I and a limited number of Tier II schools.

As a condition of receiving SIG funding, all 188 schools identified by CDE as persistently low performing must choose one of the four intervention models to implement by the 2011–12 school year, unless they have already implemented one of the models within the previous two years that conforms to all the requirements of the interventions required by the SIG program, and is showing significant progress.

The CDE application does not include a specific expenditure plan for SIG funding. Instead, CDE will conduct an individual needs analysis of every application, providing between \$50,000 and \$2.0 million per schools, as allowed under the new federal rules. Applications that address all the requirements described in the application will be recommended to the CDE for funding.

**CDE SIG Application Waiver Requests.** The SDE also submitted five SIG waiver requests with their application to the federal government:

- **Time Extension Waiver.** Request to extend the period of availability of school improvement funds to the state and LEAs to September 30, 2013.
- **Timeline Waiver.** Request to permit LEAs to allow their Tier I schools that will implement a turnaround or restart model to “start over” in the school improvement timeline.
- **Poverty Threshold Waiver.** Request to waive the 40 percent poverty eligibility threshold to permit LEAs to implement a school wide program in a Tier I school that does not meet the poverty threshold.
- **N Size Waiver.** Request to permit the inclusion of a “minimum n size” in the identification criteria for persistently lowest-achieving schools. The “minimum n-size” requested is 100 valid scores.
- **Tier II Definition Waiver.** Request to waive the definition of “persistently lowest-achieving schools” in Tier II and incorporate an alternate definition in identifying Tier II schools.

#### **LAO RECOMMENDATIONS – SCHOOL IMPROVEMENT GRANT (SIG) PROGRAM:**

The LAO recommends creating a SIG budget plan (Title I set-aside and SIG funds combined) that ensures all the funds are used during the allotted period while maximizing potential programmatic benefits and minimizing overlap among school improvement efforts.

- **Develop a method for determining which schools would receive funding.** According to the LAO, while new SIG guidance requires funding to first be spent on Title I schools in the bottom five percent of PI, new regulations provide significant freedom to states in deciding which additional PI schools receive funding. The LAO recommends expanding schools eligible to receive funding from the “persistently lowest achieving” to roughly the bottom one-third of schools in PI, which is equivalent to roughly 10 percent of all schools statewide. The LAO would, however,

recommend excluding schools that were making progress and did not appear to be in need of intervention.

**Figure 18**  
**Schools Identified Under LAO-Recommended School Improvement Program**

Identification Process	Schools
<b>Persistently Lowest-Achieving Schools</b>	
1. Identify the bottom 5 percent of schools in federal Program Improvement (PI) based on average proficiency rates on state math and Language Arts tests combined. Exclude schools that have made more than 50 points of Academic Performance Index (API) growth over the last five years. <sup>a</sup>	177
2. Add secondary schools that have had a graduation rate of 60 percent or lower for the past three years. <sup>b</sup>	27
3. Add all high schools eligible for but not receiving Title I funds that otherwise would have been identified in step one.	10
<b>Additional Low-Achieving Schools</b>	
Identify the bottom third of schools in PI using largely the same process as described under (1) above. Exclude schools that have more than 50 percent of their students scoring proficient and have made more than 100 points of API growth over the last five years. The Quality Education Investment Act schools meeting these criteria would have priority for funding. <sup>a</sup>	776
<b>Total</b>	<b>990</b>
<b>Percent of Statewide Total</b>	<b>10%</b>

<sup>a</sup> Excludes all non-PI schools as well as all alternative schools except continuation schools. Also excludes schools that do not meet minimum group size for federal accountability purposes (usually 100 students).

<sup>b</sup> In addition to the schools excluded in step one, also excludes continuation schools.

**Link**

- Link Funding With Need.** The LAO recommends allocating SIG funds to schools in a way that matches funding to the needs of the school. Under the LAO proposed allocation method, most funding would be based on school-wide enrollment, with the "persistently lowest-achieving" schools receiving a higher per-pupil rate than the other identified schools. Linking most funding with enrollment would ensure larger schools receive more for student and teacher support. The LAO method, however, also would have minimum and maximum school allocations in recognition that some fixed costs as well as some economies of scale exist. Specifically, the LAO recommends giving the "persistently lowest achieving" schools \$900 per pupil, with total allocations ranging from a minimum of \$250,000 to a maximum of \$2 million per school. Other identified schools that are not among the persistently lowest-achieving (those in the bottom one-third of PI schools not already identified) would receive \$300 per pupil, with a minimum of \$50,000 and a maximum of \$500,000 per school. These schools generally would receive less in school improvement funding as they would not have to implement an intensive intervention strategy. Instead, these schools could use more targeted improvement strategies consistent with federal PI and Race to the Top guidance.

**Figure 19****LAO-Recommended Budget for Federal School Improvement Program***(In Millions)*

	2010-11	2011-12	2012-13
<b>Ongoing Funding</b>			
School Improvement Grants (SIG)	\$68	\$68	\$68
Title I set aside	65	65	65
<b>One-Time Funding</b>			
American Recovery and Reinvestment Act (ARRA) SIG	\$352	—	—
ARRA Title I set aside	45	—	—
Carryover	119	\$355	\$193
<b>Totals</b>	<b>\$650</b>	<b>\$488</b>	<b>\$326</b>
<b>Expenditures</b>			
Intervention: persistently lowest-achieving schools <sup>a</sup>	\$126	\$126	\$126
Intervention: additional low-achieving schools <sup>b</sup>	159	159	159
Regional technical assistance/intervention	10	10	10
<b>Totals</b>	<b>\$295</b>	<b>\$295</b>	<b>\$295</b>
<b>Balances</b>	<b>\$355</b>	<b>\$193</b>	<b>\$31</b>

<sup>a</sup> Generally provides \$900 per pupil, with a minimum grant of \$250,000 and a maximum grant of \$2,000,000.

<sup>b</sup> Generally provides \$300 per pupil, with a minimum grant of \$50,000 and a maximum grant of \$500,000.

- Build a three-year SIG budget.** The LAO recommends building a three-year SIG budget using their expanded list of schools and accompanying allocation model. The LAO budget maximizes federal support for the state's low performing schools while adhering to the federal government's three-year budget cycle. (The LAO budget also continues to provide \$10 million annually for regional technical assistance and intervention to ensure some funding remains budgeted for regional support.) By the end of the three year period, new federal rules are expected. At that time, the state could reassess its efforts in this area and develop a more refined program based on the new federal rules as well as the lessons learned over the prior three years.

## LAO RECOMMENDATIONS – QUALITY EDUCATION AND INVESTMENT ACT PROGRAM

The LAO also recommends consolidating the Quality Education and Investment Act (QEIA) program to account for SIG overlap. In addition to building a multiyear SIG plan, the LAO identifies areas of overlap between the SIG and the state's QEIA program, and, to the degree possible, consolidates the state and federal school improvement programs.

**Background on QEIA Program.** The QEIA program, developed as part of a settlement the administration reached with the California Teachers Association regarding the Proposition 98 suspension that occurred in 2004-05, provides \$2.8 billion over seven years to support schools ranked in the bottom two deciles on state assessments. The state annually provides \$402 million (non-Proposition 98) for the program until 2013-14, with the bulk of funding supporting efforts to reduce class sizes in grades 4 through 12. In

2009-10 the state supported QEIA with Proposition 98 funding on a one-time basis. The state also took action through ABx3 56 (Evans) to allocate up to \$165 million in federal Title I Set-Aside funds, which, if available, would offset Proposition 98 funding for QEIA in 2009-10.

The LAO contends that the PI and QEIA programs overlap considerably. Under the LAO model, more than 65 percent of QEIA schools would be eligible for federal SIG funding. Under the LAO proposal, if a QEIA school is identified for the federal program, then it would receive federal dollars instead of state dollars and only be subject to federal requirements. A QEIA school not funded under the LAO SIG plan, or currently receiving more in QEIA funds than allowed under the maximum SIG allotment, would continue to receive state funds, but could use those resources to conduct a school improvement activity approved under the federal PI program. Districts also would be free to redistribute state dollars among schools in the district in accordance with the local SIG plan, allowing districts to provide more funding to QEIA schools if they so chose.

**LAO QEIA Plan.** The LAO recommends sunset of the QEIA program at the end of 2012-13, which is when the federal SIG funds expire. Beginning in 2013-14, the state would have a clean slate and could start a new round of school improvement efforts, if it desired.

The LAO plan leaves the state with a remaining settlement obligation of \$1 billion in 2013-14. The LAO recommends the Legislature use this funding to reduce the K-14 mandate backlog, which now totals **\$3.6 billion**.

## **LAO RECOMMENDATIONS – AB 519 PROGRAM**

The LAO also recommends eliminating the AB 519 program, in its current form and integrating more within the new federal program improvement framework.

**Background on AB 519 program.** AB 519 (Chapter 757, Statutes of 2008), established a process for allocating federal funds to districts in their third year of PI in order to support certain corrective actions assigned to the district by the SBE. According to the SDE, there are 298 districts in PI under NCLB in 2009-10. Of this number, 173 have received sanctions from the SBE.

In addition to providing a sanction, AB 519 also authorizes the LEA to contract with a district assistance and intervention team (DAIT) or other technical assistance provider to aid in implementing the sanction. LEAs may receive between \$150,000 and \$50,000 per PI school within their district to contract with a DAIT or other technical assistance provider.

Prior to the release of the new SIG guidance, the state set up the AB 519 program in a manner that would allow SIG dollars to flow to districts for this purpose. Despite legislative intent and budget act authority for the use of SIG dollars, SDE has used Title I

set-aside to fund the program rather than SIG funds. Since 2008, the state has funded the program with a total of \$125 million in federal Title I set-aside funds.

Under the new SIG guidance, ongoing SIG dollars must be directed to schools in PI. If the Legislature plans to continue to fund the AB 519 program, it would have to dedicate Title I set-aside funds for this purpose. According to SDE, approximately 63 LEAs are expected to enter corrective action, which is estimated to cost between \$45.6 million and \$67.1 million.

**LAO Plan for AB 519 Program.** Given the new federal PI regulations, the LAO recommends the Legislature discontinue the AB 519 program. According to the LAO discontinuing the AB 519 program would reduce unnecessary overlap among programs—helping to streamline school improvement efforts.

**DOF April Letter Proposals: Department of Finance April Letter Adjustments.** The Department of Finance has included three issues in their April letter related to the SIG and Title I set-aside funds.

1	<p><b>Item 6110-134-0890, Local Assistance, Federal Title I Set Aside for the Local Educational Agency Corrective Action Program (Issue 005)</b>—It is requested that Schedule (2) of this item be increased by \$1,720,000 federal Title I Set Aside funds for the Local Educational Agency Corrective Action Program (Program) to align the appropriation with the available federal grant estimated for 2010-11. The Program provides funding for technical assistance to LEAs entering federal Corrective Action.</p>
2	<p><b>Item 6110-134-0890, Local Assistance, Federal School Improvement Grant Program (Issue 006)</b>—It is requested that Schedule (3) of this item be increased by \$7,040,000 federal School Improvement Funds to align the appropriation with the available federal grant estimated for 2010-11. The School Improvement Grant Program provides grants to the lowest-achieving Title I schools identified for federal Program Improvement, Corrective Action, or Restructuring to implement evidence-based strategies for improving student achievement.</p>
3	<p><b>Item 6110-134-0890, Local Assistance, Prorate Local Educational Agency Corrective Action Program Funds (Issue 007)</b>—It is requested that provisional language be amended to prorate 2010-11 federal Title I Set Aside funds for the Local Educational Agency Corrective Action Program (Program) and to prohibit school sites from earning Title I Set Aside funds if school sites also earn federal School Improvement Grant (SIG) funds. It is requested that Provision 6 of this item be amended to conform to this action as follows:</p> <p>“6. The funds appropriated in Schedule (2) are for purposes of Title I, Part A, Section 1116 and 1117 of the No Child Left Behind Act (P.L. 107-110) and shall <del>first</del> be used to fund the Local Educational Agency Corrective Action</p>

	<p>program (Program) established by Article 3.1 (commencing with Section 52055.57(c)) of Chapter 6.1 of Part 28 of Division 4 of Title 2 of the Education Code. <u>In the event that 2010-11 Title I Set Aside funds are insufficient to fully fund all local educational agencies that become eligible, apply for, and are selected by the State Board of Education (Board) to receive those federal funds, and notwithstanding any other provision of law, the State Department of Education and the Board shall in the following order:</u></p> <ol style="list-style-type: none"> <li>a) <u>Identify all schools that qualify to receive, have applied for, and have been selected by the Board to receive a 2010-11 federal School Improvement Grant and also are within a local educational agency that has been selected by the Board to receive 2010-11 federal Title I Set Aside funds.</u></li> <li>b) <u>Ensure that schools identified in (a) of this provision are excluded for purposes of calculating Program funding.</u></li> <li>c) <u>Determine the federal Title I Set Aside grant amount to be awarded to each qualifying local educational agency pursuant to levels specified in Section 52055.57(d)(3) of the Education Code and exclude schools identified in (a) of this provision.</u></li> <li>d) <u>In the event that 2010-11 federal Title I Set Aside funds are insufficient to fully fund all eligible Corrective Action program local educational agencies, the Board shall proportionately reduce each Corrective Action program grant so that all approved local educational agencies may be funded with the maximum amount of Title I Set Aside funds possible.”</u></li> </ol>
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**STAFF COMMENTS/RECOMMENDATION:** Staff recommends that the Subcommittee hold this issue open until after May Revise.

In reviewing the CDE and LAO proposals, staff suggests the Subcommittee consider the following fiscal and policy issues.

- **CDE and State Board Discretion in Allocation of SIG Funds.** Under CDE’s plan, the department and the State Board of Education would have full discretion for allocation of funds, within broad federal parameters that allow between \$50,0000 and \$2.0 million per school selected for funding. As raised by the LAO, this authority would extend to issues such as:
  - How many of the persistently lowest achieving schools will receive funding?
  - How will funds be allocated to persistently low performing schools? (Tier I, Tier II and Tier III schools?)
  - What other low-achieving schools will receive funding? How much could they receive?
  - Will additional schools be eligible for funding next year, if additional schools are defined as eligible?

- **AB 519 Program.** The AB 519 Program currently provides funding to school districts in PI. Funding can be used for district wide and individual school level improvements. The program has been funded with Title I Set-Aside funds, because CDE has resisted using SIG funding for the program in the past. In addition, the LAO recommends integrating the AB 519 program into the new SIG program. This would address overlap of schools and districts – felt to be minimum – and more importantly harmonize the program rules.
  - Should the AB 519 Program continue as currently authorized, in addition to the new SIG program?
  - How should the AB 519 Program be funded?
  
- **QEIA Program.** The LAO also recommends consolidating the states Quality Education and Investment Act (QEIA) program to account for SIG overlap. In addition to building a multiyear SIG plan, the LAO identifies areas of overlap between the SIG and the state's QEIA program, and, to the degree possible, consolidates the state and federal school improvement programs.
  - How will the new SIG intervention requirements affect QEIA schools?
  - How can the QEIA program be effectively integrated with the new SIG program moving forward?

**SUGGESTED QUESTIONS:**

1. What is the Administration’s plan for allocating federal program improvement funds in 2010-11?
2. CDE has developed a program improvement plan, which has been approved by the State Board of Education, and is currently awaiting approval by the US Department of Education. In CDE’s view, what is the Legislature’s role in this process?
3. Does CDE have a sense for how many of the persistently low performing schools will apply for funding under the new SIG program?

### **ITEM 3: Federal Funds – Enhancing Education Through Technology Grants (6110-180-0890)**

**DESCRIPTION:** The Governor submitted a Budget Letter in October 2009 to authorize the expenditure of **\$72 million** in additional, one-time federal funds for the Enhancing Education Through Technology (EETT) grant program. These new funds were authorized under the American Recovery and Reinvestment Act (ARRA). The Joint Legislative Budget Committee (JLBC) raised several concerns with the Administration’s EETT expenditure plan, and as a result the JLBC did not concur with the Administration’s plan. In so doing, the JLBC requested that the Administration and California Department of Education (CDE) develop a new plan. CDE recently released a revised plan; however, the Administration does not yet have a position on the revisions. In response to the JLBC concerns, the LAO has also developed an alternative expenditure plan for EETT.

#### **BACKGROUND:**

**EETT Program Funds.** The federal government currently provides several sources of funding for education data activities, including the Enhancing Education Through Technology (EETT) grant authorized under Title II –Part D of the No Child Left Behind Act of 2001.

On July 24, 2009, California was notified of the availability of **\$72 million** in new ARRA EETT grant funds. These one-time funds must be expended by September 30, 2011. These ARRA funds are being provided on top of ongoing ARRA funds. The 2009-10 budget includes **\$29 million** in ongoing EETT funding. The Governor’s January budget and April Budget Letter proposals provide **\$9.4 million** in ongoing EETT funds in 2010-11. The drop in ongoing funding signals that the federal program is being phased out.

**ARRA EETT Grant Allocations:** Consistent with previous federal requirements, at least 95 percent of the **\$72 million** in one-time ARRA EETT funds must be allocated as grants to local education agencies (LEAs) – school districts, county offices of education, and charter schools. Up to five percent of ARRA EETT funds can be used for state administration and state level activities.

The EETT program authorizes both formula grants and competitive grants for LEAs:

- **Competitive Grants:** At a minimum, 50 percent of the amount available for local grants must be used for competitive grants – although up to 100 percent may be used for this purpose. The U.S. Department of Education (USDE) strongly encourages states to award all of the funds competitively. USDE believes that larger competitive grants potentially will have a greater impact than smaller formula grants awarded across all of a state’s districts.

- **Formula Grants:** Up to 50 percent of local grants may be provided per formula grants allocated on the basis of Title I student counts for LEAs.

At least 25 percent of the funds for both competitive and formula grants must be used to provide professional development.

### **EETT Program Requirements.**

**Federal Requirements.** Federal rules and regulations for EETT provides states with broad discretion on the use of one-time ARRA funds for education technology. According to the USDE, allowable local activities for EETT include:

- support of continuing, sustained professional development programs and public-private partnership;
- use of new or existing technologies to improve academic achievement;
- acquisition of curricula that integrate technology and are designed to meet challenging state academic standards;
- use of technology to increase parent involvement in schools; and the use of technology to collect, manage, and analyze data to enhance teaching and school improvement.

In making decisions about the uses of EETT funds, USDE encourages states and LEAs to give particular consideration to strategies that will help build sustainable capacity for technology integration, improve student achievement, and advance education reform in the following four areas:

1. Increasing teacher effectiveness and addressing inequities in the distribution of effective teachers through high-quality professional development and teacher incentive programs designed to attract and keep effective teachers in hard-to-staff schools in rural and urban areas;
2. Using advanced technology systems to collect, manage, and analyze data in order to track student progress from pre-K through college and career and foster continuous improvement;
3. Implementing technology-enhanced strategies that support rigorous college- and career-ready, internationally benchmarked standards, supplemented with high-quality assessments that are valid and reliable for all students, including limited English proficient students and students with disabilities; and
4. Targeting intensive support to high-poverty, high-need LEAs to improve access to and the effective use of advanced technologies to turn around the lowest-performing schools.

Furthermore, USDE expects states and LEAs to use EETT funds to implement strategies that will help build sustainable capacity for integrating technology into curricula and instruction in order to improve student achievement.

USDE believes that because ARRA EETT funds “constitute a large increase in Title II-D funding that will likely not be available at the same level beyond September 30, 2011,” that states and LEAs should “focus these funds on short-term investments with the potential for long-term benefits rather than make ongoing commitments that they might not be able to sustain once ARRA funds are expended.”

**State Requirements.** While not required by federal law, state Education Code implementing the federal EETT program in California restricts competitive grant funding to LEAs serving students in grades 4-8. These statutory provisions thereby exclude high school districts from competition. Formula grant dollars can be used to support any and all grade levels consistent with their local technology plan.

**Governor’s Initial EETT Expenditure Plan.**

CDE officials did not receive notification of the availability of **\$72 million** in new ARRA EETT funds until July 24, 2009, too late to be included in the 2009-10 budget act passed in late July 2009. As a result, on October 16, 2009, the Department of Finance (DOF) requested a **\$70.9 million** increase in spending authority for EETT pursuant to Section 28.00 of the 2009-10 Budget Act. The spending plan contained in the Section 28.00 Budget Letter, as developed by CDE, is summarized below.

<i>Dollars in Millions</i>	<b>Section 28.00 Proposal</b>	<b>CDE Revised Proposal</b>
<b>Local Assistance (95 percent)</b>		
--Formula Grants (Title I Districts)	34.3	34.0
--Competitive Grants	34.3 (LEAs serving Grades 4-8; Existing Purposes)	34.0 (LEAs serving K- 12; Revised Purposes)
<b>Subtotal Local Assistance</b>	<b>68.6</b>	<b>68.0</b>
<b>State Operations (5 percent)</b>		
Technical Assistance		
--Brokers of Expertise	1.3	1.3
--California Technology Assistance Project	1.0	1.0
Unspecified	0.8	
State Administration		1.3
<b>Subtotal State Operations</b>	<b>3.1</b>	<b>3.6</b>
<b>TOTAL</b>	<b>70.9</b>	<b>71.6</b>

The October Budget Letter proposed allocating new one-time local grants on the same basis as the existing EETT program, which provides 50 percent as formula grants based upon Title 1 eligible student counts and 50 percent as competitive grants to districts serving students in grades 4-8. Competitive grants would be awarded on a geographic basis conforming to the 11 California Technology Assistance Project (CTAP) regions.

On the state operations side, the Budget Letter proposed **\$1.0 million** for CTAPs and **\$1.3 million** to fund a Brokers of Expertise project to allow LEAs to share research and standards based instructional programs and strategies. In addition, the Budget Letter proposed **\$1.3 million** for CDE state administration of EETT.

### **Legislature Did Not Concur with Initial EETT Expenditure Plan.**

The Joint Legislative Budget Committee (JLBC) did not approve the EETT spending plan proposed in the October Budget Letter. The JLBC outlined its concern in a letter dated November 12, 2009, to the Director of the Department of Finance. Overall, the JLBC was concerned that with so many initiatives underway in our state that are linked to data and technology, it was premature to decide how to best invest one-time federal funds. The JLBC also felt that there were other options for allocating and using EETT funds under the federal program that would allow the state to maximize the effect of the federal investment in educational technology.

The JLBC letter also questioned the use of funding for the Brokers of Expertise project, since the Legislature rejected funding for the project in 2007 and since CDE was currently operating the project with private funds. Finally, the JLBC was concerned about lack of justification for a large amount of one-time funding for CTAP.

In indicating its non-concurrence last November, the JLBC recommended that the Administration and CDE work with the Legislature to craft an alternative expenditure plan that furthers state and federal technology objectives in a more strategic, comprehensive manner.

The California Department of Education (CDE) recently released a revised ARRA EETT plan – summarized in the table on the previous page. The Department of Finance is currently reviewing the proposal but has not yet taken a position.

**CDE Issued Funding Advisories Without Budget Authority.** Although CDE did not have budget authority to allocate the ARRA EETT funds, CDE advised the field about its distribution nearly two months before budget authority was *requested* from the Legislature. In addition to the advisory, CDE sent out Requests for Application (RFAs) for the funds several months prior to Legislative notification of the need for increased expenditure authority. A chronology of these and other events is provided below:

- **July 24, 2009** – CDE made aware of the availability of federal ARRA EETT funds.
- **August 6, 2009** – The Superintendent of Public Instruction issued an advisory to the field that stated, “CDE will distribute the funds by the end of the year to school districts in two ways: half determined by formula and half through grants. The first half would go to local educational agencies that already have approved Ed Tech Plans and will be based on their proportion of the Title I, Part A funds distributed in California. The other half would go to local educational agencies and direct-funded charter schools after they fill out applications being offered in August and are

selected through a competitive process.” The advisory also advised districts of the allowable uses of the funds consistent with the existing EETT program.

- **August 31, 2009** – CDE submitted their notice of unanticipated funds to DOF.
- **September 11, 2009** – CDE sent Requests for Application (RFAs) to LEAs for EETT funds.
- **October 15, 2009** – RFAs from LEAs were due back to CDE. Reportedly, CDE received 188 EETT ARRA competitive grant applications, which were read the last week of October. There were approximately 440 eligible districts and charter schools in California, applying for competitive grants.
- **October 16, 2009** – JLBC received Section 28.00 Budget Letter from DOF requesting adjustment of expenditure authority for the EETT program, as proposed by CDE.
- **November 12, 2009** - JLBC sends letter of non-concurrence with Section 28.00 Budget Letter to authorize expenditure plan for EETT.
- **April 2009** – CDE released revised ARRA EETT expenditure plan.

**LAO COMMENTS:** The LAO had several major concerns with the Section 28.00 Budget Letter, as summarized below:

- **Important Policy Options to Consider.** The ARRA EETT funds may be used for a broad array of education technology activities, including hiring additional staff, providing professional development, purchasing software and hardware, and offering various student services. The only specific requirement at the local level is that at least 25 percent of the funds be used for professional development activities, but, even within this category, school districts have wide discretion. Thus, DOF’s spending proposals are by no means the only available options. The Legislature could consider many alternative uses of the funds to improve academic achievement, such as enhancing the California Longitudinal Pupil Achievement Data System (CALPADS), facilitating initial preschool data collection and analysis, or encouraging the collection and use of new college readiness data.
- **Important Allocation Options to Consider.** Whereas the federal government provides high-level guidance on how states may distribute EETT funds, states retain considerable discretion. The EETT program specifies only that: (1) at least 95 percent of the funds be given out in local assistance grants, with at least half of those grants awarded competitively (though the U.S. Department of Education “strongly encourages States to award all of the [ARRA] funds competitively”); and (2) up to five percent may be used for state administration, technical assistance, and state-level activities (with no more than 60 percent of this allocation used for administration).

Within these parameters, the Legislature has many allocation options it could consider.

- **Specific Concerns With DOF’s Technical Assistance Proposals.** DOF has proposed two technical assistance expenditures—one relating to the “Brokers of Expertise” project and one relating to the California Technology Assistance Project (CTAP). The LAO has concerns with both proposals. Most notably, the state has not yet statutorily authorized the Brokers of Expertise project, in fact the Legislature rejected a similar proposal made by the administration in 2007. Furthermore, the Brokers of Expertise project (currently operating with private funds) received strong criticism in a recent independent evaluation. In addition, the CTAP proposal lacks specificity about what additional technical assistance would be provided by CTAP in return for the large one-time augmentation.
- **Funds Should Be Coordinated With Other Education Technology Efforts.** The state is in the midst of making several important decisions involving education technology. As part of the Fifth Extraordinary Special Session, legislation was enacted to make various improvements to CALPADS and develop a preschool through higher education data system (or “P-20”) data system. This legislation was passed as a part of the Governor’s proposal for federal Race to the Top (RTTT) funds. While California was not approved for RTTT Phase I funding, the new legislation commits our state to a number of data activities that are required for eligibility for federal Phase II State Fiscal Stabilization Funding, as well. In addition, the California Department of Education has submitted a plan to access a federal Institute of Education Sciences grant to further a P-20 system. The ARRA EETT one-time augmentation could be used in concert with these other federal resources to further a coordinated set of state-local education technology objectives, thereby maximizing the combined effect of available education technology monies.

**LAO RECOMMENDATION.** The LAO recommends developing a coordinated plan targeting preschool and high school data needs. Per the LAO, one of the greatest challenges associated with developing a P-20 data system will be collecting and integrating early childhood and postsecondary/workforce readiness data. The EETT monies could help districts meet these challenges. To this end, the LAO recommends that the Legislature designate that the \$71.6 million in one-time ARRA EETT funding and the \$10.6 million of the 2010-11 on-going EETT apportionment be used for two purposes.

- First, the LAO recommends directing a portion of the EETT funds to school districts that provide early childhood education to help integrate pre-kindergarten data into the P-20 system. By helping districts collect, report, and analyze early education data, the funds would facilitate ongoing instructional improvement for California’s youngest students.

- Second, the LAO recommends awarding the remaining portion of EETT funds to districts serving high school students, with the funds used to help meet new postsecondary and workforce readiness data requirements. Under other related federal grant applications, California is proposing to collect new high school-level data, including Advanced Placement and Scholastic Aptitude Test scores, as well as participation in courses relating to science, technology, engineering, and math.

Under the LAO approach, districts serving preschool or high school students would apply to the CDE and be awarded funding competitively based on the scope and quality of the proposal and the proportion of Title 1 students within the district. Grants to each LEA would be at minimum, \$25 per pupil and at maximum, \$250 per pupil. Except for the 5 percent of funds reserved for administration and state operations, the funds would be distributed competitively and in alignment with the State’s efforts to establish a P-20 system.

**DOF April Letters:** The Department of Finance has submitted two proposals that make technical changes to the amount of ongoing federal EETT funds available in 2010-11, as follows:

**1. Item 6110-180-0890, Local Assistance, Education Technology Program (Issue 299 and 300).** It is requested that this item be decreased by \$20,091,000 federal Enhancing Education Through Technology Program funds. This adjustment includes a decrease of \$20,343,000 to align the Education Technology program with the anticipated federal grant award and an increase of \$252,000 to reflect the availability of one-time federal carryover funds. The reduction would be allocated proportionately among competitive grants, formula grants, and the California Technology Assistance Project. It is further requested that provisional language be amended as follows to conform to this action:

“1. Of the funds appropriated in this item, ~~\$14,508,000~~ \$4,737,000 is allocated to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program. Of the funds appropriated in this provision, \$241,000 is provided from one-time carryover funds.

2. Of the funds appropriated in this item, ~~\$14,508,000~~ \$4,507,000 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. Of the funds appropriated in this provision, \$11,000 is provided from one-time carryover funds.

3. Of the funds appropriated in this item, ~~\$462,000~~ \$143,000 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.”

**2. Items 6110-001-0001 and 6110-001-0890, State Operations, State Department of Education -- Enhancing Education Through Technology Program (EETT) (Issue 290)**—It is requested that Item 6110-001-0890 be decreased by \$166,000 and that Item 6110-001-0001 be amended to align with the anticipated federal grant award for this program. It is further requested that language in Provision 7 of this item be updated to conform to this action as follows:

“7. Of the funds appropriated in this item, ~~\$1,066,000~~ \$900,000 shall be used for administration of the federal Enhancing Education Through Technology Grant Program. Of this amount: (a) \$150,000 of carryover funds is available only for ~~contracted~~ technical support and evaluation services.”

**STAFF COMMENTS:**

- **CDE Commenced Grant Process Without Appropriate Authority; EETT Expenditure Plan Should Be Decided Through Regular Budget Process.** CDE did not have the authority to advise LEAs about the allocation and use of EETT funds prior to submission and approval of the Section 28.00 Budget Letter. Staff recognizes that awarding the ARRA EETT funds as soon as possible would help ensure districts can fully obligate the funds by September 30, 2011. The Legislature will appropriate funds for the EETT expenditure plan through the regular budget process, once agreement on a final expenditure plan is reached. While LEAs are understandably frustrated by the premature promises made by CDE, the budget process will allow the Legislature to consider alternative proposals in a more informed, thoughtful, and strategic manner, while still providing the funds to districts in a timely manner.
- **October Plan Misses Opportunities for Maximizing Federal Technology Funds.** EETT funds provide important one-time monies which could be distributed strategically to better position us to build, access, and use our state-wide data system to improve instruction and achievement. Data systems are a key component of satisfying our State Fiscal Stabilization Funds with respect to reporting requirements. The state has provided data assurances for securing approximately **\$213 million** in Phase II funds. Many of these same data system requirements are required for RTTT funds. While California did not receive Phase I funds, no decision has been made about Phase II funding, which could provide between **\$350 and \$700 million** to California.
- **LAO Proposal for P-20 System Responsive to Federal Signals and State Data Needs.** The LAO proposal allocates funds through competitive grants to LEAs for P-20 system development, which allows for development of preschool and higher education system linkages. The USDE has signaled numerous times that they are heavily favoring states with P-20 data systems, and that data will be of growing

importance in their decisions of whom to fund in the future. Further, they have also signaled that they value competitive awards over formula-driven awards. To this end, strategically investing these one-time monies could place us in a better position for future federal funds. Our state as an opportunity to make headway into our data infrastructure and the development of local capacity to use data, which will do more to improve instruction and achievement in the long-term than spreading small amounts of these funds out among all of the districts. By awarding the bulk of these funds on a formula-basis, the state misses an opportunity to make an important investment.

- **Final Action on EETT Should Be Coordinated with IES Grant Outcome.** The California Department of Education has submitted a proposal to access a federal Institute of Education Sciences (IES) grant to further a P-20 system. This is a competitive grant program for state education agencies. The ARRA EETT one-time augmentation could be used in concert with these other federal resources to further a coordinated set of state-local education technology objectives surrounding the P-20 system. For the LAO's recommendation to be coordinated with the state's IES grant; it is necessary to wait until the state has received final approval of its IES application before moving ahead with the EETT plan.
- **State Has Flexibility in Using ARRA EETT Funds -- LAO Offers Other Examples.** While the LAO recommends allocating funds for support of a P-20 system, it also offers other alternative uses for LEAs that reflect high priorities for the state, including enhancing CALPADS implementation and improving data utilization through professional development. This is not inconsistent with the several options included in the RFA released by CDE in September. The RFA highlights LEA options for competitive grants, including "professional development linked to the use of technology for analyzing achievement data for the purpose of improving instruction." More specifically, the RFA states that "the use of technology to support the analysis and use of longitudinal student achievement data to inform instruction will be an ever-emerging needs as the CALPADS data become available in the near future." In addition, federal ARRA EETT guidance allows funding for "creating or expanding components of Statewide Longitudinal Data Systems to inform areas such as curriculum development, professional development, and instruction."
- **CDE Revised Plan Links Competitive Funds to RTTT Assurances.** The revised CDE plan would utilize 50 percent of state LEA grants funds for new competitive applications focusing on assurances consistent with RTTT. While CDE would continue to allocate the remaining 50 percent of funds on a formula basis, LEAs would focus competitive grants on efforts to improve instruction and postsecondary/workforce readiness by:
  1. Implementing/enhancing and using a local instructional improvement system (see definition provided by the U.S. Department of Education) that provides teachers,

- principals, and administrators, with the information and resources they need to inform and improve their instructional practices, decision-making, and overall effectiveness;
2. Offering professional development to teachers and school leaders related to using data to inform instructional improvement;
  3. Including the collection of pre-kindergarten data for future instructional use and high school student data for postsecondary/workforce readiness use.

**STAFF RECOMMENDATION:** Staff recommends that the Subcommittee adopt some form of the LAO's recommendation following May Revise. This approach allows funds to be accessed by all high need, K-12 districts, including high school districts, and to be maximized for a high priority, statewide benefit.

**SUGGESTED QUESTIONS:**

1. Does the Administration have a revised expenditure plan for EETT?
2. CDE's revised EETT proposal would direct 50 percent to competitive grants for using data to improve instruction and postsecondary/workforce readiness. Can CDE provide more detail on this?
3. Under the CDE revised proposal, would funds be limited to districts serving students in grades 4-8?
4. What are the major elements of CDE's Institute of Education Sciences (IES) grant proposal recently submitted to USDE? When will CDE know the outcome of its IES grant?
5. What are the trade-offs between directing all EETT funds to competitive grants – as strongly encouraged by USDE and supported by the LAO – and using half of the funds for formula grants and half for competitive grants?
6. Did CDE inform districts that its expenditure plan had not been approved last November and that the Legislature had requested that the Administration and CDE work with the Legislature to craft an alternative expenditure plan that furthers state and federal technology objectives in a more strategic, comprehensive manner?

**ITEM 4. Department of Education - State Operations Budget – Headquarters Staff (6110-001-0001/0890)**

**DESCRIPTION:** In 2010-11, the Governor proposes to make permanent approximately **\$7.9 million** in General Funds reductions implemented in previous years for the California Department of Education (CDE) headquarters staff. In addition, the Governor is proposing additional General Fund reductions of approximately **\$4.3 million** in 2010-11 that are tied to compensation adjustments for state employees – specifically a five percent employee compensation reduction and a five percent retirement contribution increase. The Governor proposes a number of other adjustments for headquarters staff in 2010-11 that are included in the Governor’s January budget proposal and Department of Finance (April Finance Letter).

**BACKGROUND:**

The Governor’s 2010-11 Budget provides **1,553 authorized positions** and **\$213 million** funding (all funds) for CDE headquarters staff. (This does not include **1,008 positions** and **\$98 million** for operation of the State Special Schools.) This level of funding reflects an overall reduction of **\$10.6 million** (all funds).

<b>Governor’s January Budget Proposal California Department of Education (CDE) Authorized Positions and State Operations Funding</b>			
	<b>2008-09</b>	<b>2009-10</b>	<b>Proposed 2010-11</b>
<b>Authorized Positions</b>			
<b>CDE Headquarters</b>	<b>1,589.0</b>	<b>1,578.5</b>	<b>1,553.3</b>
<b>Funding</b>			
<b>CDE Headquarters</b>			
General Fund	46,960,000	39,610,000	40,627,000
GF - State Board of Education	1,371,000	1,821,000	1,874,000
Federal Fund	171,520,000	150,557,000	138,690,000
Other (Restricted)	49,571,000	32,572,000	32,780,000
<b>Total</b>	<b>269,422,000</b>	<b>224,560,000</b>	<b>213,971,000</b>

The figures above do not reflect the Governor’s proposed compensation reductions for CDE state headquarters staff in 2010-11. These reductions are tied to the Governor’s 5-5-5 compensation plan for state agencies, as contained in budget Control Section 3.90. These reductions will reduce CDE General Fund appropriations by about \$4.3 million in 2010-11, as compared to the figures above.

**Recent Reductions to CDE State Operations:** CDE has participated in across-the-board reductions for state agencies, as detailed below for the last two years. For the most part, the Superintendent of Public Instruction was given discretion on implementation of these reductions. In addition, as an agency directed by a Constitutional Officer, the Department of Education has not been required to implement employee furloughs, but has implemented equivalent dollar reductions in state operations funding. In making reductions, CDE has been able to achieve savings by cutting operating expenses and de-funding positions, although CDE has retained authority for most all positions.

## **2008-09**

The 2008-09 budget act included a **10 percent** unallocated General Fund (non-98) reduction for CDE state operations – personnel and operating expenses and equipment – as a part of the Governor’s Budget Balancing Reductions. This reduction equated to a **\$5.1 million** unallocated reduction in 2008-09 for CDE headquarters staff only.

The Governor later implemented – via Budget Letter authority – additional state operations reductions of **\$2.2 million** – all funds – for CDE headquarters staff. This amount included General Fund (non-98) reductions of **\$671,000** for CDE state headquarters. [The Budget Letter implemented cuts for CDE equivalent to two furlough days (one-time) for five months in 2008-09, although CDE did not take furloughs.]

In total, funding for CDE headquarters were reduced by **\$7.3 million** (all funds) in 2008-09, which includes a cut of **\$5.8 million** in state General Funds. CDE eliminated 11.0 positions associated with these reductions in 2008-09.

## **2009-10**

The 2009-10 budget reduces CDE state headquarters funding by a total of **\$21.5 million** – all funds. This includes a **\$5.5 million** General Fund (non-98) reduction for headquarters staff.

These \$5.5 million in General Fund (non-98) reductions for CDE state operations – together with \$16.0 million in reductions in other funds – were implemented through a variety of mechanisms in 2009-10, including:

- \$14.7 million (all funds) from Governor’s budget vetoes tied to a **10 percent** base cut for state operations – personnel only, not operating expenses and equipment -- (\$2.8 million General Fund);
- \$5.6 million (all funds) in reductions associated with continuation of the one-time furlough day for state agencies (\$1.5 million General Fund);
- \$500,000 in General Fund savings for the California High School Exit Exam;
- \$705,000 in General Fund savings resulting from the Governor’s veto of funding for the Curriculum Commission.

In 2009-10, CDE eliminated 4.0 positions and de-funded 50.0 positions.

## **GOVERNOR'S 2010-11 BUDGET PROPOSALS:**

In 2010-11, the Governor proposes to make permanent approximately **\$19.8 million** (all funds) in base reductions implemented in previous years for the California Department of Education (CDE) headquarters staff - including **\$7.9 million** in General Funds.

In addition, the Governor is proposing additional General Fund reductions of approximately **\$4.3 million** in 2010-11 that are tied to **two** of three compensation adjustments proposed as a part of the Governor's "5-5-5" package for state employees – specifically a five percent employee compensation reduction and a five percent employee retirement contribution increase. A third component of the Governor's package is tied to a "workforce cap" achieved through a five percent increase in salary savings, however, it does not apply to Constitutional officers. (The Governor's 5-5-5 package is intended to replace the state agency furlough program set to expire at the end of 2009-10.)

**Governor's Budget – Other CDE Staffing Proposals.** The Governor proposes the following smaller adjustments for headquarters staff in 2010-11 that are included in the Governor's January budget and the Department of Finance April Finance Letter.

### **Technical Adjustments:**

- **Vacant Positions.** Provide \$192,000 in federal funds savings tied to the elimination of 1.9 vacant positions.
- **Charter School.** Administratively establish 1.0 position for the State Board of Education for Charter School Oversight.
- **Reading First Positions.** Remove 6.0 positions and \$1.4 million in federal Title I Reading Funds for state administration. The federal Reading First program is being phased out.
- **Teacher Data Base Positions.** Remove one-time federal Title II funds of \$1.6 million and 3.0 positions for development of California Teacher Integrated Data and Education System (CALTIDES).
- **Child Nutrition Positions.** Remove one-time federal nutrition funds of \$1.7 million and 7.0 positions for the Child Nutrition Payment System.
- **English Learner Pilot Program Positions.** Remove one-time federal Title III of \$100,000 and 1.0 position for the English Learner Best Practices Pilot Program

- **High Priority Schools Program Position.** Eliminate General Funds of \$411,000 and federal Title I funds of \$469,000 and 9.0 positions for support of the High Priority Schools Program. This program is being phased out.

### Policy Adjustments

- **Assessment System Position.** Add \$96,000 in federal Title I funds and 1.0 limited-term position to provide research on School Accountability Growth Model per Chapter 273; Statutes of 2009 (Solorio).

**DOF April Letter Requests:** The Department of Finance April Letter proposes the following Governor’s proposals for CDE state operations:

- **Items 6110-001-0001 and 6110-001-0890, State Operations, State Department of Education–American Recovery and Reinvestment Act-Related Monitoring and Reporting (Issue 004).** It is requested that Item 6110-001-0890 be increased by **\$1,982,000** one-time federal carryover funds (no positions) and that Item 6110-001-0001 be amended to implement various education-related accountability, reporting, and technical support provisions of the federal American Recovery and Reinvestment Act (ARRA) of 2009. The ARRA provided billions of dollars in one-time funding to jumpstart school reform efforts, serve special populations, save and create jobs, and stimulate the economy. The ARRA and related federal regulations require that nearly all federal ARRA funds be disbursed to local educational agencies (LEAs) and that a limited amount of these funds may be used by states for monitoring, reporting, and technical support of LEA activities during the three-year availability of ARRA funds. According to the SDE, federal special education and Title I guidance suggest that a portion of these base grants may be used for ARRA state administrative activities and the SDE has identified one-time carryover funds from these base grants that could be used for these purposes.

It is further requested that provisional language be added to Item 6110-001-0890 as follows to conform to this action:

“X. Of the funds provided in this item, \$1,982,000 in one-time federal carryover funds is available for the State Department of Education to satisfy all fiscal monitoring, reporting, technical assistance, and other oversight activities as required by the American Recovery and Reinvestment Act of 2009 (Public Law 111-5) and related federal guidance.”

- **Items 6110-001-0001, State Operations, State Department of Education -- Charter Schools Division Positions (Issue 722).** It is requested that **3.0 positions** be added to the Charter Schools Division to provide support for increased workload due to growth in statewide charter school petitions and charter school appeals. These positions would enable the SDE to complete statutorily required charter school-related activities. These positions would be funded within existing General Fund resources.

- **Items 6110-001-0001, State Operations, State Department of Education -- Remove Limited-term Position and Funding for the Chief Business Officer Training Program (Issue 145).** It is requested that this item be decreased by **\$76,000** General Fund and that the limited-term associate governmental program analyst position that supported the Chief Business Officer Training Program be removed. The Chief Business Officer Training Program was a three-year project that offered incentives to school districts and county offices of education to provide instruction and training to chief business officers on school finance, operations, and leadership. However, the program became inoperative July 1, 2009, pursuant to Education Code Section 44519.2. The Governor's Budget removed provisional language allocating \$1.0 million for the local assistance portion of the program and shifted the \$1.0 million to the Administrator Training Program. Although the local assistance funding was appropriately addressed, associated state operations costs were not removed.

#### **LAO COMMENTS/RECOMMENDATIONS:**

- **Align CDE Staff Levels With Categorical Flexibility Decisions.** Despite the state's decision last year to essentially eliminate the programmatic and funding requirements associated with roughly 40 state categorical programs, the state has made no corresponding changes to CDE's staffing of those programs. Per the LAO, CDE now has hundreds of staff members assigned to administering programs that the state is not now operating. (The LAO believes this disconnect would be amplified if the Legislature were to adopt a more expansive flexibility package this year.)

To reflect the impact of consolidating local assistance categorical programs on state operations, the LAO recommends decreasing CDE's budget by **\$10 million** and eliminating roughly **150 positions**.

#### **STAFF COMMENTS/RECOMMENDATIONS:**

- **LAO Proposal to Score CDE General Fund Savings from Categorical Program Flexibility Makes Sense.** The LAO recommends aligning CDE staff levels with categorical program flexibility provision, enacted as a part of the 2008-09 and 2009-10 budget packages. These flexibility provisions allow school districts to utilize funding from more than 40 categorical programs flexibly -- for any educational purpose -- from 2008-09 through 2012-13. As a result, CDE is no longer monitoring these categorical programs (data gathering, compliance, etc.) and has also consolidated their fiscal apportionment functions. CDE has not fully quantified categorical staff savings, but maintains that savings have been captured as a part of their state agency reductions in 2009-10. Per the LAO recommendation, staff believes it is reasonable for the state to capture these state General Fund savings on top of other agency wide reductions imposed upon state agencies because these savings are associated with a reduction in workload.

- **One-Time ARRA Request Appears Reasonable, But CDE Still Believes Additional One-Time Funding is Needed for Administration of Federal Stabilization Funds.** CDE believes that additional funding is needed for additional services to handle state reporting requirements for the State Fiscal Stabilization Funds. This is likely to be a May Revise Issue.
- **Unclear How SPI Has Implemented Recent Budget Reductions – More Information Needed.** It is difficult to fully assess the impact of budget reductions at CDE headquarters without documentation that detail where position and service reductions have occurred. At the very least, it is important to know how General Fund staff are assigned within the CDE and how staff in state programs have been affected by recent cuts.

**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 on state and federal programs.

Staff further recommends that the Subcommittee consider the LAO proposal to decrease CDE’s budget by \$10 million and approximately roughly 150 positions. In so doing, staff recommends that the Subcommittee request that CDE provide the following prior to May Revise:

- (1) A list of all General Fund headquarter positions by branch, division, unit;
- (2) A list of all headquarter positions that have been de-funded as a result categorical program flexibility.

**SUGGESTED QUESTIONS:**

1. What is the Administration’s position on the LAO proposal?
2. What is the year-to-year fiscal impact of the Governor’s 2010-11 budget proposals? What portion of these cuts is ongoing; what portion is new?
3. How do the Governor’s recent and proposed reductions for CDE state operations headquarters staff compare to reductions for other state agencies?
4. Can CDE summarize implementation of headquarter reductions in recent years? What programs have been affected? What is the effect on the department’s operations?
5. Has CDE reduced salaries for any employees as a result of recent state agency budget reductions?
6. CDE has indicated it has de-funded a number of positions in recent years. What does this mean? Are positions eliminated?

7. Can CDE provide information on the number of positions and associated General Fund savings for staff assigned to the more than 40 categorical programs that are subject to categorical flexibility through 2012-13?
8. What are some of the reasons that CDE is requesting additional resources for state administration of federal Fiscal Stabilization Funds?
9. Recent budget reductions have affected federal funds, as well as General Funds. What is the impact of these cuts on state administration for federal programs?

**ITEM 5: 2009-10 Budget – Curriculum Commission Veto  
(6110-001-0001)**

**DESCRIPTION:** The Governor vetoed **\$705,000** in General Funds (non-98) in the 2009-10 Budget Act for the California Department of Education (CDE) for support of the Curriculum Development and Supplemental Materials Commission (Curriculum Commission). This reduction eliminates all funding for Curriculum Commission per diem and travel and for CDE staff support to the Commission. The Governor’s action is intended to capture state operations savings from categorical flexibility provided for the Instructional Materials program in the 2009 budget packages. With this flexibility, school districts are not required to purchase newly adopted materials through 2012-13 and the State Board of Education (SBE) is prohibited from adopting new materials or developing frameworks.

**BACKGROUND:**

**Curriculum Commission.** The Curriculum Development and Supplemental Materials Commission (Curriculum Commission), established in state law, is an 18 member advisory board to the State Board of Education (SBE). Commissioners tend to be recognized authorities in a specific subject matter, professors, curriculum experts, K-12 teachers, or community members. The commission advises SBE on the K-12 curriculum frameworks and K-8 instructional materials adoption.

**Curriculum Framework Adoptions.** Frameworks development is a major, ongoing work activity for the Curriculum Commission. Curriculum frameworks provide a blueprint for curriculum and instruction by describing the scope and sequence of the knowledge and skills all students need to master in a specific subject area, and the evaluation criteria found within the framework provides guidance to publishers in the development of instructional materials. The framework and criteria are used to evaluate kindergarten and grades 1-8, inclusive, (K-8) instructional materials that are submitted for state adoption and the curriculum frameworks also provide guidance to teachers in the delivery of the curriculum.

**Governor’s 2009-10 Veto.** The February 2009 budget revisions contained in SBX3 4 (Chapter 12, Statutes of 2009) suspended the requirement that local education agencies (LEAs) purchase new instructional materials within 24 months of adoption for two years (2008-09 and 2009-10). The July budget revisions in ABX4 2 (Chapter 2; Statutes of 2009) extended this suspension for a full five years (2008-09 through 2012-13) and prohibited the State Board of Education (SBE) from adopting new materials or following procedures for adoptions. The Legislature provided this fiscal flexibility to districts in an effort to ease the local impact of state budget reductions.

When the Legislature passed ABX4 2, no conforming actions were taken to reduce State Board of Education or Curriculum Commission funding associated with the new statute prohibiting the State Board from adopting new materials or “following other procedures for adoptions”. However, when the Governor signed the final 2009-10 Budget Act, he took related action by vetoing all funding for the Curriculum Commission. More specifically, the Governor eliminated \$705,000 in General Fund (Non-Proposition 98) funds for the Department of Education’s state operations budget for support of the Curriculum Commission. These funds cover Commission per diem and travel cost as well as CDE staff support and services. The Governor did not veto any funding for the State Board of Education.

The full text of the Governor’s veto, as contained in Chapter 1, Statutes of 2009 – 4th Extraordinary Session, is provided below:

Item 6110-001-0001—For support of the Department of Education. I reduce this item from \$38,210,000 to \$37,505,000 by reducing:

(2) 20-Instructional Support from \$158,747,000 to \$158,042,000, and by deleting Provision 7.

I am reducing this item by \$705,000 to capture the maximum amount of savings from the instructional materials flexibility provided in the Education trailer bill to school districts, which suspends the adoption of instructional materials by the State Board of Education (Board) and the subsequent purchasing requirements for school districts until 2013-14. As a result, it is unnecessary for the Curriculum Development and Supplemental Materials Commission to continue to advise the Board on content frameworks and instructional materials adoptions for the next five years or until an agreed-upon process is reestablished. This reduction removes funding for unnecessary Commission per diem and travel as well as funding for Department staff.

**Impact of Veto on Curriculum Commission Frameworks Adoptions.** While not anticipated, the Governor’s veto immediately halted all the Commission’s work on curriculum frameworks in a number of subject areas that were in various stages of development or adoption at the time.

Most notably, the veto suspended Commission activities well underway for two core curriculum frameworks – History/Social Science and Science. More specifically, the Commission’s work on the History/Social Science framework is essentially complete. In July 2009, the Curriculum Commission approved the draft update of the History/Social Science framework for field review, but due to the budget action, the field review was suspended. In addition, the Commission commenced work on the revision of the Science framework in May 2008 and, more while more work is needed, many steps in the process have been completed.

**Impact on Suspension of the Frameworks on the Field.** Several concerns have been raised over the suspension of the framework revision and adoption process from the field. Some have argued that the framework development and adoption should continue even without an immediate instructional materials adoption, as the framework itself provides updated content and pedagogical approaches for teachers to enable students to gain updated and relevant knowledge and skills.

**New Requirements for National “Common Core” Standards.** SBX5 1/ Steinberg (Chapter 2; Statutes of 2009) enacted for purposes of satisfying part of the criteria for the Race to the Top (RTTT) program, establishes the Academic Content Standards Commission to develop academic content standards in language arts and mathematics. At least 85 percent of the curriculum standards for these two subject areas are required to be the common core academic standards developed through a national consortium. Once the Academic Content Standards commission approves recommended standards, they are required to be presented to the State Board of Education (SBE) by July 15, 2010. The SBE is then required to adopt or reject the recommended standards by August 2, 2010.

The RTTT guidance did not require a specific timeline for the implementation of the common core standards into the frameworks and instructional materials. This plan is left to the SPI and SBE to develop. If the common core academic standards are adopted, instructional materials that are aligned to these standards will have to be adopted for math and English Language Arts (ELA).

The implementation and timing of these requirements is now in question given that California did not receive the first round of RTTT funding and it is not clear if the state will pursue a second round of funding. It is also not clear if California will adopt common core standards regardless of RTTT funding.

**RELATED LEGISLATION.** Two nearly identical bills in both the Senate and Assembly were recently passed by their respective education policy committees. Both of these bills would require the Curriculum Commission activities to resume adoption of the History/Social Science framework in 2010-11.

- **SB 1278 (Wyland).** Requires the State Board of Education to adopt a revised curriculum framework in History/Social Science no later than July 1, 2011. In order to adopt the History/Social Science framework prior to the sunset of the adoptions suspension, the bill includes language to notwithstanding the budget provisions prohibiting the SBE from adopting instructional materials and frameworks, but only for purposes of adopting the History/Social Science framework. In addition, the bill establishes a timeline for the adoption of instructional materials by the State Board beginning in the 2013-14 school year, after the budget provisions on the suspension of instructional materials are repealed. **Status:** Senate Appropriations Committee
- **AB 2069 (Carter).** Requires the State Board of Education to adopt a revised curriculum framework in History/Social Science no later than July 1, 2011. In

order to adopt the History/Social Science framework prior to the sunset of the adoptions suspension, the bill includes language to notwithstanding the budget provisions prohibiting the SBE from adopting instructional materials and frameworks, but only for purposes of adopting the History/Social Science framework. In addition, the bill establishes a timeline for the adoption of instructional materials by the State Board beginning in the 2013-14 school year, after the budget provisions on the suspension of instructional materials are repealed. **Status:** Assembly Appropriations Committee.

**LAO COMMENTS:** The LAO is generally supportive of the Administration's veto of the Curriculum Commission. This position is in line with the LAO's published report from 2007 entitled *Reforming California's Instructional Material Adoption Process* that recommended streamlining the adoption process and eliminating the role of the Curriculum Commission. The LAO suggests that suspension of Curriculum Commission activities provides an opportunity for rethinking the role of the Commission moving forward. The LAO does not believe that it is crucial to restore Commission funding in 2010-11.

#### **STAFF COMMENTS**

- **Common Core Standards May Influence Resumption of Curriculum Commission Activities.** Given the uncertainty around how the state will proceed with adoption of common core standards, which will ultimately influence the work of the Curriculum Commission, staff does not support fully resuming Curriculum Commission activities until the state determines its approach to adopting these common core standards.
- **Governor's Veto Signals Ongoing Cuts for Commission Until Adoptions Resumed.** The Governor's veto signals ongoing, annual savings for the Commission until 2013-14 or until an agreed upon process is re-established. The Administration has indicated openness to restoring some Commission funding prior to resumption of the instructional materials adoptions by the State Board. There are two bills which define the sequence for resuming materials adoption by the State Board of Education. This legislation will guide resumption of framework development, which currently commences about 30 months prior to the adoption of instructional materials.
- **Veto Suspends Final Adoption of Two Core Curriculum Frameworks Near Completion.** While full resumption of Curriculum Commission activity may not be warranted at this time, there appears to be some merit in allowing the commission to finish work on the History/Social Sciences and Science frameworks. Staff is still evaluating the cost for resuming these activities and has asked CDE if additional state resources are needed for this limited activity. Initial information from CDE indicates that there would be minimal costs to complete the History/Social Science framework and costs of about \$144,000 to complete the Science framework.

- **May Be Remaining Funds Available to Complete History/Social Science and Science Frameworks Adoptions.** According to the Department of Finance, \$705,000 reflects a conservative estimate of total expenses for the Commission in 2009-10, which include per diem and travel expenses for Commissioners and CDE staff support and services for the Commission.

**STAFF RECOMMENDATION:** Staff recommends that after May Revise the Subcommittee restore limited funding for the Curriculum Commission in 2010-11 to allow final adoption of the History/Social Science and Science Frameworks. This action would allow the Commission to take final actions for these adoptions that were nearing completion when the Governor's veto occurred. Staff further recommends that the Department of Education provide cost estimates for finishing prior to May Revise.

**SUGGESTED QUESTIONS:**

1. What are *costs* of allowing the Curriculum Commission to complete adoption of the History/Social Science and Science frameworks in 2010-11? Could these costs be absorbed within the Department of Education's budget?
2. What are *benefits* of allowing the Curriculum Commission to complete adoption of the History/Social Science and Science frameworks in 2010-11? How are frameworks useful to the field, understanding that curriculum materials adoptions may be delayed for several years?
3. What is the status of California's adoption of the Common Core Standards? What are the costs associated with these activities? Can these activities be covered with existing federal funds for our state?
4. Will the adoption of Common Core standards conflict in anyway with completion of the History/Social Science and Science frameworks?

## **ITEM 6: Statewide Testing and Reporting System – 4<sup>th</sup> Grade Writing Assessment (Item 6110-113-0001/0890)**

**DESCRIPTION:** In August 2009, the DOF approved an expenditure plan for the state student assessment program in 2009-10 that included elimination of the 4<sup>th</sup> grade writing test and associated savings of \$2.0 million in Proposition 98 funds. The Governor does not propose reinstatement of the 4<sup>th</sup> grade writing assessment in 2010-11. On November 30, 2009, the chairs of the Senate and Assembly Budget Committees submitted a letter to DOF expressing concerns regarding the elimination of the 4<sup>th</sup> grade writing assessment in conflict with budget provisional language. The letter also expressed concern about failure of the California Department of Education to provide a copy of the expenditure plan to the Legislature, as required by budget language.

### **BACKGROUND:**

**Student Assessment Funding:** The 2010-11 Governor's Budget provides \$117 million in state and federal funds to the Department of Education for a number of statewide student assessment programs, including the Standardized Testing and Reporting (STAR) program. 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.

**STAR Writing Assessments.** 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 2<sup>nd</sup> grade students. SB 80 (Committee on Budget and Fiscal Review) continued the 2<sup>nd</sup> grade test as a part of the overall STAR program until June 30, 2011.

The most commonly administered test in the STAR program is the California Standards Tests (CSTs) – a standards-aligned 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.

The 4<sup>th</sup> and 7<sup>th</sup> grade writing assessments were added to the STAR English Language Arts assessments as the result of legislation enacted in 2000.

**Recent Cuts to State Assessment Program.** As a part of the 2008-09 Budget Act, most categorical programs were subject to an across-the-board reduction of 15.4 percent. Only four programs were not subject to the reductions: Child Nutrition, Economic Impact Aid, K-3 Class Size Reduction, and Special Education. Pursuant to this across-the-board reduction, the state student assessment program achieved savings in 2008-09 through approximately **\$14 million** in state assessment apportionment deferrals.

In 2009-10, the Governor proposed to increase the across-the-board reductions to 19.8 percent, applicable to the same set of programs. For the student assessment program, this reduction totaled **\$17.1 million**. The California Department of Education (CDE) was

charged with developing a plan to achieve these savings and in the spring of 2009 proposed a comprehensive list of savings. The list included a number of proposals that would directly eliminate ongoing student tests that are a part of the STAR program, such as the 4<sup>th</sup> and 7<sup>th</sup> grade writing tests, 2<sup>nd</sup> grade tests, and high school English Language Arts tests. The CDE also identified a number of other proposals that did not involve reductions in student assessments.

**Budget Language Added to Guide Assessment Reductions.** Due to policy concerns about elimination of specific student tests, the Legislature added provisional language to the student assessment item in the 2009-10 Budget Act (Item 6110-113-0001) specifically stating that:

*“In implementing the reductions for the 2008-09 and 200-910 fiscal years, the State Department of Education shall not eliminate any state assessments funded by this item.”*

With these protections in place, the Legislature inserted additional provisional language that authorized the Department of Finance to approve an expenditure plan reflecting other student assessment program reductions proposed by the CDE. In general, these other proposals were felt to affect student assessments more indirectly. This language also specified that after an expenditure plan was approved by the Department of Finance, the CDE was required to provide a copy of the approved plan to the Legislative Analyst’s Office and the appropriate fiscal and policy committees of the Legislature.

**CDE Expenditure Plan Approved by DOF Does Not Comply with Budget Language; CDE Failed to Notice Legislature.** The CDE submitted a state assessment program expenditure plan to the Department of Finance on August 21, 2009, reflecting options for achieving **\$17.1 million** in budget reductions in 2009-10.

The DOF approved the plan with some changes on August 28, 2009. Most notably, the DOF rejected elimination of the 7<sup>th</sup> grade writing assessment proposed by CDE, but approved elimination of the 4<sup>th</sup> grade writing assessment, for a savings of **\$2.0 million** in 2009-10.

The State Board of Education, upon recommendation from the CDE, took action at their September 2009 meeting to amend the STAR contract to reflect changes in the expenditure plan for the STAR Program, as approved by the Department of Finance. The State Board then directed CDE and SBE staff to work with the contractor to implement changes in the STAR contract for the 2010 and 2011 administrations.

CDE did not provide a copy of the DOF approved expenditure plan to the Legislature until it was requested by legislative budget staff in late October 2009, even though the plan was approved by DOF on August 28, 2009.

**Joint Legislative Letter Sent to DOF Expressing Concerns.** On November 30, 2009, the chairs of the Senate and Assembly Budget Committees submitted a letter to DOF

expressing concerns regarding the elimination of the 4<sup>th</sup> grade writing assessment. Major concerns are summarized below:

- **Elimination of student assessment expressly prohibited by 2009-10 Budget Act.** The Department of Finance approved (and the CDE proposed) changes that eliminate the 4<sup>th</sup> grade writing assessment, in spite of budget act provisions that clearly prohibit this action. This was the only ongoing assessment eliminated as a part of the expenditure plan. Both the Department of Finance and the CDE see the writing assessment as an assessment "component", not a state assessment. That was not the intent of the language. The intent of the language was to keep elimination of ongoing student tests off the list and to focus on other savings and efficiencies in the state assessment program. More specifically, the intent was to avoid using the expenditure plan as a backdoor for changing state assessment policy, changes that should occur only through specific legislative budget or policy actions.
- **Failure to provide a copy of the approved expenditure plan.** The CDE did not provide a copy of the DOF approved expenditure plan to the Legislature until it was requested by legislative budget staff in late October 2009, even though the plan was approved by DOF on August 28, 2009.
- **Concerns regarding policy impact.** The letter expressed serious concerns about the policy impact of eliminating the 4<sup>th</sup> grade writing test on student instruction and performance. Writing is an essential life skill and the 4<sup>th</sup> grade writing assessment is critical for helping teachers and parents identify problems in the elementary grades, well before entrance into the secondary grades where supplemental services are limited. The 4<sup>th</sup> and 7<sup>th</sup> grade writing assessments were added to the STAR test in 2001, as a result of legislation enacted in 2000. While the CDE indicated that there were concerns in the field about the usefulness of the test at the teacher and school level, legislative staff heard from other school representatives about the importance of these assessments in improving writing instruction and skills for students.

As a result of these concerns, the Legislative Budget Chairs requested that DOF take immediate steps to restore the 4<sup>th</sup> grade writing test in 2009-10 and adopt other savings proposals identified by CDE as a part of the expenditure plan that do not reduce student assessments.

**Governor's 2010-11 Budget Does Not Reinstate the 4<sup>th</sup> Grade Writing Assessment.**

Although the joint letter requested that DOF take immediate actions to reinstate the exam, the Administration has not reinstated the 4<sup>th</sup> grade writing exam in 2009-10 and provides no funding in the proposed budget for this purpose.

**STAFF COMMENTS:**

- **Elimination of the 4<sup>th</sup> Grade Writing Assessment Does Not Comply with Budget Act Language and Raises Serious Policy Issues.** The writing assessments were established in statute. Elimination of these assessments raises significant policy

issues, ones the Legislature was trying to avoid through the budget language. The intent of the language was to keep elimination of ongoing student tests off the list and to focus on other savings and efficiencies in the state assessment program. More specifically, the intent was to avoid using the expenditure plan as a backdoor for changing state assessment policy, changes that should occur only through specific legislative budget or policy actions.

- **Writing Skills Essential; Elimination of Writing Skill Assessment Not Warranted.** The state's 4<sup>th</sup> grade and 7<sup>th</sup> grade writing assessments are examples of important assessments that measure critical thinking skills while helping to inform teaching and learning. Writing is an essential life skill and the 4<sup>th</sup> grade writing assessment is critical for helping teachers and parents identify problems in the elementary grades, well before entrance into secondary grades, when supplemental services are limited.
- **Without 4<sup>th</sup> Grade Assessment, Writing Will Not Be Formally Assessed Until 7<sup>th</sup> Grade.** Legislative staff heard from school representatives about the importance of these assessments in improving writing instruction and skills for young students. Elimination of the 4<sup>th</sup> grade writing assessment will make writing less of a priority for early elementary curriculum, and place unusual weight on the 7<sup>th</sup> grade assessment and curriculum.
- **Not Strategic to Cut Student Assessments; Questionable Whether State Assessment Program Should be Subject to Categorical Cuts.** The state currently appropriates about **\$117 million** in Proposition 98 and federal funds for student assessment programs, out of more than **\$55 billion** in total annual funding from these sources for K-12 schools. Given the importance of student performance data on improving teaching and learning, it makes no sense to eliminate state assessment programs as a part of budget solutions. At the federal level, the Obama Administration is certainly not backing away from the use of student assessments in school improvement. As evidence, the U.S. Department of Education announced in April that they would be setting aside **\$350 million** for states to come together to develop a "new generation of tests" that measure critical thinking and a broader range of content. Consistent with the goals of the federal government, California should be moving towards development and refinement of these types of assessments, not eliminating them.
- **Most Recent NAEP Writing Test Did Not Include 4<sup>th</sup> Grade Writing.** The National Assessment of Educational Progress – a national norm-referenced test utilizing state samples – previously included writing assessments in 4<sup>th</sup>, 8<sup>th</sup> and 12<sup>th</sup> grades for states. In 1998 and 2002 all grades were tested. In 2007, the NAEP writing assessment did not include 4<sup>th</sup> grade. It is not clear when or if the NAEP 4<sup>th</sup> grade writing test will be reinstated. The Administration cited the NAEP 4<sup>th</sup> grade writing test as one reason they felt they could eliminate the state test. Similarly, the Administration continued the 7<sup>th</sup> grade writing assessment because there was no NAEP 7<sup>th</sup> grade assessment.

**STAFF RECOMMENDATION:** Staff recommends the Subcommittee reinstate the 4<sup>th</sup> grade writing assessment in 2010-11, but hold off on action until after May Revision. Staff further recommends that the Subcommittee direct CDE to work with DOF to provide the Legislature with options for restoring funding to the 4<sup>th</sup> grade writing assessment in the 2010-11 fiscal year.

**SUGGESTED QUESTIONS:**

1. Does the Administration support reinstatement of the 4<sup>th</sup> grade writing assessment in 2010-11? Does CDE support reinstatement in 2010-11?
2. Why didn't CDE reinstate the 4<sup>th</sup> grade writing test as requested by the November 2009 joint letter from the chairs of the legislative budget committees?
3. Why did the CDE fail to provide a copy of the final expenditure plan to the Legislature as required by the 2009-10 Budget Act, after it was approved last August?
4. Why didn't CDE comply with provisional language that prohibited reductions for student assessments?
5. CDE has indicated that they may need additional resources to reinstate the test beyond the \$2 million original scored as savings in 2009-10. CDE estimates additional costs of \$500,000 to \$700,000 to restore the test in 2010-11. Can CDE explain why more funds are needed?

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Thursday, April 29, 2010**  
**9:30 a.m. or Upon Adjournment of Session**  
**Room 3191, State Capitol**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
<b>6110</b>	<b>Department of Education</b>	
<b>Item 1</b>	<b>Federal Funds Update</b>	<b>Page 2</b>
<b>Item 2</b>	<b>Federal Funds – Title I Set Aside &amp; School Improvement Fund Grants</b>	<b>Page 6</b>
<b>Item 3</b>	<b>Federal Funds – Enhancing Education Through Technology Grants</b>	<b>Page 16</b>
<b>Item 4</b>	<b>Department of Education - State Operations – Headquarters</b>	<b>Page 26</b>
<b>Item 5</b>	<b>Curriculum Commission Veto</b>	<b>Page 33</b>
<b>Item 6</b>	<b>4<sup>th</sup> Grade Writing Assessment</b>	<b>Page 38</b>

## **Public Comment**

**6110 CALIFORNIA DEPARTMENT OF EDUCATION**  
**ITEM 1: Federal Funds Update –K-12 Education**

**DESCRIPTION:** According to the latest reports from the federal government, California is estimated to receive **\$7.0 billion** in ongoing federal funds for K-12 education in 2010-11. Also, beginning in 2009-10, the state received nearly **\$6.5 billion** in new, one-time funds in federal stimulus funds authorized by the American Recovery and Reinvestment Act of 2009 (ARRA)

**BACKGROUND:** The LAO has prepared the following table summarizing federal funds for 2010-11 for programs administered by the California Department of Education (CDE).

	2009-10 Actual	2010-11 Estimated	Federal Stimulus
<b>No Child Left Behind (NCLB) Programs</b>			
<i><b>Title I</b></i>			
Title I Basic	1,651.6	1,729.9	1,124.9
School Improvement	64.1	69.2	351.8
Reading First	0.0	0.0	0.0
Even Start	6.9	7.3	0.0
Migrant	139.8	135.3	0.0
Neglected and Delinquent	2.4	2.4	0.0
Impact Aid <sup>d</sup>	65.0	66.7	1.4
Advanced Placement	4.4	4.4	0.0
<i><b>Title II</b></i>			
Improving Teacher Quality	327.1	331.1	0.0
Mathematics and Science Partnerships	20.0	21.2	0.0
Educational Technology	29.1	10.6	71.6
<i><b>Title III</b></i>			
Language Acquisition	168.5	173.3	0.0
<i><b>Title IV</b></i>			
Safe and Drug-Free Schools	35.2	0.0	0.0
21st Century After School	130.9	127.4	0.0
<i><b>Title VI</b></i>			
State Assessments	32.8	32.8	0.0
Rural and Low-income Schools	1.2	1.2	0.0
Small, Rural School Achievement	6.5	6.6	0.0
<b>Non-NCLB Programs</b>			
Homeless Children and Youth	12.8	8.0	13.8
Special Education	1,310.8	1,309.7	1,327.7
Career and Technical Education	139.6	139.2	0.0
Byrd Honors Scholarships	5.0	5.2	0.0
Adult Basic and Literacy Education	66.1	74.9	0.0
English Literacy and Civics Education	15.7	17.3	0.0
Cal-Serve/Service America	2.1	2.1	0.0
Charter Schools	48.0	48.0	0.0
Child Nutrition	2,035.0	2,191.4	12.9
Child Development	523.3	510.6	220.3
State Fiscal Stabilization Fund	0.0	0.0	3,132.0
<b>Total</b>	<b>6,844.0</b>	<b>7,025.8</b>	<b>6,256.4</b>

The federal funds, as summarized in the chart above, include appropriations from the U.S. Department of Education (USDE). In addition, Child Nutrition funds are appropriated through the U.S. Department of Agriculture and Child Development funds are appropriated from the U.S. Department of Health and Human Services.

**State Fiscal Stabilization Funds (SFSF) – Phase II Update.** The federal State Fiscal Stabilization Fund (SFSF) program provides one-time formula grants to states under the American Recovery and Reinvestment Act of 2009 (ARRA) for the purpose of stabilizing state and local government budgets in order to minimize and avoid reductions in education and other essential public services.

States receiving funds under the SFSF program are required to provide assurances in four key areas of education reform:

- achieving equity in teacher distribution,
- improving collection and use of data,
- standards and assessments, and
- supporting struggling schools.

For each area of reform, the ARRA prescribes specific actions that the State must assure that it will implement.

The SFSF grant is issued to states in two phases. California received **\$2.9 billion** for K-12 education in Phase I. California's Phase II application for an additional **\$213 million** is pending with the federal government.

The status of California's Phase II application is not clear. As part of the state's application, each governor must include an assurance that the state will maintain the same level of support --maintenance of effort (MOE) -- for elementary, secondary, and postsecondary education in FY 2009 through FY 2011 as it did in FY 2006. However, the statute authorizes the USDE to waive this maintenance-of-effort requirement under certain conditions. The Governor has requested such a waiver.

**Race to the Top (RTTT) Grant Update.** The federal government authorized a series of separate competitive grants as part of the ARRA legislation in February 2009. Among those grants was the Race to the Top (RTTT) grant. This grant was to be issued in two competitive phases and according to the USDE, California was eligible to receive between **\$350 million** and **\$700 million** in RTTT one-time funding in Phase I.

RTTT is a competitive grant program designed to encourage and reward states that are creating the conditions for education innovation and reform; achieving significant improvement in student outcomes, including making substantial gains in student achievement, closing achievement gaps, improving high school graduation rates, and ensuring student preparation for success in college and careers; and implementing ambitious plans in four core education reform areas:

- Adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy;
- Building data systems that measure student growth and success, and inform teachers and principals about how they can improve instruction;
- Recruiting, developing, rewarding, and retaining effective teachers and principals, especially where they are needed most; and
- Turning around our lowest-achieving schools.

In January the Governor signed two bills SBX5 4 (Romero) and SBX5 1 (Steinberg) that intended to make California's RTTT application more competitive. The bills also placed several new requirements on school agencies, regardless of whether they choose to apply for the RTTT funding locally or not. Some of those new provisions include:

- A definition of "persistently low performing" for purposes of implementing one of four federally defined intervention models;
- Authority for pupils enrolled in low-achieving schools to transfer to another school in the district or another school district;
- Establishment of a Parent Empowerment program that authorizes parents or guardians of pupils to sign petitions in up to 75 schools statewide, that would result in a school being required to implement one or more of four interventions for turning around persistently lowest-achieving schools;
- Establishment of an alternative route for teacher credentialing known as the Science, Technology, Engineering, Math (STEM), and Career Technical Education Educator Credentialing Program; and
- Requirement of state participation in a national consortium or interstate collaborative to develop common core academic standards.

California's RTTT Phase I application was signed and sent to the federal government on January 15, 2010. On March 4, 2010 California was notified that it was not among the finalists to receive Phase I funding. On March 29, 2010, Delaware and Tennessee were the only two states awarded Phase I grants. California ranked 27th out of 41 states that applied.

According to published reports from the USDE, Delaware and Tennessee got high marks for the commitment to reform from key stakeholders, including elected officials, teacher's union leaders, and business leaders. In both states, all school districts committed to implementing Race to the Top reforms. Delaware and Tennessee also have aggressive plans to improve teacher and principal evaluation, use data to inform instructional decisions, and turn around their lowest-performing schools.

**STAFF COMMENTS:** Staff has identified a few federal programs that warrant further discussion by the Subcommittee. These programs include:

- Title I -- Set-Aside Funds & School Improvement Grants
- Enhancing Education Through Technology (EETT)
- Special Education

The Title I Set-Aside Fund and School Improvement Fund Grant programs, as well as, the EETT program are covered later in the Subcommittee agenda today. Federal funding for Special Education will be discussed at a future hearing.

**SUGGESTED QUESTIONS:**

1. Does the Administration plan to apply for the second round of Race to the Top funds? Has the federal government indicated whether they will move the application date back from June 2010?
2. What is the status of California's application for SFSF Phase II funds?
3. Has the federal government raised any concerns with the Governor's approach to meeting the MOE requirements for SFSF funding?
4. Some education advocates have taken issue with the Governor's efforts to meet the federal MOE for requirements for the ARRA Fiscal Stabilization Funds? What is the Administration's response to these concerns?
5. For federal ARRA funds that have been authorized in the state budget, are funds being allocated to local education agencies in a timely basis?

## **ITEM 2: Federal Funds – Title I Set-Aside & School Improvement Grant Funds (6110-134-0890)**

**DESCRIPTION:** Per the LAO, the 2010-11 budget currently provides **\$551.7 million** in base federal funding program improvement (school level and district level). Of this amount, about **\$485.1 million** remains undesignated.

The Administration does not currently have a proposal for utilizing these undesignated federal funds for program improvement. The California Department of Education (CDE) has developed a plan, which has been approved by the State Board of Education (SBE), and is awaiting approval by the federal government.

The LAO will provide background on the amounts available and uses of unobligated federal funds. In addition, the LAO will present its own program improvement plan for utilizing federal funds in 2010-11.

### **BACKGROUND:**

Per the federal No Child Left Behind (NCLB) Act, schools, and local education agencies (LEAS) must meet four sets of requirements to make Adequate Yearly Progress (AYP), the federal calculation utilized to determine if schools and LEAS are meeting performance targets for all students. The requirements include: (1) student participation rate on statewide tests, (2) percentage of students scoring at the proficient level or above in English-language arts and mathematics on statewide tests, (3) API score, and (4) graduation rate (if high school students are enrolled). Numerically significant groups of students at a school or school district also must meet the four requirements.

Numerically significant subgroups are defined by California as 100 students or more or 50 students if they comprise at least 15 percent of the students enrolled at the school. California has one of the largest subgroup size definitions in the nation.

LEAs that receive federal Title I funds and do not meet AYP targets for two consecutive years, are identified for Program Improvement (PI). Title I schools also enter PI after failing to meet AYP for two consecutive years.

**Federal Funding for School Improvement.** The federal government provides two streams of funding to states to be used directly to improve student achievement in Title I schools identified for improvement, corrective action, or restructuring so as to enable those schools to make adequate yearly progress (AYP) and exit PI status.

- **Federal Title I Set-Aside.** NCLB requires states to set aside four percent of their total Title I grant to help schools and districts improve their performance.

- **School Improvement Grant (SIG).** The state also receives federal funding under the School Improvement Grant (SIG). The federal government established the SIG program in 2008 to provide technical assistance for Title I schools in PI under NCLB.

In 2009, the federal American Recovery and Reinvestment Act (ARRA) also provided one-time funding to California under the Title I Set-Aside and the SIG program on top of the base funding provided to California.

As the chart below indicates, after funding existing program obligations, the state has a total of **\$485.1 million** in unobligated SIG and Title I set aside funds combined.

<b>Federal School Improvement Funds<sup>a</sup></b>				
<i>(In Millions)</i>				
	<b>Authority</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
<b>Funds</b>				
Carryover	6110-134-0890 <sup>d</sup>	\$51.0	\$78.2	\$415.9
Reverted Funds <sup>b</sup>		\$12.5	\$0.0	\$0.0
Set Aside	6110-134-0890 <sup>d</sup>	\$65.0	\$65.0	\$66.6
SIG	6110-134-0890 <sup>c</sup>	\$62.0	\$64.1	\$69.2
ARRA - Set Aside	6110-134-0890 <sup>d</sup>	\$0.0	\$45.0	\$0.0
ARRA – SIG	6110-134-0890 <sup>c</sup>	\$0.0	\$351.8	\$0.0
<b>Subtotal</b>		<b>\$190.5</b>	<b>\$604.1</b>	<b>\$551.7</b>
<b>Program Costs</b>				
AB 519 <sup>e</sup>	6110-134-0890 <sup>c</sup>	-\$102.0	-\$25.0	-\$61.0
S4	6110-134-0890	-\$10.0	-\$10.0	-\$10.0
S4 Evaluation		-\$0.3	\$0.0	\$0.0
QEIA	6110-134-0890 <sup>d</sup>	\$0.0	-\$153.2	\$0.0
<b>Subtotal</b>		<b>-\$112.3</b>	<b>-\$188.2</b>	<b>-\$71.0</b>
<b>TOTAL REMAINING</b>		<b>\$78.2</b>	<b>\$415.9</b>	<b>\$485.1</b>

- Continues CDE's practice of funding AB 519 entirely from set aside.
- Funding US ED allowed the state to keep even though it technically reverted in 2008-09.
- Can be used for AB 519, the remainder can be expended pursuant to legislation.
- Authority provided per ABX3 56.
- Assumes funds prorated beginning in 2010-11.

**New Regulations for the Federal School Improvement Grant Program.** In January 2010 the U.S. Department of Education issued new regulations for the SIG program that will influence how states allocate these funds. For example, states are now required to use SIG resources to turn around the **bottom 5 percent** of schools in PI - deemed persistently low performing schools. Per federal rules, schools can receive a minimum of **\$50,000** and maximum of **\$2 million** per year for three years.

As a condition of receiving funds, schools must implement one of **four intensive intervention models**:

1. Close the school.
2. Convert the school into a charter school.
3. Release at least 50 percent of instructional staff and provide certain flexibility related to staffing and instructional time.
4. Give schools considerable flexibility, including control over personnel decisions, budgeting, and length of the school day/year.

The new federal rules also establish **priority for intervention among schools**:

- **First priority** is for schools receiving Title I funds that either are in the bottom five percent of Program Improvement schools, as measured by standardized test scores in math and Language Arts, or high schools with a graduation rate below 60 percent for several consecutive years.
- **Second priority** is for high schools that would have been in the bottom five percent but do not receive Title I funds.
- **Third priority** is for additional schools receiving Title I funds that the state identifies at its discretion.

**California Department of Education CDE) SIG application.** In March 2010, the State Board of Education (SBE) approved CDE's federal SIG application. The application is now pending federal approval. Along with approval of the SIG application, the SBE approved methodology developed by CDE to identify the state's 5 percent persistently low performing schools.

This methodology was applied to 2,708 eligible Title I schools. As a result, a total of **188 schools** were identified as persistently low performing. Of this total:

- 139 were identified as Tier I (First Priority) schools
- 49 were identified for Tier II (Second Priority) schools

While states have the option of identifying a Tier III (Third Priority) schools, the CDE application did not include these schools because the CDE plan anticipates the funds available through the SIG award will only fund the lowest-achieving Tier I and a limited number of Tier II schools.

As a condition of receiving SIG funding, all 188 schools identified by CDE as persistently low performing must choose one of the four intervention models to implement by the 2011–12 school year, unless they have already implemented one of the models within the previous two years that conforms to all the requirements of the interventions required by the SIG program, and is showing significant progress.

The CDE application does not include a specific expenditure plan for SIG funding. Instead, CDE will conduct an individual needs analysis of every application, providing between \$50,000 and \$2.0 million per schools, as allowed under the new federal rules. Applications that address all the requirements described in the application will be recommended to the CDE for funding.

**CDE SIG Application Waiver Requests.** The SDE also submitted five SIG waiver requests with their application to the federal government:

- **Time Extension Waiver.** Request to extend the period of availability of school improvement funds to the state and LEAs to September 30, 2013.
- **Timeline Waiver.** Request to permit LEAs to allow their Tier I schools that will implement a turnaround or restart model to “start over” in the school improvement timeline.
- **Poverty Threshold Waiver.** Request to waive the 40 percent poverty eligibility threshold to permit LEAs to implement a school wide program in a Tier I school that does not meet the poverty threshold.
- **N Size Waiver.** Request to permit the inclusion of a “minimum n size” in the identification criteria for persistently lowest-achieving schools. The “minimum n-size” requested is 100 valid scores.
- **Tier II Definition Waiver.** Request to waive the definition of “persistently lowest-achieving schools” in Tier II and incorporate an alternate definition in identifying Tier II schools.

#### **LAO RECOMMENDATIONS – SCHOOL IMPROVEMENT GRANT (SIG) PROGRAM:**

The LAO recommends creating a SIG budget plan (Title I set-aside and SIG funds combined) that ensures all the funds are used during the allotted period while maximizing potential programmatic benefits and minimizing overlap among school improvement efforts.

- **Develop a method for determining which schools would receive funding.** According to the LAO, while new SIG guidance requires funding to first be spent on Title I schools in the bottom five percent of PI, new regulations provide significant freedom to states in deciding which additional PI schools receive funding. The LAO recommends expanding schools eligible to receive funding from the “persistently lowest achieving” to roughly the bottom one-third of schools in PI, which is equivalent to roughly 10 percent of all schools statewide. The LAO would, however,

recommend excluding schools that were making progress and did not appear to be in need of intervention.

**Figure 18**  
**Schools Identified Under LAO-Recommended School Improvement Program**

Identification Process	Schools
<b>Persistently Lowest-Achieving Schools</b>	
1. Identify the bottom 5 percent of schools in federal Program Improvement (PI) based on average proficiency rates on state math and Language Arts tests combined. Exclude schools that have made more than 50 points of Academic Performance Index (API) growth over the last five years. <sup>a</sup>	177
2. Add secondary schools that have had a graduation rate of 60 percent or lower for the past three years. <sup>b</sup>	27
3. Add all high schools eligible for but not receiving Title I funds that otherwise would have been identified in step one.	10
<b>Additional Low-Achieving Schools</b>	
Identify the bottom third of schools in PI using largely the same process as described under (1) above. Exclude schools that have more than 50 percent of their students scoring proficient and have made more than 100 points of API growth over the last five years. The Quality Education Investment Act schools meeting these criteria would have priority for funding. <sup>a</sup>	776
<b>Total</b>	<b>990</b>
<b>Percent of Statewide Total</b>	<b>10%</b>

<sup>a</sup> Excludes all non-PI schools as well as all alternative schools except continuation schools. Also excludes schools that do not meet minimum group size for federal accountability purposes (usually 100 students).

<sup>b</sup> In addition to the schools excluded in step one, also excludes continuation schools.

**Link**

- Link Funding With Need.** The LAO recommends allocating SIG funds to schools in a way that matches funding to the needs of the school. Under the LAO proposed allocation method, most funding would be based on school-wide enrollment, with the "persistently lowest-achieving" schools receiving a higher per-pupil rate than the other identified schools. Linking most funding with enrollment would ensure larger schools receive more for student and teacher support. The LAO method, however, also would have minimum and maximum school allocations in recognition that some fixed costs as well as some economies of scale exist. Specifically, the LAO recommends giving the "persistently lowest achieving" schools \$900 per pupil, with total allocations ranging from a minimum of \$250,000 to a maximum of \$2 million per school. Other identified schools that are not among the persistently lowest-achieving (those in the bottom one-third of PI schools not already identified) would receive \$300 per pupil, with a minimum of \$50,000 and a maximum of \$500,000 per school. These schools generally would receive less in school improvement funding as they would not have to implement an intensive intervention strategy. Instead, these schools could use more targeted improvement strategies consistent with federal PI and Race to the Top guidance.

**Figure 19****LAO-Recommended Budget for Federal School Improvement Program***(In Millions)*

	2010-11	2011-12	2012-13
<b>Ongoing Funding</b>			
School Improvement Grants (SIG)	\$68	\$68	\$68
Title I set aside	65	65	65
<b>One-Time Funding</b>			
American Recovery and Reinvestment Act (ARRA) SIG	\$352	—	—
ARRA Title I set aside	45	—	—
Carryover	119	\$355	\$193
<b>Totals</b>	<b>\$650</b>	<b>\$488</b>	<b>\$326</b>
<b>Expenditures</b>			
Intervention: persistently lowest-achieving schools <sup>a</sup>	\$126	\$126	\$126
Intervention: additional low-achieving schools <sup>b</sup>	159	159	159
Regional technical assistance/intervention	10	10	10
<b>Totals</b>	<b>\$295</b>	<b>\$295</b>	<b>\$295</b>
<b>Balances</b>	<b>\$355</b>	<b>\$193</b>	<b>\$31</b>

<sup>a</sup> Generally provides \$900 per pupil, with a minimum grant of \$250,000 and a maximum grant of \$2,000,000.

<sup>b</sup> Generally provides \$300 per pupil, with a minimum grant of \$50,000 and a maximum grant of \$500,000.

- **Build a three-year SIG budget.** The LAO recommends building a three-year SIG budget using their expanded list of schools and accompanying allocation model. The LAO budget maximizes federal support for the state's low performing schools while adhering to the federal government's three-year budget cycle. (The LAO budget also continues to provide \$10 million annually for regional technical assistance and intervention to ensure some funding remains budgeted for regional support.) By the end of the three year period, new federal rules are expected. At that time, the state could reassess its efforts in this area and develop a more refined program based on the new federal rules as well as the lessons learned over the prior three years.

## LAO RECOMMENDATIONS – QUALITY EDUCATION AND INVESTMENT ACT PROGRAM

The LAO also recommends consolidating the Quality Education and Investment Act (QEIA) program to account for SIG overlap. In addition to building a multiyear SIG plan, the LAO identifies areas of overlap between the SIG and the state's QEIA program, and, to the degree possible, consolidates the state and federal school improvement programs.

**Background on QEIA Program.** The QEIA program, developed as part of a settlement the administration reached with the California Teachers Association regarding the Proposition 98 suspension that occurred in 2004-05, provides \$2.8 billion over seven years to support schools ranked in the bottom two deciles on state assessments. The state annually provides \$402 million (non-Proposition 98) for the program until 2013-14, with the bulk of funding supporting efforts to reduce class sizes in grades 4 through 12. In

2009-10 the state supported QEIA with Proposition 98 funding on a one-time basis. The state also took action through ABx3 56 (Evans) to allocate up to \$165 million in federal Title I Set-Aside funds, which, if available, would offset Proposition 98 funding for QEIA in 2009-10.

The LAO contends that the PI and QEIA programs overlap considerably. Under the LAO model, more than 65 percent of QEIA schools would be eligible for federal SIG funding. Under the LAO proposal, if a QEIA school is identified for the federal program, then it would receive federal dollars instead of state dollars and only be subject to federal requirements. A QEIA school not funded under the LAO SIG plan, or currently receiving more in QEIA funds than allowed under the maximum SIG allotment, would continue to receive state funds, but could use those resources to conduct a school improvement activity approved under the federal PI program. Districts also would be free to redistribute state dollars among schools in the district in accordance with the local SIG plan, allowing districts to provide more funding to QEIA schools if they so chose.

**LAO QEIA Plan.** The LAO recommends sunset of the QEIA program at the end of 2012-13, which is when the federal SIG funds expire. Beginning in 2013-14, the state would have a clean slate and could start a new round of school improvement efforts, if it desired.

The LAO plan leaves the state with a remaining settlement obligation of \$1 billion in 2013-14. The LAO recommends the Legislature use this funding to reduce the K-14 mandate backlog, which now totals **\$3.6 billion**.

## **LAO RECOMMENDATIONS – AB 519 PROGRAM**

The LAO also recommends eliminating the AB 519 program, in its current form and integrating more within the new federal program improvement framework.

**Background on AB 519 program.** AB 519 (Chapter 757, Statutes of 2008), established a process for allocating federal funds to districts in their third year of PI in order to support certain corrective actions assigned to the district by the SBE. According to the SDE, there are 298 districts in PI under NCLB in 2009-10. Of this number, 173 have received sanctions from the SBE.

In addition to providing a sanction, AB 519 also authorizes the LEA to contract with a district assistance and intervention team (DAIT) or other technical assistance provider to aid in implementing the sanction. LEAs may receive between \$150,000 and \$50,000 per PI school within their district to contract with a DAIT or other technical assistance provider.

Prior to the release of the new SIG guidance, the state set up the AB 519 program in a manner that would allow SIG dollars to flow to districts for this purpose. Despite legislative intent and budget act authority for the use of SIG dollars, SDE has used Title I

set-aside to fund the program rather than SIG funds. Since 2008, the state has funded the program with a total of \$125 million in federal Title I set-aside funds.

Under the new SIG guidance, ongoing SIG dollars must be directed to schools in PI. If the Legislature plans to continue to fund the AB 519 program, it would have to dedicate Title I set-aside funds for this purpose. According to SDE, approximately 63 LEAs are expected to enter corrective action, which is estimated to cost between \$45.6 million and \$67.1 million.

**LAO Plan for AB 519 Program.** Given the new federal PI regulations, the LAO recommends the Legislature discontinue the AB 519 program. According to the LAO discontinuing the AB 519 program would reduce unnecessary overlap among programs—helping to streamline school improvement efforts.

**DOF April Letter Proposals: Department of Finance April Letter Adjustments.** The Department of Finance has included three issues in their April letter related to the SIG and Title I set-aside funds.

1	<p><b>Item 6110-134-0890, Local Assistance, Federal Title I Set Aside for the Local Educational Agency Corrective Action Program (Issue 005)</b>—It is requested that Schedule (2) of this item be increased by \$1,720,000 federal Title I Set Aside funds for the Local Educational Agency Corrective Action Program (Program) to align the appropriation with the available federal grant estimated for 2010-11. The Program provides funding for technical assistance to LEAs entering federal Corrective Action.</p>
2	<p><b>Item 6110-134-0890, Local Assistance, Federal School Improvement Grant Program (Issue 006)</b>—It is requested that Schedule (3) of this item be increased by \$7,040,000 federal School Improvement Funds to align the appropriation with the available federal grant estimated for 2010-11. The School Improvement Grant Program provides grants to the lowest-achieving Title I schools identified for federal Program Improvement, Corrective Action, or Restructuring to implement evidence-based strategies for improving student achievement.</p>
3	<p><b>Item 6110-134-0890, Local Assistance, Prorate Local Educational Agency Corrective Action Program Funds (Issue 007)</b>—It is requested that provisional language be amended to prorate 2010-11 federal Title I Set Aside funds for the Local Educational Agency Corrective Action Program (Program) and to prohibit school sites from earning Title I Set Aside funds if school sites also earn federal School Improvement Grant (SIG) funds. It is requested that Provision 6 of this item be amended to conform to this action as follows:</p> <p>“6. The funds appropriated in Schedule (2) are for purposes of Title I, Part A, Section 1116 and 1117 of the No Child Left Behind Act (P.L. 107-110) and shall <del>first</del> be used to fund the Local Educational Agency Corrective Action</p>

	<p>program (Program) established by Article 3.1 (commencing with Section 52055.57(c)) of Chapter 6.1 of Part 28 of Division 4 of Title 2 of the Education Code. <u>In the event that 2010-11 Title I Set Aside funds are insufficient to fully fund all local educational agencies that become eligible, apply for, and are selected by the State Board of Education (Board) to receive those federal funds, and notwithstanding any other provision of law, the State Department of Education and the Board shall in the following order:</u></p> <ol style="list-style-type: none"> <li>a) <u>Identify all schools that qualify to receive, have applied for, and have been selected by the Board to receive a 2010-11 federal School Improvement Grant and also are within a local educational agency that has been selected by the Board to receive 2010-11 federal Title I Set Aside funds.</u></li> <li>b) <u>Ensure that schools identified in (a) of this provision are excluded for purposes of calculating Program funding.</u></li> <li>c) <u>Determine the federal Title I Set Aside grant amount to be awarded to each qualifying local educational agency pursuant to levels specified in Section 52055.57(d)(3) of the Education Code and exclude schools identified in (a) of this provision.</u></li> <li>d) <u>In the event that 2010-11 federal Title I Set Aside funds are insufficient to fully fund all eligible Corrective Action program local educational agencies, the Board shall proportionately reduce each Corrective Action program grant so that all approved local educational agencies may be funded with the maximum amount of Title I Set Aside funds possible.”</u></li> </ol>
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**STAFF COMMENTS/RECOMMENDATION:** Staff recommends that the Subcommittee hold this issue open until after May Revise.

In reviewing the CDE and LAO proposals, staff suggests the Subcommittee consider the following fiscal and policy issues.

- **CDE and State Board Discretion in Allocation of SIG Funds.** Under CDE’s plan, the department and the State Board of Education would have full discretion for allocation of funds, within broad federal parameters that allow between \$50,0000 and \$2.0 million per school selected for funding. As raised by the LAO, this authority would extend to issues such as:
  - How many of the persistently lowest achieving schools will receive funding?
  - How will funds be allocated to persistently low performing schools? (Tier I, Tier II and Tier III schools?)
  - What other low-achieving schools will receive funding? How much could they receive?
  - Will additional schools be eligible for funding next year, if additional schools are defined as eligible?

- **AB 519 Program.** The AB 519 Program currently provides funding to school districts in PI. Funding can be used for district wide and individual school level improvements. The program has been funded with Title I Set-Aside funds, because CDE has resisted using SIG funding for the program in the past. In addition, the LAO recommends integrating the AB 519 program into the new SIG program. This would address overlap of schools and districts – felt to be minimum – and more importantly harmonize the program rules.
  - Should the AB 519 Program continue as currently authorized, in addition to the new SIG program?
  - How should the AB 519 Program be funded?
  
- **QEIA Program.** The LAO also recommends consolidating the states Quality Education and Investment Act (QEIA) program to account for SIG overlap. In addition to building a multiyear SIG plan, the LAO identifies areas of overlap between the SIG and the state's QEIA program, and, to the degree possible, consolidates the state and federal school improvement programs.
  - How will the new SIG intervention requirements affect QEIA schools?
  - How can the QEIA program be effectively integrated with the new SIG program moving forward?

**SUGGESTED QUESTIONS:**

1. What is the Administration’s plan for allocating federal program improvement funds in 2010-11?
2. CDE has developed a program improvement plan, which has been approved by the State Board of Education, and is currently awaiting approval by the US Department of Education. In CDE’s view, what is the Legislature’s role in this process?
3. Does CDE have a sense for how many of the persistently low performing schools will apply for funding under the new SIG program?

### **ITEM 3: Federal Funds – Enhancing Education Through Technology Grants (6110-180-0890)**

**DESCRIPTION:** The Governor submitted a Budget Letter in October 2009 to authorize the expenditure of **\$72 million** in additional, one-time federal funds for the Enhancing Education Through Technology (EETT) grant program. These new funds were authorized under the American Recovery and Reinvestment Act (ARRA). The Joint Legislative Budget Committee (JLBC) raised several concerns with the Administration’s EETT expenditure plan, and as a result the JLBC did not concur with the Administration’s plan. In so doing, the JLBC requested that the Administration and California Department of Education (CDE) develop a new plan. CDE recently released a revised plan; however, the Administration does not yet have a position on the revisions. In response to the JLBC concerns, the LAO has also developed an alternative expenditure plan for EETT.

#### **BACKGROUND:**

**EETT Program Funds.** The federal government currently provides several sources of funding for education data activities, including the Enhancing Education Through Technology (EETT) grant authorized under Title II –Part D of the No Child Left Behind Act of 2001.

On July 24, 2009, California was notified of the availability of **\$72 million** in new ARRA EETT grant funds. These one-time funds must be expended by September 30, 2011. These ARRA funds are being provided on top of ongoing ARRA funds. The 2009-10 budget includes **\$29 million** in ongoing EETT funding. The Governor’s January budget and April Budget Letter proposals provide **\$9.4 million** in ongoing EETT funds in 2010-11. The drop in ongoing funding signals that the federal program is being phased out.

**ARRA EETT Grant Allocations:** Consistent with previous federal requirements, at least 95 percent of the **\$72 million** in one-time ARRA EETT funds must be allocated as grants to local education agencies (LEAs) – school districts, county offices of education, and charter schools. Up to five percent of ARRA EETT funds can be used for state administration and state level activities.

The EETT program authorizes both formula grants and competitive grants for LEAs:

- **Competitive Grants:** At a minimum, 50 percent of the amount available for local grants must be used for competitive grants – although up to 100 percent may be used for this purpose. The U.S. Department of Education (USDE) strongly encourages states to award all of the funds competitively. USDE believes that larger competitive grants potentially will have a greater impact than smaller formula grants awarded across all of a state’s districts.

- **Formula Grants:** Up to 50 percent of local grants may be provided per formula grants allocated on the basis of Title I student counts for LEAs.

At least 25 percent of the funds for both competitive and formula grants must be used to provide professional development.

### **EETT Program Requirements.**

**Federal Requirements.** Federal rules and regulations for EETT provides states with broad discretion on the use of one-time ARRA funds for education technology. According to the USDE, allowable local activities for EETT include:

- support of continuing, sustained professional development programs and public-private partnership;
- use of new or existing technologies to improve academic achievement;
- acquisition of curricula that integrate technology and are designed to meet challenging state academic standards;
- use of technology to increase parent involvement in schools; and the use of technology to collect, manage, and analyze data to enhance teaching and school improvement.

In making decisions about the uses of EETT funds, USDE encourages states and LEAs to give particular consideration to strategies that will help build sustainable capacity for technology integration, improve student achievement, and advance education reform in the following four areas:

1. Increasing teacher effectiveness and addressing inequities in the distribution of effective teachers through high-quality professional development and teacher incentive programs designed to attract and keep effective teachers in hard-to-staff schools in rural and urban areas;
2. Using advanced technology systems to collect, manage, and analyze data in order to track student progress from pre-K through college and career and foster continuous improvement;
3. Implementing technology-enhanced strategies that support rigorous college- and career-ready, internationally benchmarked standards, supplemented with high-quality assessments that are valid and reliable for all students, including limited English proficient students and students with disabilities; and
4. Targeting intensive support to high-poverty, high-need LEAs to improve access to and the effective use of advanced technologies to turn around the lowest-performing schools.

Furthermore, USDE expects states and LEAs to use EETT funds to implement strategies that will help build sustainable capacity for integrating technology into curricula and instruction in order to improve student achievement.

USDE believes that because ARRA EETT funds “constitute a large increase in Title II-D funding that will likely not be available at the same level beyond September 30, 2011,” that states and LEAs should “focus these funds on short-term investments with the potential for long-term benefits rather than make ongoing commitments that they might not be able to sustain once ARRA funds are expended.”

**State Requirements.** While not required by federal law, state Education Code implementing the federal EETT program in California restricts competitive grant funding to LEAs serving students in grades 4-8. These statutory provisions thereby exclude high school districts from competition. Formula grant dollars can be used to support any and all grade levels consistent with their local technology plan.

**Governor’s Initial EETT Expenditure Plan.**

CDE officials did not receive notification of the availability of **\$72 million** in new ARRA EETT funds until July 24, 2009, too late to be included in the 2009-10 budget act passed in late July 2009. As a result, on October 16, 2009, the Department of Finance (DOF) requested a **\$70.9 million** increase in spending authority for EETT pursuant to Section 28.00 of the 2009-10 Budget Act. The spending plan contained in the Section 28.00 Budget Letter, as developed by CDE, is summarized below.

<i>Dollars in Millions</i>	<b>Section 28.00 Proposal</b>	<b>CDE Revised Proposal</b>
<b>Local Assistance (95 percent)</b>		
--Formula Grants (Title I Districts)	34.3	34.0
--Competitive Grants	34.3 (LEAs serving Grades 4-8; Existing Purposes)	34.0 (LEAs serving K- 12; Revised Purposes)
<b>Subtotal Local Assistance</b>	<b>68.6</b>	<b>68.0</b>
<b>State Operations (5 percent)</b>		
Technical Assistance		
--Brokers of Expertise	1.3	1.3
--California Technology Assistance Project	1.0	1.0
Unspecified	0.8	
State Administration		1.3
<b>Subtotal State Operations</b>	<b>3.1</b>	<b>3.6</b>
<b>TOTAL</b>	<b>70.9</b>	<b>71.6</b>

The October Budget Letter proposed allocating new one-time local grants on the same basis as the existing EETT program, which provides 50 percent as formula grants based upon Title 1 eligible student counts and 50 percent as competitive grants to districts serving students in grades 4-8. Competitive grants would be awarded on a geographic basis conforming to the 11 California Technology Assistance Project (CTAP) regions.

On the state operations side, the Budget Letter proposed **\$1.0 million** for CTAPs and **\$1.3 million** to fund a Brokers of Expertise project to allow LEAs to share research and standards based instructional programs and strategies. In addition, the Budget Letter proposed **\$1.3 million** for CDE state administration of EETT.

### **Legislature Did Not Concur with Initial EETT Expenditure Plan.**

The Joint Legislative Budget Committee (JLBC) did not approve the EETT spending plan proposed in the October Budget Letter. The JLBC outlined its concern in a letter dated November 12, 2009, to the Director of the Department of Finance. Overall, the JLBC was concerned that with so many initiatives underway in our state that are linked to data and technology, it was premature to decide how to best invest one-time federal funds. The JLBC also felt that there were other options for allocating and using EETT funds under the federal program that would allow the state to maximize the effect of the federal investment in educational technology.

The JLBC letter also questioned the use of funding for the Brokers of Expertise project, since the Legislature rejected funding for the project in 2007 and since CDE was currently operating the project with private funds. Finally, the JLBC was concerned about lack of justification for a large amount of one-time funding for CTAP.

In indicating its non-concurrence last November, the JLBC recommended that the Administration and CDE work with the Legislature to craft an alternative expenditure plan that furthers state and federal technology objectives in a more strategic, comprehensive manner.

The California Department of Education (CDE) recently released a revised ARRA EETT plan – summarized in the table on the previous page. The Department of Finance is currently reviewing the proposal but has not yet taken a position.

**CDE Issued Funding Advisories Without Budget Authority.** Although CDE did not have budget authority to allocate the ARRA EETT funds, CDE advised the field about its distribution nearly two months before budget authority was *requested* from the Legislature. In addition to the advisory, CDE sent out Requests for Application (RFAs) for the funds several months prior to Legislative notification of the need for increased expenditure authority. A chronology of these and other events is provided below:

- **July 24, 2009** – CDE made aware of the availability of federal ARRA EETT funds.
- **August 6, 2009** – The Superintendent of Public Instruction issued an advisory to the field that stated, “CDE will distribute the funds by the end of the year to school districts in two ways: half determined by formula and half through grants. The first half would go to local educational agencies that already have approved Ed Tech Plans and will be based on their proportion of the Title I, Part A funds distributed in California. The other half would go to local educational agencies and direct-funded charter schools after they fill out applications being offered in August and are

selected through a competitive process.” The advisory also advised districts of the allowable uses of the funds consistent with the existing EETT program.

- **August 31, 2009** – CDE submitted their notice of unanticipated funds to DOF.
- **September 11, 2009** – CDE sent Requests for Application (RFAs) to LEAs for EETT funds.
- **October 15, 2009** – RFAs from LEAs were due back to CDE. Reportedly, CDE received 188 EETT ARRA competitive grant applications, which were read the last week of October. There were approximately 440 eligible districts and charter schools in California, applying for competitive grants.
- **October 16, 2009** – JLBC received Section 28.00 Budget Letter from DOF requesting adjustment of expenditure authority for the EETT program, as proposed by CDE.
- **November 12, 2009** - JLBC sends letter of non-concurrence with Section 28.00 Budget Letter to authorize expenditure plan for EETT.
- **April 2009** – CDE released revised ARRA EETT expenditure plan.

**LAO COMMENTS:** The LAO had several major concerns with the Section 28.00 Budget Letter, as summarized below:

- **Important *Policy* Options to Consider.** The ARRA EETT funds may be used for a broad array of education technology activities, including hiring additional staff, providing professional development, purchasing software and hardware, and offering various student services. The only specific requirement at the local level is that at least 25 percent of the funds be used for professional development activities, but, even within this category, school districts have wide discretion. Thus, DOF’s spending proposals are by no means the only available options. The Legislature could consider many alternative uses of the funds to improve academic achievement, such as enhancing the California Longitudinal Pupil Achievement Data System (CALPADS), facilitating initial preschool data collection and analysis, or encouraging the collection and use of new college readiness data.
- **Important *Allocation* Options to Consider.** Whereas the federal government provides high-level guidance on how states may distribute EETT funds, states retain considerable discretion. The EETT program specifies only that: (1) at least 95 percent of the funds be given out in local assistance grants, with at least half of those grants awarded competitively (though the U.S. Department of Education “strongly encourages States to award all of the [ARRA] funds competitively”); and (2) up to five percent may be used for state administration, technical assistance, and state-level activities (with no more than 60 percent of this allocation used for administration).

Within these parameters, the Legislature has many allocation options it could consider.

- **Specific Concerns With DOF’s Technical Assistance Proposals.** DOF has proposed two technical assistance expenditures—one relating to the “Brokers of Expertise” project and one relating to the California Technology Assistance Project (CTAP). The LAO has concerns with both proposals. Most notably, the state has not yet statutorily authorized the Brokers of Expertise project, in fact the Legislature rejected a similar proposal made by the administration in 2007. Furthermore, the Brokers of Expertise project (currently operating with private funds) received strong criticism in a recent independent evaluation. In addition, the CTAP proposal lacks specificity about what additional technical assistance would be provided by CTAP in return for the large one-time augmentation.
- **Funds Should Be Coordinated With Other Education Technology Efforts.** The state is in the midst of making several important decisions involving education technology. As part of the Fifth Extraordinary Special Session, legislation was enacted to make various improvements to CALPADS and develop a preschool through higher education data system (or “P-20”) data system. This legislation was passed as a part of the Governor’s proposal for federal Race to the Top (RTTT) funds. While California was not approved for RTTT Phase I funding, the new legislation commits our state to a number of data activities that are required for eligibility for federal Phase II State Fiscal Stabilization Funding, as well. In addition, the California Department of Education has submitted a plan to access a federal Institute of Education Sciences grant to further a P-20 system. The ARRA EETT one-time augmentation could be used in concert with these other federal resources to further a coordinated set of state-local education technology objectives, thereby maximizing the combined effect of available education technology monies.

**LAO RECOMMENDATION.** The LAO recommends developing a coordinated plan targeting preschool and high school data needs. Per the LAO, one of the greatest challenges associated with developing a P-20 data system will be collecting and integrating early childhood and postsecondary/workforce readiness data. The EETT monies could help districts meet these challenges. To this end, the LAO recommends that the Legislature designate that the \$71.6 million in one-time ARRA EETT funding and the \$10.6 million of the 2010-11 on-going EETT apportionment be used for two purposes.

- First, the LAO recommends directing a portion of the EETT funds to school districts that provide early childhood education to help integrate pre-kindergarten data into the P-20 system. By helping districts collect, report, and analyze early education data, the funds would facilitate ongoing instructional improvement for California’s youngest students.

- Second, the LAO recommends awarding the remaining portion of EETT funds to districts serving high school students, with the funds used to help meet new postsecondary and workforce readiness data requirements. Under other related federal grant applications, California is proposing to collect new high school-level data, including Advanced Placement and Scholastic Aptitude Test scores, as well as participation in courses relating to science, technology, engineering, and math.

Under the LAO approach, districts serving preschool or high school students would apply to the CDE and be awarded funding competitively based on the scope and quality of the proposal and the proportion of Title 1 students within the district. Grants to each LEA would be at minimum, \$25 per pupil and at maximum, \$250 per pupil. Except for the 5 percent of funds reserved for administration and state operations, the funds would be distributed competitively and in alignment with the State’s efforts to establish a P-20 system.

**DOF April Letters:** The Department of Finance has submitted two proposals that make technical changes to the amount of ongoing federal EETT funds available in 2010-11, as follows:

**1. Item 6110-180-0890, Local Assistance, Education Technology Program (Issue 299 and 300).** It is requested that this item be decreased by \$20,091,000 federal Enhancing Education Through Technology Program funds. This adjustment includes a decrease of \$20,343,000 to align the Education Technology program with the anticipated federal grant award and an increase of \$252,000 to reflect the availability of one-time federal carryover funds. The reduction would be allocated proportionately among competitive grants, formula grants, and the California Technology Assistance Project. It is further requested that provisional language be amended as follows to conform to this action:

“1. Of the funds appropriated in this item, ~~\$14,508,000~~ \$4,737,000 is allocated to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program. Of the funds appropriated in this provision, \$241,000 is provided from one-time carryover funds.

2. Of the funds appropriated in this item, ~~\$14,508,000~~ \$4,507,000 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. Of the funds appropriated in this provision, \$11,000 is provided from one-time carryover funds.

3. Of the funds appropriated in this item, ~~\$462,000~~ \$143,000 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.”

**2. Items 6110-001-0001 and 6110-001-0890, State Operations, State Department of Education -- Enhancing Education Through Technology Program (EETT) (Issue 290)**—It is requested that Item 6110-001-0890 be decreased by \$166,000 and that Item 6110-001-0001 be amended to align with the anticipated federal grant award for this program. It is further requested that language in Provision 7 of this item be updated to conform to this action as follows:

“7. Of the funds appropriated in this item, ~~\$1,066,000~~ \$900,000 shall be used for administration of the federal Enhancing Education Through Technology Grant Program. Of this amount: (a) \$150,000 of carryover funds is available only for ~~contracted~~ technical support and evaluation services.”

#### **STAFF COMMENTS:**

- **CDE Commenced Grant Process Without Appropriate Authority; EETT Expenditure Plan Should Be Decided Through Regular Budget Process.** CDE did not have the authority to advise LEAs about the allocation and use of EETT funds prior to submission and approval of the Section 28.00 Budget Letter. Staff recognizes that awarding the ARRA EETT funds as soon as possible would help ensure districts can fully obligate the funds by September 30, 2011. The Legislature will appropriate funds for the EETT expenditure plan through the regular budget process, once agreement on a final expenditure plan is reached. While LEAs are understandably frustrated by the premature promises made by CDE, the budget process will allow the Legislature to consider alternative proposals in a more informed, thoughtful, and strategic manner, while still providing the funds to districts in a timely manner.
- **October Plan Misses Opportunities for Maximizing Federal Technology Funds.** EETT funds provide important one-time monies which could be distributed strategically to better position us to build, access, and use our state-wide data system to improve instruction and achievement. Data systems are a key component of satisfying our State Fiscal Stabilization Funds with respect to reporting requirements. The state has provided data assurances for securing approximately **\$213 million** in Phase II funds. Many of these same data system requirements are required for RTTT funds. While California did not receive Phase I funds, no decision has been made about Phase II funding, which could provide between **\$350 and \$700 million** to California.
- **LAO Proposal for P-20 System Responsive to Federal Signals and State Data Needs.** The LAO proposal allocates funds through competitive grants to LEAs for P-20 system development, which allows for development of preschool and higher education system linkages. The USDE has signaled numerous times that they are heavily favoring states with P-20 data systems, and that data will be of growing

importance in their decisions of whom to fund in the future. Further, they have also signaled that they value competitive awards over formula-driven awards. To this end, strategically investing these one-time monies could place us in a better position for future federal funds. Our state as an opportunity to make headway into our data infrastructure and the development of local capacity to use data, which will do more to improve instruction and achievement in the long-term than spreading small amounts of these funds out among all of the districts. By awarding the bulk of these funds on a formula-basis, the state misses an opportunity to make an important investment.

- **Final Action on EETT Should Be Coordinated with IES Grant Outcome.** The California Department of Education has submitted a proposal to access a federal Institute of Education Sciences (IES) grant to further a P-20 system. This is a competitive grant program for state education agencies. The ARRA EETT one-time augmentation could be used in concert with these other federal resources to further a coordinated set of state-local education technology objectives surrounding the P-20 system. For the LAO's recommendation to be coordinated with the state's IES grant; it is necessary to wait until the state has received final approval of its IES application before moving ahead with the EETT plan.
- **State Has Flexibility in Using ARRA EETT Funds -- LAO Offers Other Examples.** While the LAO recommends allocating funds for support of a P-20 system, it also offers other alternative uses for LEAs that reflect high priorities for the state, including enhancing CALPADS implementation and improving data utilization through professional development. This is not inconsistent with the several options included in the RFA released by CDE in September. The RFA highlights LEA options for competitive grants, including "professional development linked to the use of technology for analyzing achievement data for the purpose of improving instruction." More specifically, the RFA states that "the use of technology to support the analysis and use of longitudinal student achievement data to inform instruction will be an ever-emerging needs as the CALPADS data become available in the near future." In addition, federal ARRA EETT guidance allows funding for "creating or expanding components of Statewide Longitudinal Data Systems to inform areas such as curriculum development, professional development, and instruction."
- **CDE Revised Plan Links Competitive Funds to RTTT Assurances.** The revised CDE plan would utilize 50 percent of state LEA grants funds for new competitive applications focusing on assurances consistent with RTTT. While CDE would continue to allocate the remaining 50 percent of funds on a formula basis, LEAs would focus competitive grants on efforts to improve instruction and postsecondary/workforce readiness by:
  1. Implementing/enhancing and using a local instructional improvement system (see definition provided by the U.S. Department of Education) that provides teachers,

- principals, and administrators, with the information and resources they need to inform and improve their instructional practices, decision-making, and overall effectiveness;
2. Offering professional development to teachers and school leaders related to using data to inform instructional improvement;
  3. Including the collection of pre-kindergarten data for future instructional use and high school student data for postsecondary/workforce readiness use.

**STAFF RECOMMENDATION:** Staff recommends that the Subcommittee adopt some form of the LAO's recommendation following May Revise. This approach allows funds to be accessed by all high need, K-12 districts, including high school districts, and to be maximized for a high priority, statewide benefit.

**SUGGESTED QUESTIONS:**

1. Does the Administration have a revised expenditure plan for EETT?
2. CDE's revised EETT proposal would direct 50 percent to competitive grants for using data to improve instruction and postsecondary/workforce readiness. Can CDE provide more detail on this?
3. Under the CDE revised proposal, would funds be limited to districts serving students in grades 4-8?
4. What are the major elements of CDE's Institute of Education Sciences (IES) grant proposal recently submitted to USDE? When will CDE know the outcome of its IES grant?
5. What are the trade-offs between directing all EETT funds to competitive grants – as strongly encouraged by USDE and supported by the LAO – and using half of the funds for formula grants and half for competitive grants?
6. Did CDE inform districts that its expenditure plan had not been approved last November and that the Legislature had requested that the Administration and CDE work with the Legislature to craft an alternative expenditure plan that furthers state and federal technology objectives in a more strategic, comprehensive manner?

**ITEM 4. Department of Education - State Operations Budget – Headquarters Staff (6110-001-0001/0890)**

**DESCRIPTION:** In 2010-11, the Governor proposes to make permanent approximately **\$7.9 million** in General Funds reductions implemented in previous years for the California Department of Education (CDE) headquarters staff. In addition, the Governor is proposing additional General Fund reductions of approximately **\$4.3 million** in 2010-11 that are tied to compensation adjustments for state employees – specifically a five percent employee compensation reduction and a five percent retirement contribution increase. The Governor proposes a number of other adjustments for headquarters staff in 2010-11 that are included in the Governor’s January budget proposal and Department of Finance (April Finance Letter).

**BACKGROUND:**

The Governor’s 2010-11 Budget provides **1,553 authorized positions** and **\$213 million** funding (all funds) for CDE headquarters staff. (This does not include **1,008 positions** and **\$98 million** for operation of the State Special Schools.) This level of funding reflects an overall reduction of **\$10.6 million** (all funds).

<b>Governor’s January Budget Proposal California Department of Education (CDE) Authorized Positions and State Operations Funding</b>			
	<b>2008-09</b>	<b>2009-10</b>	<b>Proposed 2010-11</b>
<b>Authorized Positions</b>			
<b>CDE Headquarters</b>	<b>1,589.0</b>	<b>1,578.5</b>	<b>1,553.3</b>
<b>Funding</b>			
<b>CDE Headquarters</b>			
General Fund	46,960,000	39,610,000	40,627,000
GF - State Board of Education	1,371,000	1,821,000	1,874,000
Federal Fund	171,520,000	150,557,000	138,690,000
Other (Restricted)	49,571,000	32,572,000	32,780,000
<b>Total</b>	<b>269,422,000</b>	<b>224,560,000</b>	<b>213,971,000</b>

The figures above do not reflect the Governor’s proposed compensation reductions for CDE state headquarters staff in 2010-11. These reductions are tied to the Governor’s 5-5-5 compensation plan for state agencies, as contained in budget Control Section 3.90. These reductions will reduce CDE General Fund appropriations by about \$4.3 million in 2010-11, as compared to the figures above.

**Recent Reductions to CDE State Operations:** CDE has participated in across-the-board reductions for state agencies, as detailed below for the last two years. For the most part, the Superintendent of Public Instruction was given discretion on implementation of these reductions. In addition, as an agency directed by a Constitutional Officer, the Department of Education has not been required to implement employee furloughs, but has implemented equivalent dollar reductions in state operations funding. In making reductions, CDE has been able to achieve savings by cutting operating expenses and de-funding positions, although CDE has retained authority for most all positions.

## **2008-09**

The 2008-09 budget act included a **10 percent** unallocated General Fund (non-98) reduction for CDE state operations – personnel and operating expenses and equipment – as a part of the Governor’s Budget Balancing Reductions. This reduction equated to a **\$5.1 million** unallocated reduction in 2008-09 for CDE headquarters staff only.

The Governor later implemented – via Budget Letter authority – additional state operations reductions of **\$2.2 million** – all funds – for CDE headquarters staff. This amount included General Fund (non-98) reductions of **\$671,000** for CDE state headquarters. [The Budget Letter implemented cuts for CDE equivalent to two furlough days (one-time) for five months in 2008-09, although CDE did not take furloughs.]

In total, funding for CDE headquarters were reduced by **\$7.3 million** (all funds) in 2008-09, which includes a cut of **\$5.8 million** in state General Funds. CDE eliminated 11.0 positions associated with these reductions in 2008-09.

## **2009-10**

The 2009-10 budget reduces CDE state headquarters funding by a total of **\$21.5 million** – all funds. This includes a **\$5.5 million** General Fund (non-98) reduction for headquarters staff.

These \$5.5 million in General Fund (non-98) reductions for CDE state operations – together with \$16.0 million in reductions in other funds – were implemented through a variety of mechanisms in 2009-10, including:

- \$14.7 million (all funds) from Governor’s budget vetoes tied to a **10 percent** base cut for state operations – personnel only, not operating expenses and equipment -- (\$2.8 million General Fund);
- \$5.6 million (all funds) in reductions associated with continuation of the one-time furlough day for state agencies (\$1.5 million General Fund);
- \$500,000 in General Fund savings for the California High School Exit Exam;
- \$705,000 in General Fund savings resulting from the Governor’s veto of funding for the Curriculum Commission.

In 2009-10, CDE eliminated 4.0 positions and de-funded 50.0 positions.

## **GOVERNOR'S 2010-11 BUDGET PROPOSALS:**

In 2010-11, the Governor proposes to make permanent approximately **\$19.8 million** (all funds) in base reductions implemented in previous years for the California Department of Education (CDE) headquarters staff - including **\$7.9 million** in General Funds.

In addition, the Governor is proposing additional General Fund reductions of approximately **\$4.3 million** in 2010-11 that are tied to **two** of three compensation adjustments proposed as a part of the Governor's "5-5-5" package for state employees – specifically a five percent employee compensation reduction and a five percent employee retirement contribution increase. A third component of the Governor's package is tied to a "workforce cap" achieved through a five percent increase in salary savings, however, it does not apply to Constitutional officers. (The Governor's 5-5-5 package is intended to replace the state agency furlough program set to expire at the end of 2009-10.)

**Governor's Budget – Other CDE Staffing Proposals.** The Governor proposes the following smaller adjustments for headquarters staff in 2010-11 that are included in the Governor's January budget and the Department of Finance April Finance Letter.

### **Technical Adjustments:**

- **Vacant Positions.** Provide \$192,000 in federal funds savings tied to the elimination of 1.9 vacant positions.
- **Charter School.** Administratively establish 1.0 position for the State Board of Education for Charter School Oversight.
- **Reading First Positions.** Remove 6.0 positions and \$1.4 million in federal Title I Reading Funds for state administration. The federal Reading First program is being phased out.
- **Teacher Data Base Positions.** Remove one-time federal Title II funds of \$1.6 million and 3.0 positions for development of California Teacher Integrated Data and Education System (CALTIDES).
- **Child Nutrition Positions.** Remove one-time federal nutrition funds of \$1.7 million and 7.0 positions for the Child Nutrition Payment System.
- **English Learner Pilot Program Positions.** Remove one-time federal Title III of \$100,000 and 1.0 position for the English Learner Best Practices Pilot Program

- **High Priority Schools Program Position.** Eliminate General Funds of \$411,000 and federal Title I funds of \$469,000 and 9.0 positions for support of the High Priority Schools Program. This program is being phased out.

### Policy Adjustments

- **Assessment System Position.** Add \$96,000 in federal Title I funds and 1.0 limited-term position to provide research on School Accountability Growth Model per Chapter 273; Statutes of 2009 (Solorio).

**DOF April Letter Requests:** The Department of Finance April Letter proposes the following Governor’s proposals for CDE state operations:

- **Items 6110-001-0001 and 6110-001-0890, State Operations, State Department of Education–American Recovery and Reinvestment Act-Related Monitoring and Reporting (Issue 004).** It is requested that Item 6110-001-0890 be increased by **\$1,982,000** one-time federal carryover funds (no positions) and that Item 6110-001-0001 be amended to implement various education-related accountability, reporting, and technical support provisions of the federal American Recovery and Reinvestment Act (ARRA) of 2009. The ARRA provided billions of dollars in one-time funding to jumpstart school reform efforts, serve special populations, save and create jobs, and stimulate the economy. The ARRA and related federal regulations require that nearly all federal ARRA funds be disbursed to local educational agencies (LEAs) and that a limited amount of these funds may be used by states for monitoring, reporting, and technical support of LEA activities during the three-year availability of ARRA funds. According to the SDE, federal special education and Title I guidance suggest that a portion of these base grants may be used for ARRA state administrative activities and the SDE has identified one-time carryover funds from these base grants that could be used for these purposes.

It is further requested that provisional language be added to Item 6110-001-0890 as follows to conform to this action:

“X. Of the funds provided in this item, \$1,982,000 in one-time federal carryover funds is available for the State Department of Education to satisfy all fiscal monitoring, reporting, technical assistance, and other oversight activities as required by the American Recovery and Reinvestment Act of 2009 (Public Law 111-5) and related federal guidance.”

- **Items 6110-001-0001, State Operations, State Department of Education -- Charter Schools Division Positions (Issue 722).** It is requested that **3.0 positions** be added to the Charter Schools Division to provide support for increased workload due to growth in statewide charter school petitions and charter school appeals. These positions would enable the SDE to complete statutorily required charter school-related activities. These positions would be funded within existing General Fund resources.

- **Items 6110-001-0001, State Operations, State Department of Education -- Remove Limited-term Position and Funding for the Chief Business Officer Training Program (Issue 145).** It is requested that this item be decreased by **\$76,000** General Fund and that the limited-term associate governmental program analyst position that supported the Chief Business Officer Training Program be removed. The Chief Business Officer Training Program was a three-year project that offered incentives to school districts and county offices of education to provide instruction and training to chief business officers on school finance, operations, and leadership. However, the program became inoperative July 1, 2009, pursuant to Education Code Section 44519.2. The Governor's Budget removed provisional language allocating \$1.0 million for the local assistance portion of the program and shifted the \$1.0 million to the Administrator Training Program. Although the local assistance funding was appropriately addressed, associated state operations costs were not removed.

#### **LAO COMMENTS/RECOMMENDATIONS:**

- **Align CDE Staff Levels With Categorical Flexibility Decisions.** Despite the state's decision last year to essentially eliminate the programmatic and funding requirements associated with roughly 40 state categorical programs, the state has made no corresponding changes to CDE's staffing of those programs. Per the LAO, CDE now has hundreds of staff members assigned to administering programs that the state is not now operating. (The LAO believes this disconnect would be amplified if the Legislature were to adopt a more expansive flexibility package this year.)

To reflect the impact of consolidating local assistance categorical programs on state operations, the LAO recommends decreasing CDE's budget by **\$10 million** and eliminating roughly **150 positions**.

#### **STAFF COMMENTS/RECOMMENDATIONS:**

- **LAO Proposal to Score CDE General Fund Savings from Categorical Program Flexibility Makes Sense.** The LAO recommends aligning CDE staff levels with categorical program flexibility provision, enacted as a part of the 2008-09 and 2009-10 budget packages. These flexibility provisions allow school districts to utilize funding from more than 40 categorical programs flexibly -- for any educational purpose -- from 2008-09 through 2012-13. As a result, CDE is no longer monitoring these categorical programs (data gathering, compliance, etc.) and has also consolidated their fiscal apportionment functions. CDE has not fully quantified categorical staff savings, but maintains that savings have been captured as a part of their state agency reductions in 2009-10. Per the LAO recommendation, staff believes it is reasonable for the state to capture these state General Fund savings on top of other agency wide reductions imposed upon state agencies because these savings are associated with a reduction in workload.

- **One-Time ARRA Request Appears Reasonable, But CDE Still Believes Additional One-Time Funding is Needed for Administration of Federal Stabilization Funds.** CDE believes that additional funding is needed for additional services to handle state reporting requirements for the State Fiscal Stabilization Funds. This is likely to be a May Revise Issue.
- **Unclear How SPI Has Implemented Recent Budget Reductions – More Information Needed.** It is difficult to fully assess the impact of budget reductions at CDE headquarters without documentation that detail where position and service reductions have occurred. At the very least, it is important to know how General Fund staff are assigned within the CDE and how staff in state programs have been affected by recent cuts.

**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 on state and federal programs.

Staff further recommends that the Subcommittee consider the LAO proposal to decrease CDE’s budget by \$10 million and approximately roughly 150 positions. In so doing, staff recommends that the Subcommittee request that CDE provide the following prior to May Revise:

- (1) A list of all General Fund headquarter positions by branch, division, unit;
- (2) A list of all headquarter positions that have been de-funded as a result categorical program flexibility.

**SUGGESTED QUESTIONS:**

1. What is the Administration’s position on the LAO proposal?
2. What is the year-to-year fiscal impact of the Governor’s 2010-11 budget proposals? What portion of these cuts is ongoing; what portion is new?
3. How do the Governor’s recent and proposed reductions for CDE state operations headquarters staff compare to reductions for other state agencies?
4. Can CDE summarize implementation of headquarter reductions in recent years? What programs have been affected? What is the effect on the department’s operations?
5. Has CDE reduced salaries for any employees as a result of recent state agency budget reductions?
6. CDE has indicated it has de-funded a number of positions in recent years. What does this mean? Are positions eliminated?

7. Can CDE provide information on the number of positions and associated General Fund savings for staff assigned to the more than 40 categorical programs that are subject to categorical flexibility through 2012-13?
8. What are some of the reasons that CDE is requesting additional resources for state administration of federal Fiscal Stabilization Funds?
9. Recent budget reductions have affected federal funds, as well as General Funds. What is the impact of these cuts on state administration for federal programs?

**ITEM 5: 2009-10 Budget – Curriculum Commission Veto  
(6110-001-0001)**

**DESCRIPTION:** The Governor vetoed \$705,000 in General Funds (non-98) in the 2009-10 Budget Act for the California Department of Education (CDE) for support of the Curriculum Development and Supplemental Materials Commission (Curriculum Commission). This reduction eliminates all funding for Curriculum Commission per diem and travel and for CDE staff support to the Commission. The Governor’s action is intended to capture state operations savings from categorical flexibility provided for the Instructional Materials program in the 2009 budget packages. With this flexibility, school districts are not required to purchase newly adopted materials through 2012-13 and the State Board of Education (SBE) is prohibited from adopting new materials or developing frameworks.

**BACKGROUND:**

**Curriculum Commission.** The Curriculum Development and Supplemental Materials Commission (Curriculum Commission), established in state law, is an 18 member advisory board to the State Board of Education (SBE). Commissioners tend to be recognized authorities in a specific subject matter, professors, curriculum experts, K-12 teachers, or community members. The commission advises SBE on the K-12 curriculum frameworks and K-8 instructional materials adoption.

**Curriculum Framework Adoptions.** Frameworks development is a major, ongoing work activity for the Curriculum Commission. Curriculum frameworks provide a blueprint for curriculum and instruction by describing the scope and sequence of the knowledge and skills all students need to master in a specific subject area, and the evaluation criteria found within the framework provides guidance to publishers in the development of instructional materials. The framework and criteria are used to evaluate kindergarten and grades 1-8, inclusive, (K-8) instructional materials that are submitted for state adoption and the curriculum frameworks also provide guidance to teachers in the delivery of the curriculum.

**Governor’s 2009-10 Veto.** The February 2009 budget revisions contained in SBX3 4 (Chapter 12, Statutes of 2009) suspended the requirement that local education agencies (LEAs) purchase new instructional materials within 24 months of adoption for two years (2008-09 and 2009-10). The July budget revisions in ABX4 2 (Chapter 2; Statutes of 2009) extended this suspension for a full five years (2008-09 through 2012-13) and prohibited the State Board of Education (SBE) from adopting new materials or following procedures for adoptions. The Legislature provided this fiscal flexibility to districts in an effort to ease the local impact of state budget reductions.

When the Legislature passed ABX4 2, no conforming actions were taken to reduce State Board of Education or Curriculum Commission funding associated with the new statute prohibiting the State Board from adopting new materials or “following other procedures for adoptions”. However, when the Governor signed the final 2009-10 Budget Act, he took related action by vetoing all funding for the Curriculum Commission. More specifically, the Governor eliminated \$705,000 in General Fund (Non-Proposition 98) funds for the Department of Education’s state operations budget for support of the Curriculum Commission. These funds cover Commission per diem and travel cost as well as CDE staff support and services. The Governor did not veto any funding for the State Board of Education.

The full text of the Governor’s veto, as contained in Chapter 1, Statutes of 2009 – 4th Extraordinary Session, is provided below:

Item 6110-001-0001—For support of the Department of Education. I reduce this item from \$38,210,000 to \$37,505,000 by reducing:

(2) 20-Instructional Support from \$158,747,000 to \$158,042,000, and by deleting Provision 7.

I am reducing this item by \$705,000 to capture the maximum amount of savings from the instructional materials flexibility provided in the Education trailer bill to school districts, which suspends the adoption of instructional materials by the State Board of Education (Board) and the subsequent purchasing requirements for school districts until 2013-14. As a result, it is unnecessary for the Curriculum Development and Supplemental Materials Commission to continue to advise the Board on content frameworks and instructional materials adoptions for the next five years or until an agreed-upon process is reestablished. This reduction removes funding for unnecessary Commission per diem and travel as well as funding for Department staff.

**Impact of Veto on Curriculum Commission Frameworks Adoptions.** While not anticipated, the Governor’s veto immediately halted all the Commission’s work on curriculum frameworks in a number of subject areas that were in various stages of development or adoption at the time.

Most notably, the veto suspended Commission activities well underway for two core curriculum frameworks – History/Social Science and Science. More specifically, the Commission’s work on the History/Social Science framework is essentially complete. In July 2009, the Curriculum Commission approved the draft update of the History/Social Science framework for field review, but due to the budget action, the field review was suspended. In addition, the Commission commenced work on the revision of the Science framework in May 2008 and, more while more work is needed, many steps in the process have been completed.

**Impact on Suspension of the Frameworks on the Field.** Several concerns have been raised over the suspension of the framework revision and adoption process from the field. Some have argued that the framework development and adoption should continue even without an immediate instructional materials adoption, as the framework itself provides updated content and pedagogical approaches for teachers to enable students to gain updated and relevant knowledge and skills.

**New Requirements for National “Common Core” Standards.** SBX5 1/ Steinberg (Chapter 2; Statutes of 2009) enacted for purposes of satisfying part of the criteria for the Race to the Top (RTTT) program, establishes the Academic Content Standards Commission to develop academic content standards in language arts and mathematics. At least 85 percent of the curriculum standards for these two subject areas are required to be the common core academic standards developed through a national consortium. Once the Academic Content Standards commission approves recommended standards, they are required to be presented to the State Board of Education (SBE) by July 15, 2010. The SBE is then required to adopt or reject the recommended standards by August 2, 2010.

The RTTT guidance did not require a specific timeline for the implementation of the common core standards into the frameworks and instructional materials. This plan is left to the SPI and SBE to develop. If the common core academic standards are adopted, instructional materials that are aligned to these standards will have to be adopted for math and English Language Arts (ELA).

The implementation and timing of these requirements is now in question given that California did not receive the first round of RTTT funding and it is not clear if the state will pursue a second round of funding. It is also not clear if California will adopt common core standards regardless of RTTT funding.

**RELATED LEGISLATION.** Two nearly identical bills in both the Senate and Assembly were recently passed by their respective education policy committees. Both of these bills would require the Curriculum Commission activities to resume adoption of the History/Social Science framework in 2010-11.

- **SB 1278 (Wyland).** Requires the State Board of Education to adopt a revised curriculum framework in History/Social Science no later than July 1, 2011. In order to adopt the History/Social Science framework prior to the sunset of the adoptions suspension, the bill includes language to notwithstanding the budget provisions prohibiting the SBE from adopting instructional materials and frameworks, but only for purposes of adopting the History/Social Science framework. In addition, the bill establishes a timeline for the adoption of instructional materials by the State Board beginning in the 2013-14 school year, after the budget provisions on the suspension of instructional materials are repealed. **Status:** Senate Appropriations Committee
- **AB 2069 (Carter).** Requires the State Board of Education to adopt a revised curriculum framework in History/Social Science no later than July 1, 2011. In

order to adopt the History/Social Science framework prior to the sunset of the adoptions suspension, the bill includes language to notwithstanding the budget provisions prohibiting the SBE from adopting instructional materials and frameworks, but only for purposes of adopting the History/Social Science framework. In addition, the bill establishes a timeline for the adoption of instructional materials by the State Board beginning in the 2013-14 school year, after the budget provisions on the suspension of instructional materials are repealed. **Status:** Assembly Appropriations Committee.

**LAO COMMENTS:** The LAO is generally supportive of the Administration's veto of the Curriculum Commission. This position is in line with the LAO's published report from 2007 entitled *Reforming California's Instructional Material Adoption Process* that recommended streamlining the adoption process and eliminating the role of the Curriculum Commission. The LAO suggests that suspension of Curriculum Commission activities provides an opportunity for rethinking the role of the Commission moving forward. The LAO does not believe that it is crucial to restore Commission funding in 2010-11.

#### **STAFF COMMENTS**

- **Common Core Standards May Influence Resumption of Curriculum Commission Activities.** Given the uncertainty around how the state will proceed with adoption of common core standards, which will ultimately influence the work of the Curriculum Commission, staff does not support fully resuming Curriculum Commission activities until the state determines its approach to adopting these common core standards.
- **Governor's Veto Signals Ongoing Cuts for Commission Until Adoptions Resumed.** The Governor's veto signals ongoing, annual savings for the Commission until 2013-14 or until an agreed upon process is re-established. The Administration has indicated openness to restoring some Commission funding prior to resumption of the instructional materials adoptions by the State Board. There are two bills which define the sequence for resuming materials adoption by the State Board of Education. This legislation will guide resumption of framework development, which currently commences about 30 months prior to the adoption of instructional materials.
- **Veto Suspends Final Adoption of Two Core Curriculum Frameworks Near Completion.** While full resumption of Curriculum Commission activity may not be warranted at this time, there appears to be some merit in allowing the commission to finish work on the History/Social Sciences and Science frameworks. Staff is still evaluating the cost for resuming these activities and has asked CDE if additional state resources are needed for this limited activity. Initial information from CDE indicates that there would be minimal costs to complete the History/Social Science framework and costs of about \$144,000 to complete the Science framework.

- **May Be Remaining Funds Available to Complete History/Social Science and Science Frameworks Adoptions.** According to the Department of Finance, \$705,000 reflects a conservative estimate of total expenses for the Commission in 2009-10, which include per diem and travel expenses for Commissioners and CDE staff support and services for the Commission.

**STAFF RECOMMENDATION:** Staff recommends that after May Revise the Subcommittee restore limited funding for the Curriculum Commission in 2010-11 to allow final adoption of the History/Social Science and Science Frameworks. This action would allow the Commission to take final actions for these adoptions that were nearing completion when the Governor's veto occurred. Staff further recommends that the Department of Education provide cost estimates for finishing prior to May Revise.

**SUGGESTED QUESTIONS:**

1. What are *costs* of allowing the Curriculum Commission to complete adoption of the History/Social Science and Science frameworks in 2010-11? Could these costs be absorbed within the Department of Education's budget?
2. What are *benefits* of allowing the Curriculum Commission to complete adoption of the History/Social Science and Science frameworks in 2010-11? How are frameworks useful to the field, understanding that curriculum materials adoptions may be delayed for several years?
3. What is the status of California's adoption of the Common Core Standards? What are the costs associated with these activities? Can these activities be covered with existing federal funds for our state?
4. Will the adoption of Common Core standards conflict in anyway with completion of the History/Social Science and Science frameworks?

## **ITEM 6: Statewide Testing and Reporting System – 4<sup>th</sup> Grade Writing Assessment (Item 6110-113-0001/0890)**

**DESCRIPTION:** In August 2009, the DOF approved an expenditure plan for the state student assessment program in 2009-10 that included elimination of the 4<sup>th</sup> grade writing test and associated savings of \$2.0 million in Proposition 98 funds. The Governor does not propose reinstatement of the 4<sup>th</sup> grade writing assessment in 2010-11. On November 30, 2009, the chairs of the Senate and Assembly Budget Committees submitted a letter to DOF expressing concerns regarding the elimination of the 4<sup>th</sup> grade writing assessment in conflict with budget provisional language. The letter also expressed concern about failure of the California Department of Education to provide a copy of the expenditure plan to the Legislature, as required by budget language.

### **BACKGROUND:**

**Student Assessment Funding:** The 2010-11 Governor's Budget provides \$117 million in state and federal funds to the Department of Education for a number of statewide student assessment programs, including the Standardized Testing and Reporting (STAR) program. 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.

**STAR Writing Assessments.** 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 2<sup>nd</sup> grade students. SB 80 (Committee on Budget and Fiscal Review) continued the 2<sup>nd</sup> grade test as a part of the overall STAR program until June 30, 2011.

The most commonly administered test in the STAR program is the California Standards Tests (CSTs) – a standards-aligned 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.

The 4<sup>th</sup> and 7<sup>th</sup> grade writing assessments were added to the STAR English Language Arts assessments as the result of legislation enacted in 2000.

**Recent Cuts to State Assessment Program.** As a part of the 2008-09 Budget Act, most categorical programs were subject to an across-the-board reduction of 15.4 percent. Only four programs were not subject to the reductions: Child Nutrition, Economic Impact Aid, K-3 Class Size Reduction, and Special Education. Pursuant to this across-the-board reduction, the state student assessment program achieved savings in 2008-09 through approximately **\$14 million** in state assessment apportionment deferrals.

In 2009-10, the Governor proposed to increase the across-the-board reductions to 19.8 percent, applicable to the same set of programs. For the student assessment program, this reduction totaled **\$17.1 million**. The California Department of Education (CDE) was

charged with developing a plan to achieve these savings and in the spring of 2009 proposed a comprehensive list of savings. The list included a number of proposals that would directly eliminate ongoing student tests that are a part of the STAR program, such as the 4<sup>th</sup> and 7<sup>th</sup> grade writing tests, 2<sup>nd</sup> grade tests, and high school English Language Arts tests. The CDE also identified a number of other proposals that did not involve reductions in student assessments.

**Budget Language Added to Guide Assessment Reductions.** Due to policy concerns about elimination of specific student tests, the Legislature added provisional language to the student assessment item in the 2009-10 Budget Act (Item 6110-113-0001) specifically stating that:

*“In implementing the reductions for the 2008-09 and 200-910 fiscal years, the State Department of Education shall not eliminate any state assessments funded by this item.”*

With these protections in place, the Legislature inserted additional provisional language that authorized the Department of Finance to approve an expenditure plan reflecting other student assessment program reductions proposed by the CDE. In general, these other proposals were felt to affect student assessments more indirectly. This language also specified that after an expenditure plan was approved by the Department of Finance, the CDE was required to provide a copy of the approved plan to the Legislative Analyst’s Office and the appropriate fiscal and policy committees of the Legislature.

**CDE Expenditure Plan Approved by DOF Does Not Comply with Budget Language; CDE Failed to Notice Legislature.** The CDE submitted a state assessment program expenditure plan to the Department of Finance on August 21, 2009, reflecting options for achieving **\$17.1 million** in budget reductions in 2009-10.

The DOF approved the plan with some changes on August 28, 2009. Most notably, the DOF rejected elimination of the 7<sup>th</sup> grade writing assessment proposed by CDE, but approved elimination of the 4<sup>th</sup> grade writing assessment, for a savings of **\$2.0 million** in 2009-10.

The State Board of Education, upon recommendation from the CDE, took action at their September 2009 meeting to amend the STAR contract to reflect changes in the expenditure plan for the STAR Program, as approved by the Department of Finance. The State Board then directed CDE and SBE staff to work with the contractor to implement changes in the STAR contract for the 2010 and 2011 administrations.

CDE did not provide a copy of the DOF approved expenditure plan to the Legislature until it was requested by legislative budget staff in late October 2009, even though the plan was approved by DOF on August 28, 2009.

**Joint Legislative Letter Sent to DOF Expressing Concerns.** On November 30, 2009, the chairs of the Senate and Assembly Budget Committees submitted a letter to DOF

expressing concerns regarding the elimination of the 4<sup>th</sup> grade writing assessment. Major concerns are summarized below:

- **Elimination of student assessment expressly prohibited by 2009-10 Budget Act.** The Department of Finance approved (and the CDE proposed) changes that eliminate the 4<sup>th</sup> grade writing assessment, in spite of budget act provisions that clearly prohibit this action. This was the only ongoing assessment eliminated as a part of the expenditure plan. Both the Department of Finance and the CDE see the writing assessment as an assessment "component", not a state assessment. That was not the intent of the language. The intent of the language was to keep elimination of ongoing student tests off the list and to focus on other savings and efficiencies in the state assessment program. More specifically, the intent was to avoid using the expenditure plan as a backdoor for changing state assessment policy, changes that should occur only through specific legislative budget or policy actions.
- **Failure to provide a copy of the approved expenditure plan.** The CDE did not provide a copy of the DOF approved expenditure plan to the Legislature until it was requested by legislative budget staff in late October 2009, even though the plan was approved by DOF on August 28, 2009.
- **Concerns regarding policy impact.** The letter expressed serious concerns about the policy impact of eliminating the 4<sup>th</sup> grade writing test on student instruction and performance. Writing is an essential life skill and the 4<sup>th</sup> grade writing assessment is critical for helping teachers and parents identify problems in the elementary grades, well before entrance into the secondary grades where supplemental services are limited. The 4<sup>th</sup> and 7<sup>th</sup> grade writing assessments were added to the STAR test in 2001, as a result of legislation enacted in 2000. While the CDE indicated that there were concerns in the field about the usefulness of the test at the teacher and school level, legislative staff heard from other school representatives about the importance of these assessments in improving writing instruction and skills for students.

As a result of these concerns, the Legislative Budget Chairs requested that DOF take immediate steps to restore the 4<sup>th</sup> grade writing test in 2009-10 and adopt other savings proposals identified by CDE as a part of the expenditure plan that do not reduce student assessments.

**Governor's 2010-11 Budget Does Not Reinstate the 4<sup>th</sup> Grade Writing Assessment.**

Although the joint letter requested that DOF take immediate actions to reinstate the exam, the Administration has not reinstated the 4<sup>th</sup> grade writing exam in 2009-10 and provides no funding in the proposed budget for this purpose.

**STAFF COMMENTS:**

- **Elimination of the 4<sup>th</sup> Grade Writing Assessment Does Not Comply with Budget Act Language and Raises Serious Policy Issues.** The writing assessments were established in statute. Elimination of these assessments raises significant policy

issues, ones the Legislature was trying to avoid through the budget language. The intent of the language was to keep elimination of ongoing student tests off the list and to focus on other savings and efficiencies in the state assessment program. More specifically, the intent was to avoid using the expenditure plan as a backdoor for changing state assessment policy, changes that should occur only through specific legislative budget or policy actions.

- **Writing Skills Essential; Elimination of Writing Skill Assessment Not Warranted.** The state's 4<sup>th</sup> grade and 7<sup>th</sup> grade writing assessments are examples of important assessments that measure critical thinking skills while helping to inform teaching and learning. Writing is an essential life skill and the 4<sup>th</sup> grade writing assessment is critical for helping teachers and parents identify problems in the elementary grades, well before entrance into secondary grades, when supplemental services are limited.
- **Without 4<sup>th</sup> Grade Assessment, Writing Will Not Be Formally Assessed Until 7<sup>th</sup> Grade.** Legislative staff heard from school representatives about the importance of these assessments in improving writing instruction and skills for young students. Elimination of the 4<sup>th</sup> grade writing assessment will make writing less of a priority for early elementary curriculum, and place unusual weight on the 7<sup>th</sup> grade assessment and curriculum.
- **Not Strategic to Cut Student Assessments; Questionable Whether State Assessment Program Should be Subject to Categorical Cuts.** The state currently appropriates about **\$117 million** in Proposition 98 and federal funds for student assessment programs, out of more than **\$55 billion** in total annual funding from these sources for K-12 schools. Given the importance of student performance data on improving teaching and learning, it makes no sense to eliminate state assessment programs as a part of budget solutions. At the federal level, the Obama Administration is certainly not backing away from the use of student assessments in school improvement. As evidence, the U.S. Department of Education announced in April that they would be setting aside **\$350 million** for states to come together to develop a "new generation of tests" that measure critical thinking and a broader range of content. Consistent with the goals of the federal government, California should be moving towards development and refinement of these types of assessments, not eliminating them.
- **Most Recent NAEP Writing Test Did Not Include 4<sup>th</sup> Grade Writing.** The National Assessment of Educational Progress – a national norm-referenced test utilizing state samples – previously included writing assessments in 4<sup>th</sup>, 8<sup>th</sup> and 12<sup>th</sup> grades for states. In 1998 and 2002 all grades were tested. In 2007, the NAEP writing assessment did not include 4<sup>th</sup> grade. It is not clear when or if the NAEP 4<sup>th</sup> grade writing test will be reinstated. The Administration cited the NAEP 4<sup>th</sup> grade writing test as one reason they felt they could eliminate the state test. Similarly, the Administration continued the 7<sup>th</sup> grade writing assessment because there was no NAEP 7<sup>th</sup> grade assessment.

**STAFF RECOMMENDATION:** Staff recommends the Subcommittee reinstate the 4<sup>th</sup> grade writing assessment in 2010-11, but hold off on action until after May Revision. Staff further recommends that the Subcommittee direct CDE to work with DOF to provide the Legislature with options for restoring funding to the 4<sup>th</sup> grade writing assessment in the 2010-11 fiscal year.

**SUGGESTED QUESTIONS:**

1. Does the Administration support reinstatement of the 4<sup>th</sup> grade writing assessment in 2010-11? Does CDE support reinstatement in 2010-11?
2. Why didn't CDE reinstate the 4<sup>th</sup> grade writing test as requested by the November 2009 joint letter from the chairs of the legislative budget committees?
3. Why did the CDE fail to provide a copy of the final expenditure plan to the Legislature as required by the 2009-10 Budget Act, after it was approved last August?
4. Why didn't CDE comply with provisional language that prohibited reductions for student assessments?
5. CDE has indicated that they may need additional resources to reinstate the test beyond the \$2 million original scored as savings in 2009-10. CDE estimates additional costs of \$500,000 to \$700,000 to restore the test in 2010-11. Can CDE explain why more funds are needed?

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Thursday, May 6, 2010**  
**9:30 a.m. or Upon Adjournment of Session**  
**Room 3191, State Capitol**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
	<b>Access and Enrollment</b>	
<b>6420</b>	<b>California Postsecondary Education Commission (CPEC)</b>	
<b>6440</b>	<b>University of California (UC)</b>	
<b>6600</b>	<b>California State University (CSU)</b>	
<b>6870</b>	<b>California Community Colleges (CCC)</b>	
Item 1	Base and Enrollment Funding Proposals for UC and CSU	Page 2
Item 2	UC & CSU Enrollment Management Strategies and Impacts	Page 6
Item 3	CCC Enrollment Management Strategies and Impacts	Page 11
Item 4	Planning Efforts	Page 14
Item 5	Adding Schools and Majors in the Future – Informational	Page 16
Item 6	UC Merced Update	Page 18
Item 7	Program In Medical Education (PRIME)	Page 20
Item 8	Nursing Programs	Page 22
Item 9	Student Academic Preparation	Page 25
	<b>Public Comment</b>	

## Item 1: Base and Enrollment Funding Proposals for UC and CSU

### Speaker:

- Steve Boilard, Legislative Analyst's Office
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Sara Swan, Department of Finance

**Issue.** There are many ways to examine access to higher education, and in this hearing the Subcommittee will primarily focus on access to opportunity through admissions and enrollment, and access through informational services. The issue before the Subcommittee in this item is a brief overview of the Governor's budget proposals on enrollment growth, as well as the impact the cost-per-student calculation has on the enrollment level. This is the beginning of a discussion on the appropriate funding level that should be used to determine the final enrollment level.

**Background.** Normally, the state budget specifies a level of enrollment that the universities are expected to serve with the funding provided. For example, in 2007-08, the budget provided UC with \$3.2 billion in General Fund support to serve 198,455 full-time equivalent (FTE) students. For CSU, it provided \$3 billion to serve 342,893 students.

In 2008-09 and the current year, however, the state's fiscal crisis required substantial unallocated budget reductions in state General Fund support for the universities. In acknowledgement of these reductions, budget language no longer specifies enrollment levels for the universities. Instead, the universities have been allowed to decide for themselves what level of enrollment they can accommodate with available resources. In other words, *neither the level of enrollment nor the amount of funding per student has been specified in the past two budget acts.*

**Last "Normal" Year.** The Legislative Analyst's Office (LAO) considers 2007-08 to be the most recent "normal" budget year for the higher education segments. The *2007-08 Budget Act* funded the higher education *Compact*, including enrollment growth and cost-of-living increases for all three segments, no large unallocated reductions were imposed, and no payments for new costs were deferred to future years. The higher education *Compact* was not funded by the Governor in 2008-09 or 2009-10, nor is it proposed for funding in 2010-11.

**Governor's Budget 2010-11.** The Governor seeks to re-introduce specified enrollment levels to the budget in 2010. Specifically, the Governor proposes to:

1. Provide augmentations of \$305 million each to restore some previous General Fund reductions,
2. Provide additional enrollment growth funds (detailed below)
3. Includes budget bill language specifying UC and CSU enrollment levels of 209,977 FTE students and 339,873 FTE students, respectively. It is important to note that the Governor's proposed enrollment levels are lower than current-year estimates for both university systems. For this reason, it may make more sense to

consider these augmentations for the purpose of enrollment *preservation*, rather than *growth*.

The Governor proposes the following enrollment growth:

- UC: \$51.3 million General Fund for 5,121 FTES
- CSU: \$60.6 million General Fund for 8,290 FTES

**“Trigger” Cuts.** The Governor’s proposal for enrollment growth is dependent on the receipt of \$6.9 billion in additional federal funds. If the federal funds sought by the Administration do not materialize, which at this point it appears the entire amount will not, the shortage of federal funds will “trigger” cuts throughout the budget. The proposed enrollment growth funds are on this trigger cuts list.

**Budget Bill Language.** The Governor’s Budget also includes provisional language setting enrollment targets for UC and CSU. Including this language requires the UC and CSU systems to spend their funds to enroll the mandated number of students, or funding will be reverted.

**Governor’s Enrollment Targets.** The Governor proposes new enrollment targets for both UC and CSU. These enrollment targets were determined in two steps:

- First, the administration estimated the number of students it assumes the universities would have funding to serve in 2010-11 after current-year, one-time reductions are restored.
- Second, the Governor added 2.5 percent enrollment growth for new budgeted enrollment levels of 209,977 FTE students at UC and 339,873 FTE students at CSU. These levels are less than current-year enrollment for both segments.

**Higher Education FTES Totals**

	<b>2007-08 (Actual)</b>	<b>2008-09 (Actual)</b>	<b>2009-10 (Estimated)</b>	<b>2010-11 (Proposed)</b>
<b>UC</b>	203,906	210,558	212,888	209,977
<b>CSU</b>	353,914	357,223	340,643	339,873
<b>CCC</b>	1,182,627	1,260,497	1,250,000	1,188,129

**Cost per Student.** The Legislature has a strong role in defining access to the system for new students and level of services for existing students. The Legislature guarantees a level of access to the higher education system by setting an enrollment target for each of the segments. It is important for the Legislature to weigh the question of how much does it cost to educate a student at each of the segments. This cost would include not only instruction, but also student services such as academic counseling and a marginal cost of the university’s research activities, if applicable. Once the appropriate level of funding per student is determined, the Legislature can choose how many students the State will fund that year. There is some disagreement between the segments and the LAO as to what factors should be included in the per-student funding calculation.

## Per Student Funding for Higher Education (Budgeted)

	2007-08	2008-09	2009-10	2010-11
University of California	\$ 21,778	\$ 18,054	\$ 20,641	\$ 22,920
California State University	\$ 11,289	\$ 9,842	\$ 11,614	\$ 11,722
California Community Colleges	\$ 5,591	\$ 5,499	\$ 5,376	\$ 5,321

*Information from the Legislative Analyst's Office*

**LAO Recommendation:** The Legislative Analyst supports the Governor's goal of restoring UC and CSU enrollment targets in the budget act. The LAO also recommends augmenting the universities' budgets to increase available funding per student. However, the LAO recommends only restoring this funding to the 2007-08 level, and not beyond it. In effect, the main difference between LAO and the Governor's office with regard to per-student funding levels is whether to provide augmentations for inflation. The Governor's office accommodates roughly a 3 percent cost increase, while the LAO argues that the segments should be expected to absorb inflationary costs.

The LAO also recommends adopting enrollment targets of 213,049 FTE students for UC and 330,000 for CSU. The LAO's recommendation is somewhat higher than the Governor's proposal for UC and somewhat lower for CSU.

**Staff Comment.** The Governor's enrollment growth funds only fund current FTES, which have been funded with one-time funds during the 2009-10 budget year. If the one-time funds are not backfilled in the 2010-11 budget, enrollment could be negatively impacted in the UC, CSU, and CCC campuses. If the enrollment growth funds are not provided, the UC and CSU systems will reduce their enrollment by turning away more potential first-time freshmen in 2010-11.

The Legislature has not had a discussion about the unit costs of education in the last two years, since the Governor had not proposed enrollment growth funding and the Legislature removed enrollment targets from the segments' funding appropriations to provide flexibility. Per-student funding involves important tradeoffs, since lower funding per student reduces the segments' ability to provide quality programs and support serves, while higher per-student rates means fewer students can be enrolled with a given appropriation level. The Subcommittee should note that in the last two years, the increase in total funding for the segments was due to increases in student fee revenues, while General Fund decreased. The Subcommittee will have to reassess students' share of cost of their education, which has increased since 2007-08, the year both the LAO and the Governor use as a re-benching point.

**Staff Recommendation.** Staff recommends the Subcommittee hold this issue open to allow staff to work with the appropriate parties on determining the proper cost per student.

**Suggested Questions:**

1. California may receive half of the federal funds that the Governor's Budget assumed, implying that approximately half of the "trigger" cuts will have to be taken. Does the Governor have a priority list for which "trigger" cuts would be made first?
2. How many students should the segments enroll and support?
3. Should unfunded enrollment be counted in the cost-per-student calculation? If unfunded enrollment is not accounted for, does the allocation per student become higher than is needed?
4. The LAO's enrollment targets are higher than the Governor's for the UC, but the LAO is proposing to fund the UC at a lower level than the Governor. What level of services will the UC be able to provide to students at the funding level proposed by the LAO?
5. Is 2007-08 a reasonable base year for cost-per-student? State revenues were at their highest point during that year, and revenues are unlikely to increase back up to that level for at least three years.
6. The cost to educate a community college student is much lower than the cost to educate either a UC or CSU student. Should the state be placing resources toward increasing enrollment capacity at community colleges rather than maintaining enrollment capacity at UC or CSU?

## Item 2: UC & CSU Enrollment Management Strategies and Impacts

### Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Mark Whitaker, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Kevin Woolfork, CPEC

**Issue.** The issue before the Subcommittee is to evaluate and analyze the methods UC and CSU undertook to manage their enrollment targets, and whether or not those management strategies abided by the Master Plan guidelines to admit all first-time and transfer eligible California students.

**Master Plan for Higher Education.** The Master Plan for Higher Education was first developed in the 1960s. It defined roles for all three public higher education segments in California. The UC system is to admit the top 12.5 percent of students. The UC system will also provide PhD degrees and conduct research. The CSU system is to admit the top one-third of students. The CCC system is to admit anyone who may benefit from higher education.

Under the state Master Plan, all eligible applicants are guaranteed admission to some campus within the university system to which they apply. Each year, the State and the segments take steps to manage the number of students who attend because funding and campuses' physical capacity in any given year are limited. Some examples of these enrollment management techniques include adjusting application deadlines and restricting lower-division transfers.

**Enrollment Target Background.** Prior to the *2008-09 Budget Act*, the Legislature traditionally provided an enrollment target for each of the higher education segments. This enrollment target constituted the funded Full-Time Equivalent Students (FTES) that the segment was expected to enroll. The segments typically serve slightly more or fewer FTES than budgeted because enrollment is difficult to manage with precision. The number of eligible applicants to the UC and CSU fluctuates from year to year depending upon a number of factors including population growth, demographic changes, economic conditions, and student preference. If the higher education segments enroll more students than their funded FTES, these additional students are not financed by the state and are called unfunded FTES. Each of the higher education segments exceeded the enrollment target provided by the Legislature in the *2007-08 Budget Act*.

### Higher Education FTES for 2007-08

	UC	CSU	CCC
Budget Target FTES	198,455	342,893	1,169,606
Unfunded FTES	5,451	11,021	13,021
<b>Total FTES</b>	<b>203,906</b>	<b>353,914</b>	<b>1,182,627</b>

**Fiscal Year vs. School Year.** The Legislature directs the enrollment levels at the higher education institutions through the Budget Act, both in terms of dollars provided and the budget bill language directive on the number of students the segments should enroll. However, the admissions cycles at the UC and CSU do not follow the state fiscal year, and thus it is difficult for the segments to respond rapidly to budget cuts in enrollment. The UC system, for example, completes the fall enrollment acceptance process in May, but will not have a budget until July.

### **ENROLLMENT MANAGEMENT SINCE 2008**

**Segments' Response to Budget Cuts Since 2008.** Due to the steep General Fund cuts to each of the segments' budgets in 2008-09 and 2009-10, the Legislature eliminated the enrollment targets with the understanding that the segments could decide to address their budget cuts by reducing enrollment.

*University of California:* For 2008-09, UC decided to raise its total enrollment by about 5,000 FTES, or 2.5 percent growth. However, actual enrollment exceeded this target by approximately 1,600 FTES. These students were accepted for fall enrollment before the state budget was adopted.

For 2009-10, UC adopted a policy to decrease freshman enrollment by approximately 2,300 FTES, increase transfer enrollment by approximately 500 FTES, and maintain graduate enrollment at the previous year's level. Even with the decrease in freshman enrollment, UC indicated that they will enroll a total of 232,540 FTES during the 2009-10 academic year, including 213,880 California resident students and 18,660 non-residents, which is approximately 15,000 more students than budgeted.

*California State University:* For 2008-09, CSU attempted to manage enrollment levels closer to the 2007-08 budgeted level (which was 342,893 resident FTES), by moving fall 2008 application deadlines earlier. Despite this effort, CSU's enrollment still increased by approximately 3,300 FTES to 357,222 California resident FTES in 2008-09. The CSU system also took steps to force "super-seniors" with more than 142 units completed to graduate or leave the system.

For 2009-10, CSU implemented more aggressive enrollment management strategies by eliminating Spring 2010 admissions. CSU has set a goal to reduce overall enrollment by about 40,000 students over a two-year period. The CSU census numbers will not be completed until late April 2010, but the preliminary projection shows that the CSU will meet its 2009-10 goal of managing enrollment to a level at or below 342,983 resident FTES.

**2010-11 Enrollment Targets.** The University of California indicates that if the State did not fund its enrollment request, they would be forced to continue on a path of reducing enrollments to a level more consistent with available resources in order to preserve quality. For 2010-11, this would mean further restricting the enrollment of new California resident freshmen by an additional 2,300 students, for a total decrease of 4,600

in the incoming class from the number enrolled in 2008-09. In addition, UC plans another modest expansion of California resident transfer enrollment by 250 FTE students in 2010-11.

If the State were to provide the Governor's proposed \$51.3 million in enrollment funding, UC would target freshmen reduction by 1,500 students and increase transfer students by 500 students.

The California State University indicates that due to severe General Fund reductions in the last two years, their 2010-11 resident FTE student target will be reduced by 9.5 percent or 32,576 if the Governor's enrollment growth funding is not provided.

## **ENROLLMENT MANAGEMENT STRATEGIES**

**Enrollment Reduction Consistent With the Master Plan.** Both UC and CSU have reduced enrollment for new students in recent years and plan to make further reductions in the budget year. Yet the proposed enrollment plans would still abide by the Master Plan's guarantee that all eligible students who meet application deadlines would be able to attend at least one campus within that university system. Of course, this does not mean that students applying to the universities are unaffected by the enrollment reductions. Some students, for example, may find it more difficult to enroll in the campus or major that is their first choice. The segments are also imposing stricter requirements for meeting application deadlines, verifying eligibility, and completing pre-requisites.

**Changes at University of California.** The UC system employed two primary strategies to manage enrollment growth:

- **Campus Redirect.** UC would continue to guarantee admission to one of its campuses if an applicant meets the system's minimum eligibility criteria through a redirection policy. The redirection policy states that if an eligible student applies to a more competitive campus and does not meet that campus' higher criteria, the student would instead receive an offer of admission to a campus with lower admittance criteria (usually UC Merced or UC Riverside). In order to reduce freshman enrollment in 2009-10 and the budget year, UC is redirecting more students than in the past.
- **Waitlists.** The UC has also announced that it will use a waiting list for the first time in 2010-11. Numerous universities throughout the country use waiting lists to ensure that campuses are not too far above or below their enrollment targets.

**Changes at California State University.** The CSU has implemented more significant changes to its enrollment procedures as it has sought to reduce enrollment over the last few years. Unlike UC, CSU does not re-direct students to campuses with available space. Instead, CSU has historically guaranteed that eligible applicants have access to their regional campus if they apply by the priority deadline. However, eligible students might

not be admitted to some campuses outside of their region, since those campuses could use stricter criteria for reviewing applications from non-local students. This local admissions guarantee applies to most applicants with a few exceptions.

- **Impacted Majors.** High-demand programs that are declared impacted are exempt from the local admissions guarantee. Impacted majors have higher admissions criteria for all applicants including local-area applicants. This means that a local applicant meeting the minimum systemwide eligibility criteria could still enroll at the campus but would be precluded from certain majors.
- **San Diego State University.** San Diego State recently declared all of its majors impacted for fall 2010 (including “undeclared”). This means that all applicants are required to meet higher criteria for admission. Although the campus plans to provide some preferential treatment for local applicants, it will not provide a local guarantee. As a result, this policy is likely to mean that some eligible local applicants are denied admission. These students could still attend one of the less popular CSU campuses. However, because CSU does not practice redirection, the student would need to apply to the alternate campus and be able to attend college outside of his or her region.
- **Deadline Changes.** Another change implemented to reduce enrollment that affects CSU applicants is that almost all campuses stopped accepting applications after November 30 – a departure from a recent practice of extending application deadlines into the spring or summer. The CSU also closed spring admissions in 2010, requiring some eligible students, mostly transfer students, since first-time freshmen usually enter during the fall, to delay plans to enroll until fall 2010.
- **Super Seniors.** In July 2009, CSU Board of Trustees revised regulations to authorize campuses to review academic status of "super seniors" and to confer degrees on students as appropriate.

**Some Changes Are Not Tied To Financial Situation.** It is worth noting that some aspects of the segments' enrollment reduction plans would make sense even without the current funding shortfalls. For example, campuses have been directed to make acceptance offers contingent on satisfactory completion of high school work in progress; accept transfer students only if they meet minimum requirements; and require continuing students to maintain good academic standing. Each of these policies uphold academic standards the universities should promote regardless of the state's budget situation.

**LAO Recommendation.** In the LAO's view, providing enrollment growth funding for the universities in the budget year does not make sense because neither UC nor CSU would actually enroll more students. In fact, the Governor's proposed enrollment levels, as well as the segments' own plans, call for reduced enrollment in 2010-11. For this reason, the LAO recommends that the Legislature reject the Governor's proposal to provide UC and CSU \$112 million for enrollment growth in 2010-11.

**Staff Recommendation.** Once the Subcommittee determines the appropriate amount of funding for each of the segments, the Subcommittee may wish to consider reporting language on the steps each of the segments took to manage their enrollment, and the impact that those enrollment management strategies had on the diversity of the student body at each of the segments.

**Suggested Questions:**

1. Are the reductions in keeping with the Master Plan for higher education?
2. How are these enrollment changes impacting diversity, access, retention, and completion?
3. Who was admitted? Who was turned away? What happened to those turned away?
4. Are the systems providing any assistance to those students who may be impacted by the changes to eligibility/enrollment, including students of color, low-income students, and place-bound students?
5. How many out-of-state students is each segment intending to admit for Fall 2010? Is this more than were admitted in Fall 2009?
6. How are the university systems' working with community colleges to accommodate and assist transfer-ready students?
7. With reduced funding, the segments cannot offer all of the services to students that they used to offer. When course offerings are reduced, what priorities have the segments used to make the decisions of which majors are impacted?
8. What have the segments done to decrease administration and middle-level management before taking cuts from instruction?

### **Item 3: CCC Enrollment Management Strategies and Impacts**

#### **Speaker:**

- Erik Skinner, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hansen, Department of Finance

**Issue.** The issue before the Subcommittee is background information regarding the California Community Colleges enrollment levels, enrollment management, and the impacts of over enrollment.

**Master Plan.** The State's Master Plan and current statute direct the community colleges to admit anyone who might benefit from attending a community college. As such, community colleges do not deny admission to students. Instead, students simply register for classes that have available space, on a first-come, first-served basis. Enrollment restriction occurs when courses do not have available space.

**Governor's Budget.** The 2010-11 budget requests \$126 million for enrollment growth to fund about 26,000 additional FTE students – a 2.2 percent increase over current-year levels.

**Current Enrollment.** The Community College Chancellor's office estimates that the 2009-10 unfunded FTES reached about 89,000 (200,000 headcount) for the entire system. This represents about seven percent of their 1,250,000 total actual FTE students. This number does not include students who attempted to enter the CCC system, but were unable to enroll in courses they needed and left for private colleges or chose not to pursue higher education at all. Though current-year enrollment at CCC is projected to drop modestly from 2008-09 levels, it would still be far above budgeted enrollment levels.

**Districts Already Overenrolled.** Typically, new enrollment funding allows colleges to accommodate more students than they currently serve. However, due to the large number of students that are already over enrollment caps, districts have indicated that the benefit of growth funds would be to reduce the gap between funded workload and actual enrollments. Absent these additional enrollment monies, overcap districts indicate that they would likely further reduce course sections to bring the number of students they serve closer to the funded levels. For this reason, a more accurate term for these funds would be enrollment preservation funds.

It is likely that small number of districts that enter the budget year with no overcap workload would presumably use the new funding to increase total enrollments beyond their current-year base.

**Factors Driving Enrollment.** Many factors affect the number of students who attend a community college. Changes in the state's population, particularly among young adults, can be a major factor affecting enrollment levels. Factors such as economic conditions, enrollment decisions at UC and CSU, and the perceived value of the education to potential students also affect residents' demand for CCC instruction.

**Past Budget Cuts.** CCC enrollment levels peaked in 2002, and then entered a phase of decline followed by modest growth over a few years. During this time of uneven growth, the State budget repeatedly provided more funding for enrollment growth than community colleges could use. In fact, in order to bring funding into line with the lower enrollment levels, in 2007 the Legislature reduced the system's base budget by \$80 million (the amount of funding associated with approximately 20,000 slots that became vacant before 2006-07).

**Course Sections Reduced.** To accommodate budget reductions started in 2007, the community colleges have cut the number of course sections that they offer. Districts began the 2009-10 year by reducing the number of course sections offered during the summer by about 30 percent.

Most community colleges indicate that they have cut sections by five percent or more compared with the previous fall and that they have made even deeper cuts in the spring term to achieve sufficient savings. Many districts report that while virtually all areas of instruction have been affected by cuts, they have disproportionately targeted physical education and other recreational courses.

**Guidance on Course Reductions.** The Chancellor's Office provided guidance to the 72 community college districts, relating to both the mechanics of the workload adjustment, as well as the Legislature's intent that courses in basic skills, workforce training, and transfer be spared to the maximum extent possible.

**Waiting Lists for Courses.** Shrinking course offerings in the face of continued strong enrollment demand has resulted in an unknown but likely significant number of students who have had trouble getting into the classes they need. For example, San Diego City College District reports that two-thirds of course sections in spring 2010 have waiting lists for students, a significant increase from the prior year's spring term. Santa Clarita Community College District has waiting lists for over 80 percent of its spring 2010 sections. San Mateo College District reports that the number of students on waiting lists for spring classes (over 13,000) was about 90 percent higher than the same time last year.

**Impact of Course Reductions on Enrollment.** Many community colleges have significantly reduced course sections, yet enrollments are on track to being only slightly below last year's levels. These are two main reasons for this:

1. Districts have often targeted for elimination their sections with low enrollments (such as classes that were not full the prior year). Elimination of these low-demand classes fulfills the goal of saving money (particularly in instructor-related costs), but results in a much smaller drop in FTES.
2. Many course sections that districts opted to retain this year had capacity (available space) to add students. Adding students to fill these seats adds only negligible costs to providing the course section. Thus, districts have filled up these previously vacant seats in the current year – at times beyond courses' class-size maximum – adding to districts' average number of students served per class.

As a result of these factors, the "fill" rate (the percentage of available seats that are filled) and other measures of district efficiency and productivity have increased considerably throughout the CCC system in 2009-10.

**February 2010 Enrollment Report.** The CCC released a 2009-10 enrollment report in February 2010. The report found that CCC statewide enrollment dropped in 2009/10 by nearly 1 percent or 21,000 students. After peaking at 2.89 million students in 2008/09, the system is now starting to see a statewide decline in enrollments despite the unprecedented demand resulting from record numbers of graduating high school seniors, California's high unemployment, and students being displaced from the University of California and California State University.

**LAO Recommendation.** The LAO proposes increasing fees at the Community Colleges to \$40 per unit. An increase of 53.8 percent to \$40 per unit (from \$26 per unit) would mean that a full-time student taking 30 units per academic year would pay \$1,200. The LAO estimates that these higher fees would generate approximately \$150 million in additional revenues to the CCC system. These revenues would effectively provide funds for CCC enrollment (\$126 million in Governor's Budget) as well as "buy out" the Governor's proposal to apply a negative COLA to the system. Even at this higher amount, CCC fees would still be the lowest in the country.

**Staff Comment.** The funding available for the community college system is closely tied under Proposition 98 to the State's revenues.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open until after May Revise to have a better sense of the State's available revenues.

**Suggested Questions:**

1. The CCC February 2010 enrollment report states that enrollment is decreasing. How can this be the case if demand for community college education is increasing? If enrollment is decreasing, is increasing enrollment funding necessary?
2. How have the community colleges decided on course reductions?
3. What direction, if any, does the Master Plan for Higher Education provide to the community colleges on their educational priorities?
4. What numbers of potential students register at the community colleges, but are unable to enroll for any courses? What options do those students have for pursuing higher education if they cannot enroll at a community college?
5. Can community colleges keep enrolling every student, or should there be prerequisites for enrollment?

## Item 4: Planning Efforts

### Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Erik Skinner, California Community Colleges
- Judy Heiman, Legislative Analyst's Office
- Kevin Woolfork, CPEC
- Scott Lay, California Community College League

**Issue.** The issue before the Subcommittee is an overview of the segments' planning to prioritize enrollment needs when making cuts. The reductions in State support for the segments have been of such magnitude that not all course offerings can be fully maintained. The segments are invited to explain to the Subcommittee how they have prioritized cuts in course offerings and services that provide access to the systems.

**Determining Priorities.** The decreased funding for all segments has forced reduction in student services, furloughs of employees, holding positions vacant, and other cost savings measures that have an impact on the universities. In response, UC and CSU have undertaken long-range planning efforts to determine their priorities for the future.

### UC Commission on the Future

The UC Commission on the Future (Commission) is charged with developing a new vision for the UC within the context of the University's mission and budget, while reaffirming the UC's commitment to quality, access, and affordability. The Commission's goal is to have the UC play a vital role in sustaining California's economy and cultural life, operating strategically and as efficiently as possible within available resources.

UC's long-held governing principles of maintaining access, affordability, and the highest levels of quality in instruction, research, public service, and health care have guided the policy decisions to date. However, the Commission recognizes that in today's budgetary climate, these principles are becoming, in essence, what economists call "competing goods": One cannot be altered without affecting the value of others. There are no longer enough resources to maximize all competing goods simultaneously.

The Commission includes five working groups: 1) on the size and shape of UC; 2) its education and curriculum; 3) access and affordability; 4) funding; and 5) research strategies. These working groups are considering the following questions:

1. What is the right size and shape of the University going forward? Where should it grow, or should it?
2. What educational delivery models will both maintain quality and improve efficiency for UC's future?
3. How can UC maximize traditional and alternative revenue streams in support of its mission?

### **CSU Access to Excellence**

The CSU Access to Excellence is a strategic plan for the CSU system. Access to Excellence focuses on the intersection of the California State University (CSU) with the economic, political, and social environment of the State of California. Access to Excellence anticipates what the people of the state will need from the CSU in the next decade, and generally indicates how best to position the institution to meet those needs.

Access to Excellence is a public statement of the principles and core values of the CSU, framing broad strategic goals as the basis for setting the CSU's priorities and measuring its success over the next several years. At the same time, Access to Excellence identifies priorities for attention from policy-makers and the broad public, if California's educational needs are to be met.

The Access to Excellence plan makes eight broad commitments to the CSU system:

1. Reduce existing achievement gaps
2. Plan for faculty turnover and invest in faculty experience
3. Plan for staff and administrative succession and professional growth
4. Improve public accountability for learning results
5. Expand student outreach
6. Enhance student opportunities for "active learning"
7. Enhance opportunities for global awareness
8. Act on the CSU's responsibility to meet postbaccalaureate needs, including those of working professionals

**California Community College League.** The Community College League of California (League) is a nonprofit public benefit corporation whose voluntary membership consists of the 72 local community college districts in California. The League's Commission on the Future is charged with studying effective policy and practice changes that will enable the system to increase the number of students who have access to, and are able to complete, high quality degrees, certificates and transfer pathways in our community colleges. The Commission is scheduled to meet three times in 2010, with its work culminating in a report expected in September 2010.

**Staff Recommendation.** No recommendation, informational item.

### **Suggested Questions:**

1. How are these planning efforts different from previous planning efforts?
2. Are these planning efforts consistent with the Master Plan, or do they assume that there will be changes to the roles of the segments?
3. What planning efforts are the community colleges undertaking?
4. Do the higher education segments have a role in reducing the achievement gap, or is that a task for the K-12 system?

## **Item 5: Adding Schools and Majors in the Future – Informational**

### **Speakers:**

- Mark Whitaker, Legislative Analyst’s Office
- Kevin Woolfork, CPEC

**Issue.** The issue before the Subcommittee is an LAO recommendation on improving the process by which new schools and programs are added to the higher education segments. The prioritization of enrollment capacity at different schools or majors is important when the State’s fiscal conditions change, and demand for higher education increases. The LAO researched this topic, and wrote an analysis titled “The Master Plan at 50: Improving State Oversight of Academic Expansions”.

**Approval of New Schools or Programs.** Since each new program or school creates additional budget obligations, the proposals are scrutinized to ensure they address student needs, avoid duplication, and serve state interests. Each segment has internal procedures for reviewing and authorizing new programs and schools. State law delegates the state’s oversight of proposals to the California Postsecondary Education Commission (CPEC). The CPEC’s role, however, is only advisory and limited to certain proposals due to workload considerations. As a result, some proposals are implemented without state-level review, while a few proposals are brought before the Legislature if they require statutory changes or specific budget augmentations.

**CPEC Role.** While the segments perform their internal evaluation of proposals, they also submit the proposals to CPEC and outside accrediting agencies. The Education Code provides that one of CPEC’s responsibilities is to review proposals for new schools and programs and make recommendations regarding those proposals to the Legislature and the Governor. The CPEC can concur with the proposal, return the proposal to the segment with a request for more information or improvements, or not concur with the proposal. CPEC’s recommendation on program and school proposals is only advisory, with the exception of CSU’s proposals for joint doctoral programs with independent universities (reviews of new campuses are not advisory). However, all three segments historically have not allowed a campus to implement a proposal without CPEC’s concurrence.

Due to the large number of proposals received each year, CPEC has separate agreements with each segment to exempt certain types of proposals from CPEC review. For example, CPEC reviews only doctoral programs, professional schools, and certain types of master’s programs at UC and reviews CCC proposals only if they match certain characteristics, such as being the first program of its type in the CCC system or requiring new facilities or major renovations.

**LAO Findings.** In its review the LAO finds that the approval process for new programs lacks sufficient coordination and data and does not adequately consider priorities and policy alternatives. Most policy decisions are made at the campus level so that the type, scope, and size of programs are often driven by the desire of institutions to achieve

comparability with other campuses in the system rather than by considerations of need or cost effectiveness.

While the university systems can make certain changes on their own, the LAO concludes that there are several structural changes that are needed to improve the approval process for new programs and schools. These include:

1. Periodically measuring supply and demand in major fields to provide a framework for planning new programs and to signal to the universities which programs should be developed.
2. Revising the review criteria for proposals so they focus on how proposals fit within the state's priorities and resources.
3. Making state-level review of proposals more meaningful by allowing for earlier input from stakeholders and requiring CPEC's approval for proposals to move forward.
4. Increasing oversight from the Legislature through such mechanisms as requiring the Legislature's approval for larger proposals or separate budget items for new schools and programs.

**Staff Recommendation.** No recommendation, informational item.

**Suggested Questions:**

1. As funds become increasingly restricted, should the various UC and CSU campuses become specialized, or should they continue to offer similar programs and majors as the other campuses in their respective systems?
2. Are there currently any plans to add new schools or programs to any of the segments?
3. Majors and courses change with time as knowledge grows and demand for workers changes. Should the campuses be able to control what majors they offer, or should that be a decision made on the state-level?
4. Should any new programs or majors be added until the state's fiscal condition improves?

## **Item 6: UC Merced Update**

### **Speaker:**

- Patrick Lenz, University of California

**Issue.** The issue before the Subcommittee is the Governor's proposal to continue \$5 million in additional start-up funding for UC Merced. If UC Merced enrollment levels were higher, the \$5 million could have been taken for other uses within the system.

**UC Merced Background.** UC Merced is the tenth University of California campus. Like the other UC campuses, UC Merced has a mission of teaching and research. UC Merced opened in September 2005. The university is located about an hour north of Fresno and two hours south of Sacramento. As of fall 2009, UC Merced has 3,190 undergraduates and 224 graduates for a total enrollment of 3,414 students.

**Governor's Budget.** The Governor's Budget provides \$15 million for core operations and start-up costs associated with the Merced campus. Of this amount, \$10 million is for the core operations of the university and \$5 million is specifically for the unique costs associated with opening a new campus.

UC Merced originally received \$14 million in start-up funds, but these costs have decreased over time to just \$5 million in 2009-10 as enrollment has grown and the funding derived from enrollment growth has increased. According to the initial plans, the start-up funds were supposed to be eliminated in 2010-11 when the Merced campus was projected to reach a threshold of approximately 5,000 FTE students. As a result, UC Merced was supposed to be reduced by \$5 million in 2010-11, but the Governor is proposing to maintain that funding.

**Enrollment at UC Merced.** Initially, the Merced campus intended to open with 1,000 FTES, including 600 freshman, 300 transfer students, and 100 graduate students. However, actual enrollments fell short of the campus' goals and UC Merced opened with 865 FTES students in the Fall of 2005. Since then, the campus has re-benched its enrollment goals, planning to grow by 800 FTES annually. Even those enrollment goals have been difficult to achieve. Recent enrollment data suggests that the campus will likely average increases of 675 FTES annually, reaching 4,000 FTES by the 2010-11 academic year.

With lower than projected enrollment, it will be closer to 2012-13 before the campus reaches the 5,000 FTES threshold originally determined as necessary for completely phasing out the supplemental start-up funding.

**Staff Comment.** The Subcommittee may wish to consider encouraging UC Merced to enroll more students so that the \$5 million in additional start up costs is no longer necessary. Enrolling more students would create additional capacity as other campuses have to turn students away. If the Subcommittee chooses to maintain the additional \$5 million in start-up costs for UC Merced, the Subcommittee may wish to consider

reporting language on what actions UC Merced is taking to reach the minimum enrollment target.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open.

Note: The Governor proposes two capital outlay projects for UC Merced in 2010-11. Those will both be heard on May 13.

**Suggested Questions:**

1. Why is UC Merced enrollment growing at a slower rate than initially anticipated?
2. How many students applied to UC Merced during the Fall of 2009?
3. With many of the UC campuses turning away applicants and wait listing students, couldn't UC Merced enrollment be expanded rapidly for 2010-11 to accommodate student needs?
4. How many students who enroll at UC Merced as freshmen are choosing to transfer to another UC campus?

## **Item 9: Medical Education**

### **Speakers:**

- Patrick Lenz, University of California
- Mark Whitaker, Legislative Analyst's Office
- Sara Swan, Department of Finance

**Issue.** The issue before the Subcommittee is the Governor's proposal to provide \$2 million to support 135 FTE students in the Program in Medical Education (PRIME), thus holding the funding level and enrollment target at the current year level.

**Background.** The Governor and the Legislature supported the creation of the UC PRIME programs in an effort to address the need for culturally sensitive physician care for an increasingly diverse state. PRIME incorporated specific training and curriculum designed to prepare future practitioners to address disparities that exist in the provision of health care throughout the state, improving the quality of healthcare available for all Californians. The special training provided to PRIME students ranges from enhancing cultural sensitivities to the use of technology to overcome geographic barriers to quality care.

Since students who enter medical school with an interest in caring for underserved communities as part of their future career are more likely than other students to practice in such communities, the PRIME programs also help address regional health disparities.

**UC Programs.** The current UC PRIME programs are as follows:

- PRIME-RC (Rural California) at Davis. Award-winning model program in telemedicine and a commitment to outreach and rural health care.
- PRIME-LC (Latino Community) at Irvine. Emphasizes Latino health issues with training in Spanish language and Latino culture.
- PRIME at Los Angeles. Committed to serve, and experience working with, diverse medically disadvantaged populations.
- PRIME-HEq (Health Equity) at San Diego. Builds upon knowledge of health disparities and minority health problems to help students work toward and contribute to achieving equity in health care delivery.
- PRIME-US (Urban Underserved) at San Francisco. Offers students the opportunity to pursue their interests in caring for underserved populations in urban communities.

**UC Riverside.** The Inland Empire east of Los Angeles is a medically underserved community. The area has a large Hispanic population. A new medical school has been approved by the UC Regents to open at UC Riverside. In February 2010 a dean was hired to oversee the start of operations. It is not certain when the medical school can start admitting students because there is no funding.

**Governor's Budget.** The Governor's Budget provides \$2,025,000 to grow medical school enrollments by 135 FTES. The Governor's Budget also includes budget bill

language specifying that these funds are to be used for 135 FTES in the PRIME program at UC. This is the same amount that was provided in 2009-10.

The additional \$2 million covers the cost difference between what the state pays for "regular" student enrollments and the cost to UC to educate a medical student. Medical schools tend to have a higher marginal cost rate because of the smaller student-to-faculty ratio (3.5:1). In the case of PRIME, the cost amounts to an additional \$15,000 above the per student rate already provided by the state.

**Staff Comment.** The state needs additional medical doctors to serve underrepresented areas, and as the population ages the need for doctors increases.

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

**Suggested Questions:**

1. How has the PRIME program grown since 2005-06?
2. How is success in the PRIME program measured?
3. Do the students who complete the PRIME program actually work in low-income or underserved communities as medical practitioners?
4. When the UC Riverside medical school accepting students, how many future doctors will they be training?
5. What matching funds are available for the new UC Riverside medical school?
6. Has the need for doctors in Inland Empire region been examined, and what is the need for doctors in that region?
7. How will the UC Riverside medical school assist the State in meeting the new Federal health care law to provide medical coverage to all? Could federal funds be used to provide start-up funds for the medical school?

## Item 8: Nursing Programs

### Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Erik Skinner, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Kevin Woolfork, CPEC

**Issue.** The issue before the Subcommittee is the Governor's proposal to provide \$1.7 million to UC's nursing program and \$6.3 million to CSU's nursing program, thus holding the funding level and enrollment target at the current year level.

**Background.** There are four types of pre-licensure educational nursing programs:

1. Associate Degree in Nursing (ADN) programs at 2-year colleges.
2. Bachelors of Science in Nursing (BSN) programs at a 4-year university.
3. Accelerated nursing programs at two-year colleges for individuals who are already licensed vocational nurses.
4. Entry-level master's (ELM) programs at a university for students who already hold a bachelor's or higher degree in a non-nursing field.

**Availability of Nursing Education.** According to the Board of Registered Nursing (BRN), in 2008-09, California had a total of 138 pre-licensure nursing programs: 86 ADN programs, 36 BSN programs, and 16 ELM programs. While there has been an increase in available admission space, nursing programs continue to receive more applicants than programs can accommodate. In 2008-09, according to BRN, 22,527 qualified applicants (61.7%) to nursing education programs were not accepted for admission.

### UC Nursing Programs

#### *Schools of Nursing*

##### UC San Francisco

- Established 1907
- Offers MS and PhD

##### UC Los Angeles

- Established 1949
- Offers RN/BS/MSN, BS, MSN, and PhD

##### UC Davis

- Established 2009
- Plans to offer MSN and PhD, with BSN to follow

#### *Nursing Science Program*

##### UC Irvine

- Established 2005
- Offers a BS and MS, with plans to offer a PhD

**Need for Nurses.** Beginning in the late 1990s and early 2000s, a number of reports warned of the growing mismatch between the demand for registered nurses and the size of the registered nurse workforce. In response, the state augmented funding for CCC, CSU, and UC to increase nursing enrollment slots. In addition, new laws sought to improve the nursing pipeline by addressing matters such as student attrition and faculty recruitment. In large part due to these measures, nursing graduations reached 10,600 in 2008-09, a 100 percent increase over the amount in 2000-01. The latest report by the University of California, San Francisco (September 2009), forecasts that the state is on track to addressing its nursing shortage within the several years. However, the report cautions that this forecast is based on the assumption that nursing graduations continue at least at the present level. And given recently enacted federal health care reform, which will expand health care coverage to millions of residents, it is likely that the state will have to further increase its supply of nurses to meet future statewide demand.

**CPEC Report.** In a 2009 report by the California Postsecondary Education Commission, CPEC concluded that "in the absence of continuous legislative and institutional intervention, the demand for services provided by vocational and registered nurses over the next ten years will greatly outpace the supply of nurses anticipated to flow from postsecondary degree programs."

**Governor's Budget:**

**University of California.** The Governor's January Budget proposal includes \$1.7 million for an additional 122 FTE students in entry-level clinical nursing programs and entry-level master's degree programs in nursing. Of this funding, \$103,000 would be appropriated for supplemental marginal cost funding for 20 master's degree level nursing students.

The University did not receive increased enrollment growth funding in the last two Budget Acts. Given the demand for nurses, the California Labor and Workforce Development Agency has put forth a proposal in which, beginning in 2009-10, approximately \$12 million dollars in new, one-time federal Workforce Investment Act funding provided over five years would be available to UC through participation in the Governor's Nursing Education Initiative, for UC to train and graduate a single cohort of new California nurses.

Under this proposal, UC must provide matching funds, and would train nearly 350 nurses across multiple degree programs. The University notes that this is one-time funding only for a single cohort of students to complete their nursing programs. After this funding is used, enrollment will return to State-budgeted levels, and no growth will occur until State funding is again provided.

**California State University.** The Governor's January Budget proposal provides \$6.3 million to continue increased enrollment in nursing programs beyond the levels served in 2005-06 as follows:

1. \$560,000 for supplemental marginal cost funding for 280 FTE in entry-level master's degree nursing programs.
2. \$1,720,000 for full cost of a minimum of 163 FTE students in entry level master's degree nursing programs.
3. \$371,000 for full cost of 35 FTE students in baccalaureate degree nursing programs.
4. \$3,600,000 for full cost of 340 FTE students in baccalaureate degree nursing programs.

CSU has not received increased enrollment funding in the last two budget years, and individual campuses are considering eliminating or scaling back their nursing programs due to unsustainable costs.

**California Community Colleges.** As with UC and CSU, the Legislature has provided supplemental funding to CCC (on top of base funding for slots) to expand nursing enrollments and graduations, though this level of support has dropped as a result of the state's fiscal condition. In 2008-09, the state provided \$14 million to support 2,400 FTE nursing students (plus an additional \$8 million for support services designed to reduce attrition rates). Due to the state's fiscal condition, the *2009-10 Budget Act* provides \$8.5 million in supplemental enrollment funding for 1,480 FTE students—or 920 FTE students below 2008-09 levels. In addition, funding for support services would total \$4.9 million.

The Governor's 2010-11 Budget proposes reduced levels of support for CCC nursing programs from 2009-10. Specifically:

- \$8,475,000 for nursing program enrollment and equipment needs, reduced from \$11.7 million in 2009-10
- \$4,903,000 for diagnostic and support services, preentry course-work, alternative program delivery model development, and other services to reduce incidence of student attrition in nursing programs; reduced from \$6.8 million in 2009-10.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open pending the May Revision.

**Suggested Questions:**

1. Is the state on track to meet the need for nurses in five years or ten years?
2. Do the nursing programs have to grow in order for the state to meet the demand for nurses created by the aging and growing population?
3. How many nursing program students can be enrolled with the funding proposed by the Governor?
4. What kind of "intervention" would CPEC recommend the Legislature undertake for the state's nursing programs?
5. How is the UC spending the additional \$12 million proposed by the Governor for UC nursing programs?

## **Item 9: Student Academic Preparation**

### **Speakers:**

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Judy Heiman, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Kevin Woolfork, CPEC

**Issue.** The issue before the Subcommittee is the level of funding to provide to outreach programs that serve to encourage students to attend a college or university.

**Governor's Budget.** The Governor's Budget provides the following for budget bill language directives for student access programs:

- \$1,897,200 General Fund for UC California State Summer School for Mathematics and Science (COSMOS), including budget bill language requiring a report on the effectiveness of the program.
- \$3.5 million in federal funds for UC GEAR UP.

The Governor's Budget does not earmark funding for the UC Student Academic Preparation and Educational Partnership (SAPEP) programs. The Governor's Budget also does not earmark funding for the CSU student academic outreach programs.

**SAPEP Purpose.** The UC's Student Academic Preparation and Education Partnership programs are concentrated in the following areas: 1) student-centered programs that provide academic enrichment through tutoring, mentoring, college advising, college preparatory coursework, and educational experiences beyond the classroom for K-12 students; 2) school/university partnerships that offer curriculum development, direct instruction, community engagement, and other assistance to many of California's lowest-performing schools; and 3) enrichment and informational programs for K-12, community college, and graduate and professional students that facilitate ongoing educational opportunities.

**UC Accountability Framework.** The UC adopted an Accountability Framework for its Academic Preparation programs in 2006. Under this Accountability Framework, programs are charged with meeting broad academic achievement goals over a three-to five-year period. The goals for students participating in these programs include: (1) completing the A-G college preparatory course pattern in high school; (2) being academically ready for a four-year college (not just UC); (3) completing high school (by graduating and passing the CAHSEE); and (4) being ready to transfer to a four-year institution as a community college student. In addition, programs have the goal of establishing and maintaining K-20 educational partnerships.

**COSMOS.** The California State Summer School for Mathematics and Science (COSMOS) is one of the outreach programs in UC SAPEP. The COSMOS provides

academic preparation activities for high achieving high school students in a residential environment. While not part of UC's formal Accountability Framework, student success in this program has been highly regarded and "graduates" of the program are much more likely to ultimately pursue careers in science, technology, engineering, or mathematics.

**CSU Outreach Programs.** The CSU outreach and student academic preparation programs provide information and academic support to California's diverse population of elementary, middle, secondary, and post-secondary students. Student academic outreach programs target students who are disadvantaged educationally and economically, who are enrolled in public schools that have low college-going rates, and who need assistance in strengthening basic skills in math and English. These programs provide academic support services that raise the aspirations and improve the academic performance of students, advise students about courses needed to meet admissions requirements, help students acquire English and mathematics skills needed to succeed in college, provide instructional programs for students requiring academic support before they matriculate at a CSU campus, and provide retention services to students after they enroll in CSU.

**Early Assessment Program.** At the CSU, the Early Assessment Program (EAP) is one of the outreach programs receiving state support. The EAP program seeks to improve the proficiency level of entering students by assessing their English and mathematics skill levels while the student is still in high school. The EAP reached nearly 500,000 high-school students in 2008.

**LAO Recommendation.** In prior Analysis of the Budget, the Legislative Analyst has raised concerns with how the funds are allocated, as well as the data available from evaluations of the programs. The LAO generally supports student academic preparation programs. In prior analyses, the LAO has recommended an alternative approach to funding academic preparation programs. Under the LAO's previous recommendations, the state would implement a new College Preparation Block Grant program, whereby the Legislature would shift the funding away from the university systems and instead use the dollars to target K-12 school districts with low college participation rates. Further, the LAO has recommended that the legislature transfer funding that has been set aside for evaluation and research from the university systems to an external evaluator, in order to better assess the efficacy of the programs.

**Staff Comment.** Staff notes that while the university systems, students, and the Legislature continue to see the success of student academic preparation programs, the Governor has repeatedly proposed to eliminate budget bill language that protects funding for these programs. While funding for student academic preparation is clearly a high priority for the Legislature, it remains unclear why the Administration continues to propose the elimination of budget bill language guaranteeing state funding for these programs. Staff notes that the following budget bill language was included in the *2009-10 Budget Act*, and that the Subcommittee may wish to consider adding similar budget bill language for 2010-11:

2009-10 Budget Bill Language for the UC:

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 SAPEP by September 1 of each year.

2009-10 Budget Bill Language for the CSU:

Of the amount appropriated in Schedule (1), \$52,000,000 is appropriated for student academic preparation and student support services programs. The California State University shall provide \$45,000,000 to support the Early Academic Assessment Program and the Educational Opportunity Program.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open.

**Suggested Questions:**

1. The *2009-10 Budget Act* provide the UC and CSU flexibility in spending on academic preparation programs. How much are the UC and CSU actually projected to spend on academic preparation programs?
2. The Governor's proposal was to not mandate spending for academic preparation programs, but were the segments still intending to continue these programs and if so at what funding level?
3. How is the effectiveness of these academic preparation programs measured?

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**

**Chair, Carol Liu**

**Member, Robert Huff**

**Member, Roderick Wright**

**Thursday, May 13, 2010  
9:30 a.m. or Upon Adjournment of Session  
Room 3191, State Capitol**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
	<b>Outcomes, Transfers, and Capital Outlay</b>	
<b>6420</b>	<b>California Postsecondary Education Commission (CPEC)</b>	
<b>6440</b>	<b>University of California (UC)</b>	
<b>6600</b>	<b>California State University (CSU)</b>	
<b>6870</b>	<b>California Community Colleges (CCC)</b>	
Item 1	UC and CSU Student Graduation	Page 3
Item 2	Student Transfer Rates	Page 7
Item 3	Basic Skills	Page 11
Item 4	CCC Categorical Flex Items	Page 14
Item 5	Career Technical Education	Page 18
Item 6	CCC 75/25 Faculty Ratio	Page 20
Item 7	CCC Contracting Out Proposal	Page 22
Item 8	UC Administration	Page 23
Item 9	Lease-Revenue Bond Funded Capital Outlay Project	Page 26

	<u>Vote-Only Items</u>	Page 29
Item 10	UC and CSU Capital Outlay Projects – Other Funding Sources	Page 29
Item 11	Garamendi Financing Authorization for UC San Diego	Page 30
Item 12	CCC Capital Outlay Projects	Page 31
Item 13	UC & CSU Reappropriations, Extensions of Liquidation, and Reversion	Page 32
Item 14	CCC Capital Outlay Reappropriations and Reversion	Page 34
	Public Comment	

## Item 1: UC and CSU Student Graduation

### Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance
- Kevin Woolfork, CPEC

**Issue.** The issue before the Subcommittee is informational on the graduation rates at the University of California (UC) and California State University (CSU) and how the recent budget cuts may have impacted those rates. Also, the Subcommittee will hear from the CSU on their Graduation Initiative intended to increase undergraduate completion.

**Need for Graduates.** According to a recent analysis by the Public Policy Institute of California (PPIC), the state will need to produce an additional one million college graduates with a bachelor's degree between 2005 and 2025 to meet projected employment demand. In order to meet the PPIC goal of one million college graduates by 2025, the colleges and universities in California would have to increase the production of bachelor's degrees by almost 40 percent. The California Postsecondary Education Commission (CPEC) has found that the state is not producing enough graduates to meet the state's economic needs for information technology professionals, engineers, nurses, pharmacists, and teachers.

**Degrees Awarded.** California Postsecondary Education Commission data shows that in 2008, the UC system awarded a total of 58,424 degrees, including 42,416 bachelor's degrees. The CPEC data shows that in 2008, CSU awarded a total of 91,696 degrees, including 73,132 bachelor's degrees. According to CPEC, during 2008, private postsecondary institutions awarded 68,708 degrees, of which 30,774 were bachelor's degrees. According to the CPEC data, the California State University awarded nearly half of all bachelor's degrees in California during 2008.

### Bachelor's Degrees Awarded in 2008

Ethnicity	University of California		California State University	
	Awarded	Rate	Awarded	Rate
Asian/Pacific Islanders	13,348	31.5%	10,064	13.8%
Black	1,134	2.7%	3,597	4.9%
Filipino	1,898	4.5%	2,958	4.0%
Latino	5,668	13.4%	15,500	21.2%
Native American	222	0.5%	518	0.7%
White	15,324	36.1%	29,074	39.8%
Other	890	2.1%	1,678	2.3%
Nonresident	1,195	2.8%	2,588	3.5%
No Response	2,737	6.5%	7,155	9.8%
<b>Total</b>	<b>42,416</b>	<b>100.0%</b>	<b>73,132</b>	<b>100.0%</b>

Source: California Postsecondary Education Commission

**Current Graduation Rates.** Despite the fact that the CSU awards the most bachelor’s degrees in the state, freshmen who enroll in a California public university have a higher likelihood of graduating if they attend a UC than if they attend a CSU. Transfer student success is discussed in Item 2 below.

**Completion Rates for Freshmen Students Starting in 2001**

	Cohort	Completions			Completion Rate		
		4-Year	5-Year	6-Year	4-Year	5-Year	6-Year
<b>UC</b>	29,480	15,412	7,181	1,149	52.3%	76.6%	80.5%
<b>CSU</b>	37,302	4,865	8,624	4,197	13.0%	36.2%	47.4%

Source: California Postsecondary Education Commission

**Compared to Other States, California Doing Well.** The CPEC notes in their March 2008 report, *Beyond the Looking Glass: Assessing Performance in California Postsecondary Education*, that California students who enter CSU or UC directly out of high school and enroll in a full-time course load persist into their second year at rates higher than that for students enrolled in comparable institutions in other states. Students who continue to enroll full time in their second year and beyond are more likely to graduate in a timely manner.

**University of California.** The University of California does not have formal planning efforts currently underway for the sole purpose of boosting graduation rates. As part of the University of California’s Commission on the Future, administrative efficiencies are being considered for cost saving measures. These efficiencies may also have an impact on graduation rates. These include factors such as on-line instruction and a three-year bachelor’s degree. The Commission on the Future is expected to present its recommendations to the UC Regents in the early fall of 2010.

**CSU Graduation Initiative.** The CSU Graduation Initiative is part of the nationwide Access to Success project of the National Association of System Heads (NASH) and The Education Trust. The CSU is among 24 public higher education systems that have pledged to cut the college-going and graduation gaps for low-income and minority students in half by 2016. The goals of the CSU Graduation Initiative are:

- Raise the six-year graduation rates of CSU students to the top quartile of national averages on each campus; and,
- Cut in half the existing achievement gap between under-represented CSU students (URMs) and non-underrepresented CSU students (non-URMs).

CSU hopes to improve CSU graduation rates by eight percentage points system-wide and halve the achievement gap by the end of the 2015-16 year. A variety of strategies are being discussed and employed by the CSU to meet its goals and targets, including:

- Early Start and Summer Bridge Programs
- Learning Communities
- Degree Audit and Early Warning Advising
- First Year Experience Programs
- Roadmaps to Graduation

Reporting and monitoring will be critical to measuring progress and success around the initiative, and as such, the CSU Chancellor is requiring CSU campus presidents to submit “delivery reports” to the Chancellor that include targets, actions to be taken, and identify campus monitoring team members. Campus presidents will also be required to provide monthly and quarterly reports to the Chancellor, with the Chancellor reporting to the CSU Board of Trustees twice a year on progress.

**Staff Comment.** Student success in higher education is important because without an educated workforce California will not be able to sustain an innovative, thriving economy. The graduation rates for the segments are also important because the state invests a great deal of money into each student -- \$22,920 annually for UC and \$11,722 annually for CSU. If the student attends for a few years but does not graduate, the state not only loses the investment placed into that student, but the spot taken by the student who did not complete denies another student the opportunity to even attempt to complete.

Student success in higher education is assisted by a variety of factors, including availability of financial aid, availability of required courses, informational resources available, matriculation counseling, disability services, tutoring services, psychiatric counseling, and family support. Both the UC and CSU systems have received greatly reduced state General Fund, which would have been used to pay for courses offered and support services for students. Despite dramatic raises in student fees, both segments have fewer total resources in 2009-10 than they did in 2008-09 (UC is down by about \$279 million and CSU is down by about \$452 million). With this reduction in total resources available, campus support services for students may have suffered.

The CSU Graduation Initiative is a long-term effort by the CSU to improve graduation rates. Students who enter CSU as freshmen have a far lower graduation rate than students who transfer to a CSU from a community college, and thus become an investment on which there is very limited return to the state. When examining factors such as graduation rates, it is important to collect multiple data points that can illuminate the situation, including the number of actual graduates, number of students admitted into the system, number of applicants, and number of high school graduates in the region who are eligible applicants. Only with a comprehensive data set can the data reveal a sufficient amount of information that can reliably be used to drive state policy.

It is important to note that any low-income students who would have to take summer remedial courses prior to starting their freshman fall term at a CSU may not be able to receive CSU financial aid for the duration of the summer term. However, those students could take courses at a community college, where they would qualify for a Board of Governors (BOG) waiver on account of their low-income status.

The Legislature is faced with the difficult decision of allocating additional funds toward providing additional access through increased enrollment or providing additional services for students currently in the system. If the Legislature chooses not to provide additional funds for higher education, the mandatory cost growth for both UC and CSU may require

further cuts in existing student services (please see the March 18 agenda for discussion of mandatory costs).

**Staff Recommendation.** No recommendation, informational item.

**Suggested Questions:**

1. Who is successfully graduating?
2. What services do the segments provide that get students to succeed?
3. What cuts have student services taken? What support services for students have been reduced or eliminated at each of the segments? To what degree were student fee revenues used to backfill for cuts in student services?
4. How have we allowed the segments to mitigate the response?
5. In what specific ways is the CSU Graduation Initiative expected to help students?
6. What specific data will the CSU Graduation Initiative collect and use?
7. Will the CSU Graduation Initiative provide the student with the option of taking remedial courses during the summer, or will such summer remedial education become mandatory?
8. If CSU students must take remedial education courses before they are admitted to the CSU before the fall term, will they be able to receive financial aid for the remedial courses taken during the summer term?

## Item 2: Student Transfer Rates

### Speakers:

- Judy Heiman, Legislative Analyst’s Office
- Patrick Lenz, University of California
- Susan Wilbert, University of California
- Robert Turnage, California State University
- Allison Jones, California State University
- Erik Skinner, California Community Colleges
- Mollie Quasebarth, Department of Finance
- Kevin Woolfork, CPEC

**Issue.** The issue before the Subcommittee is informational on which students are successfully transferring from the community colleges to a four-year institution, and what efforts are the segments undertaking to simplify the transfer process for students.

**UC Transfer Requirements.** To transfer into the University of California system, a student must have fulfilled the core eligibility requirements. These requirements are the same for all campuses across the system. The UC campuses do differ in lower-division major preparation requirements for selective majors and the degree to which lower division major preparation factors into the admission decision. Campuses also differ in degree of selectivity.

**CSU Transfer Requirements.** To transfer into the CSU system, a student must have at a minimum completed the General Education Breadth requirements with a 2.0 grade point average or better (2.4 for non-resident students). The 23 CSU campuses differ in degree of selectivity, and the major preparation requirements differ for some campuses. All campuses have higher standards for out-of-state students and international students. The majority of transfer students enter as upper-division transfers. Upper-division transfers must complete at least 60 semester or 90 quarter units before transfer.

**Transfer Destinations.** The majority of the community college students who transfer go to the California State University system, followed by in-state private universities.

### Annual Number of CCC Students Transferring, by Year of Transfer

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
California State University	50,746	48,321	53,695	52,641	54,391	54,971
University of California	12,275	12,539	13,114	13,510	13,874	13,909
In-State Private	17,038	19,673	20,174	19,530	20,071	23,322
Out-of-State Private	11,055	11,936	12,467	12,701	13,146	13,755
<b>Total</b>	<b>91,114</b>	<b>92,469</b>	<b>99,450</b>	<b>98,382</b>	<b>101,482</b>	<b>105,957</b>

**Transfer Schools.** There are 16 community colleges that produce approximately half of all the community college transfers to UC, and 27 community colleges that produce half of the community college transfers to CSU. It is not clear why some community colleges

produce more students who transfer to four-year institutions than others, but some of the reasons include a “transfer culture” on campus, the proximity of the community college campus to a four-year institution, and the size of the community college campus. Santa Monica College and De Anza College produce the most community college transfer students for the UC system, while Orange Coast College and Mt. San Antonio College produce the most community college transfer students for the CSU system.

**Transfer Students.** The majority of transfer students arrive at the University of California or California State University from the California Community Colleges. These students have typically completed 60 or more units of course work, and begin their time at the four-year university as juniors.

### Students Transferring From Community Colleges to UC and CSU

Ethnicity	UC		CSU		UC		CSU	
	1999	%	1999	%	2008	%	2008	%
Asian/Pacific Is.	1,893	21.8%	3,828	12.6%	3,156	25.5%	4,174	12.5%
Black	221	2.5%	1,444	4.7%	336	2.7%	1,820	5.5%
Filipino	226	2.6%	1,107	3.6%	368	3.0%	1,310	3.9%
Latino	1,143	13.1%	5,848	19.2%	1,974	15.9%	8,078	24.3%
Native American	70	0.8%	290	1.0%	96	0.8%	275	0.8%
White	3,735	43.0%	12,438	40.9%	4,538	36.6%	12,362	37.2%
Other	219	2.5%	1,141	3.7%	263	2.1%	791	2.4%
Non-resident	518	6.0%	1,081	3.6%	1,041	8.4%	1,401	4.2%
No Response	671	7.7%	3,270	10.7%	612	4.9%	3,062	9.2%
<b>Total</b>	<b>8,696</b>	<b>100.0%</b>	<b>30,447</b>	<b>100.0%</b>	<b>12,384</b>	<b>100.0%</b>	<b>33,273</b>	<b>100.0%</b>

Source: California Postsecondary Education Commission

**Success of Transfer Students.** At the University of California, transfer students have a slightly lower completion rate after two years at the UC than freshmen do after four years, but a slightly higher completion rate after four years at the UC than freshmen do after six years. However, this pattern does not hold true for all ethnic groups: African American transfer students have a lower completion rate than the rest of the student body in both the second and fourth year. At the California State University, transfer students are far more successful than their freshman-start counterparts.

### Undergraduate Student Completion Rates for Transfers Entering in 2002

	2 Years	3 Years	4 Years	5 Years	6 Years
<b>UC</b>	47.3%	78.7%	84.7%	NA	NA
<b>CSU</b>	NA	50.3%	62.9%	67.9%	70.1%

**Impediments to Transfer.** There are multiple reasons why a student may choose not to transfer to a four-year institution, among them lack of financial aid, lack of information about the application process and degree requirements, and family obligations. However, there are efforts underway to lessen the impact of two significant impediments to transfer: lack of common course requirements from campus to campus and lack of common course numbering.

**Lack of Common Course Requirements.** Though both the UC and CSU have standard general education requirements within their segment, the admissions requirements can still vary from major to major. Not only can the admissions requirements vary for different majors, the requirements can vary for the same major at two different campuses within a segment. Thus, a student applying to two different CSU campuses may find that the courses he or she took at the community college satisfy the requirements for one campus, but not the other.

*Major Articulation.* The UC system has been working to standardize requirements among its campuses through major articulation, which specifies the requirements for a major and sets the same requirements for all UC campuses offering that major. So far 70 majors within the UC system have gone through such a major articulation process. These 70 majors capture a large number of the UC students because some majors are more popular than others.

*Transfer AA Degree.* The California Community Colleges is working with CSU to establish a transfer Associate in Arts (AA) degree. CCC and CSU are working to determine a standard set of courses that a student could complete to receive an AA in transfer, which would allow the student to transfer to any CSU in Junior status.

**Common Course Numbering.** Each district within the Community College system decides the courses it will offer and the content of those courses. Each course will receive a course number, and those course numbers do not necessarily correspond to other community college districts' course numbering systems. So an introduction to physics course at one campus may be called Physics 10 while at another campus it is called Physics 101. These differences in course numberings make it more difficult for students to discern which courses actually meet the UC and CSU standards.

*C-ID.* The C-ID is a new effort by the community colleges, UC, and CSU to establish standards for courses that meet transfer requirements. The project includes bringing together faculty from all three segments to discuss the requirements for courses within a major, and setting standards for courses with specific course numbers. The faculty of a particular campus can then choose to offer a course meeting the C-ID requirements with the common course number; if the faculty choose not to offer the C-ID course content, the course would simply receive a course number not listed as a transferable course. The C-ID effort is at its infancy, and agreement on the C-ID standards for the first major (Agriculture) is anticipated in fall 2010.

**Staff Comment.** Transfer students cost the state less to educate because approximately half of the course credits they complete are at the less expensive community colleges. Transfer students have proven themselves to be able to succeed once at a four-year institution.

The UC system has pledged to let in 500 more transfer students in 2010-11, even as first-time freshman enrollment is reduced by 1,500. The CSU has not made similar guarantees about enrollment for transfer students, but the CSU's enrollment reduction would be far steeper, approximately 29,000 students, than the UC's if the segments do not receive new funding.

**Staff Recommendation.** No recommendation, informational item.

**Suggested Questions:**

1. Who is successfully transferring?
2. Many transfer students end up with many more course units than is required for their major, partly due to confusion as to which courses are required for transfer. What are the segments doing to reduce the number of course units that transfer students end up completing?
3. How many transfer students full-time vs. part-time students?
4. Two years ago CSU placed course descriptions on the classes admitted for majors, and in so doing rejected nearly half of the community college courses as transfer eligible. How will the C-ID effort impact the CSU admitting community college courses as transfer eligible?
5. The community college courses offered for the majority of AA degrees are not transfer eligible to a CSU. As the CCC and CSU work together to develop the AA degree in transfer, will some of the currently non-eligible courses be reexamined, especially the career technical education courses?

### **Item 3: CCC Basic Skills**

#### **Speakers:**

- Paul Steenhausen, Legislative Analyst's Office
- Erik Skinner, California Community Colleges
- Ed Hanson, Department of Finance

**Issue.** The issue before the Subcommittee is informational on the effectiveness of basic skills instruction in the community college system.

**Basic Skills Background.** Most students who enter California Community Colleges (CCC) lack sufficient reading, writing, and mathematics skills to undertake college-level work. Thus, one of the CCC system's core missions is to provide precollegiate "basic skills" instruction to these students. (Basic skills are typically used interchangeably with terms such as foundational skills and remedial and developmental education.) These skills form the foundation for success in college and the workforce, yet data suggest that most incoming CCC students are not ready for college-level work.

Despite the name, students taking credit basic skills courses do not receive college credit. That is, units for these courses do not count toward an associate's degree, and are not transferable to UC or CSU. However, the units are taken into account for financial aid purposes.

**California Students Struggling to Graduate from High School.** The CPEC found that when averaged over all residents, California is in the bottom ten states for the percentage of 19- to 25-year-olds with a high school diploma. Of the 15 largest states, only Georgia and Texas have a lower percentage of young adults with a high school diploma. Those students who do not graduate from high school can enter a community college, where they will most likely have to take basic skills training. Even those students who do graduate high school may not be ready for college-level work.

**Placement Into Basic Skills.** The CCC has a placement test that is offered to students enrolling in the district for the first time. Under current law, CCC assessment results must be nonbinding. That is, statute prohibits community colleges from requiring students to take any particular class (such as a basic skills writing class) based on their assessment. Instead, "assessment instruments shall be used as an advisory tool to assist students in the selection of an educational program." According to the CCC Academic Senate, this is a problem because over one-third of students assessed as needing basic skills courses choose not to enroll in them.

Also, unlike UC, CSU, and a number of community colleges outside the state, California's community colleges cannot require their students to address their basic skills deficiencies within a certain time period. Instead, these students are free to enroll in any course they choose, provided they meet any prerequisites. However, as the Institute for Higher Education Leadership and Policy and others have noted, CCC regulations make it difficult for districts to establish math and English prerequisites for college-level courses in other disciplines such as history and economics.

**Success in Basic Skills.** Completion rates for under-prepared students, such as those in need of basic skills, are generally low. The problem of students entering the CCC system without basic skills has taken on a greater sense of urgency in light of the system's decision to increase math and English proficiency requirements beginning in fall 2009 for students receiving an associate's degree. Currently, just over nine percent of all credit units taken at community colleges are for basic skills classes.

Success rates for basic skills students are generally low. For example, the LAO's review of CCC data shows that:

- *Many Students Do Not Pass Their Basic Skills Courses:* Of those students who enroll in credit basic skills courses, only about 60 percent successfully complete a basic skills English course, while just 50 percent of students successfully complete a basic skills math course. The course completion rate for ESL is better (about 75 percent). These percentages do not take into account an unknown number of students who initially enroll in a basic skills course but drop out before the third week of classes, when an official student count (census) is taken.
- *About One-Half of Basic Skills Students Do Not Persist in College:* About one-half of students enrolled in credit basic skills math, English, and ESL courses in any given fall term do not return to college the following fall.
- *About One-Half of "Successful" Basic Skills Students Do Not Advance:* According to the Chancellor's Office, of those students that successfully complete a credit basic skills math, English, or ESL course, only about one-half go on to complete a higher-level course in the same discipline within three years.
- *Few Noncredit Students Move on to Credit Courses:* The CCC system frequently states that one of the purposes of noncredit basic skills courses is to serve as a gateway to credit instruction and the attainment of a college degree. Yet, less than 10 percent of noncredit basic skills students eventually advance to and successfully complete one degree-applicable credit course (excluding physical education). It should be noted, however, that an unknown number of noncredit students do not endeavor to achieve such a goal.

**Basic Skills Categorical Item.** The majority of the funding for basic skills instruction is in the base funding for CCC. The categorical funding only provides a supplement to the base funding for planning purposes. In 2006–07, the state launched a "basic skills initiative" that provides CCC with additional funding to address the issues of basic skills student non-persistence. Districts are permitted to use these funds for a number of purposes, such as curriculum development, faculty training, and student tutorial services. As a condition of receiving these funds in 2007-08, colleges agreed to assess the extent to which their individual policies and practices align with evidence-based "best practices".

**2010-11 Budget.** The Governor's proposed budget provides \$20 million for the basic skills categorical item. The Governor also proposes to place the basic skills into categorical flexibility, discussed in Item 4 below. In 2008-09, the Basic Skills Initiative received \$33.1 million.

**LAO Recommendation.** While the LAO recognizes that community colleges can make certain changes on their own (such as using more effective instruction techniques), the LAO concludes that there are several structural and systemwide changes that are needed in order to improve student preparedness and success. Taken together, the LAO believes that these recommendations would help to increase the level of awareness and preparation of high school students interested in attending a community college, as well as assist the colleges to identify, place, and advise basic skills students. These changes include:

- Assessing prospective CCC students while they are still in high school to signal their level of college readiness and giving them an opportunity to address basic skills deficiencies before enrolling in a community college.
- Making available a statewide CCC placement test derived from K-12's math and English standards tests.
- Creating a strong incentive for students to take required assessments, as well as requiring underprepared CCC students to begin addressing their basic skills deficiencies immediately upon enrollment.
- Giving colleges' fiscal flexibility to provide students with the appropriate mix of classroom instruction and counseling services.

**Staff Comment.** The Basic Skills Initiative is important in allowing community colleges to effectively serve a vulnerable student population. Those students taking basic skills classes tend to come from disadvantaged backgrounds where the K-12 system did not provide them with sufficient preparation for completing college-level academic work. In order to help these students succeed not only in college but in their careers after college, the basic skills courses are necessary to provide a foundation in literacy and mathematics. Basic skills courses also provide English as a second language instruction that helps non-native English speakers participate more fully in their communities.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open.

**Suggested Questions:**

1. How has the funding cut to the basic skills categorical item in 2009-10 influenced the delivery of basic skills programs?
2. Since the Basic Skills Initiative began in 2006-07, have the community colleges seen any increase in basic skills students completing a certificate program, AA degree, or transferring?
3. How successful are basic skills students compared to non-basic skills students, at completing a certificate program, AA degree, or transferring?
4. Has the ratio of basic skills students (compared to overall student body) grown over the last decade?

## Item 4: CCC Categorical Flex Items

### Speakers:

- Paul Steenhausen, Legislative Analyst’s Office
- Erik Skinner, California Community Colleges
- Ed Hanson, Department of Finance

**Issue.** The issue before the Subcommittee is the Governor’s proposal to expand categorical flexibility that was a part of the *2009-10 Budget Act*.

**Categorical Flexibility in the 2009-10 Budget Act.** Community colleges received deep cuts in the *2009-10 Budget Act*, which were focused primarily on categorical programs. Year-to-year support for categorical programs declined by 37 percent, from \$705 million in 2008-09 to \$441 million in 2009-10. To alleviate the severity of the categorical program reductions, the Legislature, through trailer bill language, permitted the community colleges to shift funds between the 12 categorical programs that were included in the flexibility item (flex item). There are a total of 21 categorical items.

Programs Included in Flex Item	Programs Excluded From Flex Item
Academic Senate	Basic Skills Initiative <sup>a</sup>
Apprenticeship	CalWORKs Student Services
Campus Child Care Support	Disabled Students Program
Career Technical Education Initiative <sup>b</sup>	Extended Opportunity Programs and Services <sup>a</sup>
Economic and Workforce Development	Financial Aid Administration
Equal Employment Opportunity	Foster Care Education Program
Matriculation	Fund for Student Success <sup>a</sup>
Part-Time Faculty Compensation	Nursing Grants
Part-Time Faculty Health Insurance	Telecommunications and Technology Services
Part-Time Faculty Office Hours	
Physical Plant and Instructional Support	
Transfer Education and Articulation	

<sup>a</sup> Governor proposes to include this program in flex item beginning in 2010-11.  
<sup>b</sup> Governor proposes to remove this program from the flex item in the current and budget years.

Source: LAO

**Moving Funds Between Flex Items.** Under categorical flexibility, from 2009-10 to 2012-13, districts are permitted to transfer funds from categorical programs in the flex item to any other categorical spending purpose. (Such decisions must be made by local governing boards at publicly held hearings.) By contrast, funds in categoricals that are excluded from the flex item must continue to be spent on their own specific program in accordance with statutory and regulatory requirements. For example, funds in the Economic and Workforce Development program (within the flex item) may instead be spent on Financial Aid Administration (outside the flex item), though Financial Aid Administration can only be spent for that purpose. As of April 15, 2010, 33 of the 72 community college districts had chosen to utilize the categorical flexibility option.

**Governor’s Budget.** The Governor proposes to remove the Career Technical Education (CTE) program from the “flex item” and replace it with the three programs currently not in flex: the Basic Skills Initiative, Extended Opportunity Programs and Services (EOPS), and the Fund for Student Success. The Governor’s proposed 2010-11 budget contains the following funding for these programs:

- Basic Skills Initiative: \$20 million
- EOPS: \$63.3 million
- Fund for Student Success: \$3.3 million

*Basic Skills Initiative.* Funds in the Basic Skills Initiative (formally known as “Student Success for Basic Skills Students,” which is separate from the Fund for Student Success) are used by districts for activities and services such as curriculum development, professional development workshops, and supplemental counseling and tutoring for CCC students who lack college-level proficiency in English and mathematics. For more background, please see Item 3 above.

*Extended Opportunity Programs and Services.* The EOPS program provides various supplemental services (such as orientation, counseling, tutoring, and financial assistance to purchase textbooks) for low-income—and typically underprepared—students. (The Cooperative Agencies Resources for Education program is a subset of EOPS that serves welfare-dependent single parents who are attending CCC.)

*Fund for Student Success.* The Fund for Student Success consists of three separate programs: Middle College High School (MCHS); Puente; and Mathematics, Engineering and Science Achievement (MESA).

- Middle College High School: The 13 existing MCHS programs are located on community college campuses. Students in the program typically take their high school classes together during one half of the school day, and attend community colleges classes during the other half. In addition to working toward a high school diploma, MCHS students have an opportunity to earn an associate’s degree and credits that are transferable to a four-year institution. The \$1.5 million of 2009-10 General Fund support for MCHS is typically used for purposes such as helping high school students buy their college textbooks and paying the partial salary of a CCC counselor to advise students and their parents on courses to take.
- Puente: Puente is a partnership among 58 community colleges, the UC, and the private sector. Staff from the UC Office of the President train CCC faculty to implement the program, which consists of intensive reading and writing classes (typically involving Latino literature), mentoring, and counseling services. The program is designed for students from historically underrepresented groups who are interested in transferring to a four-year institution. In 2009-10, the state provides Puente with \$1.6 million in General Fund monies.
- Mathematics, Engineering, and Science Achievement: The purpose of MESA is to increase transfer rates of low-income students pursuing degrees in math-based fields (such as engineering, computer science, and physics). Students in the MESA program receive counseling, tutoring, mentoring, and other services at one

of the 30 participating community college campuses. The 2009-10 Budget Act provides \$2.1 million in General Fund support for the program.

**LAO Recommendation.** The LAO recommends that the Legislature approve the Governor's proposal to add the Basic Skills Initiative, EOPS, and Fund for Student Success to the flex item. In addition, the LAO recommends that the Legislature add the Financial Aid Administration program to the flex item. Doing so would give districts greater ability to select for themselves the best strategies for advising and providing outreach to financially needy students (including perhaps combining elements of the program with other categorical programs that provide services to low-income CCC students).

The LAO points out that by placing these programs in the flex item, districts would be permitted to decide for themselves how best to allocate funds to targeted purposes. Districts would be free to modify an existing program model to better suit their students, including combining separate pots of categorical funds (such as Matriculation, the Basic Skills Initiative, and Apprenticeships) to address the problem of underprepared students. This could help districts operate their services more efficiently, such as by consolidating categorical programs' various counseling functions (provided through Matriculation, the Basic Skills Initiative, Puente, MESA, and EOPS, among others). In addition, increasing the number of programs in the flex item could generate savings to districts by eliminating numerous application, accounting, and monitoring requirements.

**Staff Comment.** The categorical flexibility was adopted as part of the *2009-10 Budget Act* for the duration of three years. The program is only in its first year, and has been utilized so far by only 33 of the 72 community college districts. Since the community colleges set their annual budgets in the summer, often before the budget passes, it is difficult for the districts to quickly respond to budget changes. The Legislature may wish to allow the categorical flexibility program to operate as planned for the three-year pilot phase before changing the categorical items that are part of the program.

Services to the most vulnerable student populations within the community college system have historically been important to the Legislature. The Fund for Student Success and EOPS programs target students who come from low-income backgrounds and who may be the first in their families to attend college. These students benefit from the additional counseling and assistance provided to them by the EOPS and Fund for Student Success programs. Students from low-income backgrounds frequently need assistance in navigating the college requirements in order to succeed and attain their goals of higher education.

The Basic Skills Initiative was discussed in Item 3. The Basic Skills Initiative provides the community colleges with the resources to plan courses that allow students who need remedial education to succeed in college. Without basic skills instruction, the students who did not gain the necessary foundational skills in high school would be left to struggle in college courses that they are not adequately prepared to complete.

A portion of the Financial Aid Administration categorical item pays for a portion of the state mandates regarding community college financial aid. If this categorical was placed into the flex item, the community colleges would not necessarily have to allocate the categorical funding to the mandate in the budget year, but the state would still owe that money for the mandate to the community colleges in the future.

**Staff Recommendation.** Staff recommends that the Subcommittee reject moving the additional categorical items into the flex item.

**Suggested Questions:**

1. How has categorical flexibility assisted the community college campuses that chose to move funds between the programs?
2. Less than half of the community college districts used the categorical flexibility. Was this because the 39 districts that did not use the flexibility would not have benefited from it?
3. If the programs currently funded by the Fund for Student Success categorical (MCHS, Puente, and MESA) were ended by districts as a result of categorical flexibility, would similar services exist at the community colleges for under-represented minority students?
4. The districts that chose to utilize categorical flexibility also chose to move funds into EOPS (the flex items allow funds to be moved into non-flex items, but not out). Since districts seem to think that EOPS should receive more money and they can accomplish that under the current flex item structure, why should EOPS be included in the flex item?
5. If the Basic Skills Initiative was included in the flex item, would the program benefit as many students as currently are served by it?
6. What performance measures does CCC use to assess the effectiveness of the various categorical programs?

**Item 5: Career Technical Education**

**Speakers:**

- Paul Steenhausen, Legislative Analyst’s Office
- Erik Skinner, California Community Colleges
- Patrick Lenz, University of California
- Ed Hanson, Department of Finance

**Issue.** The issue before the Subcommittee is the Governor’s proposal to remove Career Technical Education (CTE) from the categorical flexibility and to provide \$68 million for CTE, an increase of \$20 million from 2009-10.

**Career Technical Education Background.** SB 70 (Scott, 2005) created the CTE Pathways Initiative. SB 70 established a program to “improve linkages and career technical education pathways” between K-12 and community colleges. These “pathways” are designed to help K-12 students develop vocational skills sought by employers in the area, while also preparing students for more-advanced academic or vocational coursework at a community college or university.

The CCC Chancellor’s Office and California Department of Education (CDE) administer the initiative and allocate funds through a competitive grant process. Local projects are jointly developed by community colleges and K-12 entities (high schools and Regional Occupation Centers/Programs). Most local projects are also required to involve local businesses. Grants typically provide short-term improvement funding to develop or strengthen CTE programs rather than ongoing operational support. Currently, the initiative consists of 19 separate grant categories.

**Funding History.** As the chart below illustrates, the CTE Pathways Initiative program was funded only with Proposition 98 funds during the first two years of operation (2005-06 and 2006-07). Chapter 751, Statutes of 2006 (SB 1133, Torlakson), included additional annual funding for the initiative as part of the Quality Education Investment Act (QEIA). The QEIA payments are suspended in the current year. Instead, the program is funded by \$48 million in Proposition 98 funds in the current year.

**CTE Pathways Initiative (SB 70)**

*(dollars in thousands)*

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Proposition 98	\$ 20,000	\$ 60,000	\$ 10,000	\$ 20,000	\$ 48,000	\$ 20,000
QEIA	\$ -	\$ -	\$ 32,000	\$ 38,000	\$ -	\$ 48,000
<b>Total</b>	<b>\$ 20,000</b>	<b>\$ 60,000</b>	<b>\$ 42,000</b>	<b>\$ 58,000</b>	<b>\$ 48,000</b>	<b>\$ 68,000</b>

**Governor’s Budget.** The Governor’s proposal would remove CTE from the categorical flexibility item, as well as increase CTE’s funding to \$68 million (\$48 million from QEIA and \$20 million GF). The Governor would pay for this augmentation by reducing base support by \$10 million each from the part-time faculty compensation program

(currently in the flex item) and EOPS (proposed to be in the flex item); both of these programs experienced roughly 40 percent reductions in 2009-10.

**LAO Recommendation.** In order to give districts more discretion in how they use their limited resources, the LAO recommends that the Legislature reject the Governor's proposal to provide \$20 million in additional Proposition 98 support for the program, and instead fund the program entirely with \$48 million in non-Proposition 98 QEIA funds.

**Staff Comment.** The CTE Pathways Initiative is a program that holds a lot of promise program to provide career technical education to both community college and high school students. However, the actual success of the program in getting students to take courses in high school and then move on to the community college for an AA degree or certificate in a CTE field is not known. At this point, it may be beneficial to acquire additional information on the CTE Pathways Initiative effectiveness. In 2008, there were 84 local assistance grants provided in the CTE Pathways Initiative program.

The CTE Pathways Initiative works with community colleges and high schools to establish courses that provide career technical education to students. There have been some difficulties in getting the high school level CTE courses approved as prerequisite courses to the UC and CSU, thus placing high school students who take CTE courses at a disadvantage to starting as freshmen at a California four-year public university. There may be opportunities to expand high school CTE courses that meet the UC's A-G course requirements.

**Staff Recommendation.** Staff recommends that the Subcommittee hold this item open.

**Suggested Questions:**

1. What number of community college students take CTE courses?
2. How many community college students complete a CTE AA degree vs. transfer to a four-year institution?
3. What performance metrics are used to evaluate the success of the CTE Pathways Initiative?
4. What efforts is the UC engaged in to get more CTE courses A-G certification?  
How many staff does UCOP have for examining CTE courses for A-G certification?

## Item 6: CCC 75/25 Faculty Ratio

### Speakers:

- Paul Steenhausen, Legislative Analyst's Office
- Erik Skinner, California Community Colleges
- Ed Hanson, Department of Finance

**Issue.** The issue before the Subcommittee is Governor's trailer bill language that would suspend the 75/25 faculty ratio requirement until 2012-13.

**75/25 Requirement.** Instruction at the community colleges is provided by a combination of full-time (permanent) and part-time (adjunct) faculty. State statute expresses legislative intent that 75 percent of credit instructional hours be taught by full-time faculty, with no more than 25 percent taught by part-time faculty. Implementing regulations developed by BOG (which oversees the statewide system) generally require districts move closer to the 75 percent target by hiring more full-time faculty in years in which they receive additional enrollment funding. While the 75/25 statutory ratio is merely a guideline for districts, the CCC regulation (commonly known as the full-time Faculty Obligation Number, or "FON") imposes financial penalties on districts that fail to meet their employment target for full-time faculty members.

**Governor's Trailer Bill.** The Governor proposes trailer bill language to suspend the 75/25 statute (and with it, the FON regulation) until 2012-13 in order to provide added flexibility to districts. There are no savings calculated from this proposal.

**LAO Recommendation.** The LAO notes that there is no sound analytical basis for the specific full-time faculty ratio currently in statute. The LAO thinks there are several benefits to colleges employing full-time faculty. For example, full-time faculty members are more likely to provide direction and leadership for program planning and curriculum development. However, it is widely acknowledged that part-time faculty can provide many benefits, as well. For example, they can bring unique and practical experience to the classroom. The use of part-time faculty can also allow colleges to respond quickly to changing student demands and labor-market needs. The LAO points out that while the state has an interest in ensuring that districts employ faculty to maximize educational outcomes, the LAO has not seen any evidence that prescribing a specific ratio or number for full- and part-time faculty will do this.

The LAO points out that if the community colleges received additional enrollment growth funds (as proposed by the Governor) and the FON requirement continued to remain in effect, districts could be required to hire new full-time faculty regardless of their own local spending preferences or priorities. For instance, certain districts might prefer to delay making a commitment to employ additional permanent faculty (and instead hire part-time faculty) given the uncertainty of the state's—and, by extension, CCC's—current fiscal condition. Other districts may prefer to first hire back valued noninstructional staff that were recently let go, such as counselors and tutors. In order to increase districts' ability to make their own resource-allocation decisions, the LAO thus recommends the Legislature adopt the Governor's proposal.

**Staff Comment.** The division of faculty on a community college campus is a complicated matter, because part-time faculty are less expensive and thus can teach more courses, but the full-time faculty design the courses and provide continuity to the department and disciplines on the community college campuses.

The contract agreements for many of the permanent faculty guarantee that permanent faculty cannot be laid off for budget reasons before the temporary faculty have been laid off. Thus, allowing community college campuses to use a faculty ratio other than 75/25 may not produce savings for the campuses. Adopting the Governor's trailer bill language may, however, allow the community colleges to avoid future costs if they receive enrollment growth funding in 2010-11 that is lost in a future fiscal year for some reason.

**Staff Recommendation.** Staff recommends the Subcommittee hold open this item.

**Suggested Questions:**

1. When the 75/25 statute was originally adopted, how many districts had more than 75 percent of their faculty as permanent? How many had fewer than 75 percent?
2. If the community colleges receive new funds in 2010-11, do the districts have to hire faculty or can they use those funds for other student services?
3. How much less expensive is a temporary faculty member than a permanent faculty member?
4. How many temporary faculty were laid off so far during 2009-10 due to budget cuts?

## Item 7: CCC Contracting Out Proposal

### Speakers:

- Paul Steenhausen, Legislative Analyst's Office
- Erik Skinner, California Community Colleges
- Ed Hanson, Department of Finance

**Issue.** The issue before the Subcommittee is the Governor's proposed trailer bill language that would allow community college districts to contract out for personal services.

**Current Law.** Under current law (SB 1419, Chapter 894, Statutes of 2002), community colleges can contract out for many non-instructional services, such as food service, maintenance, clerical functions, and payroll, only if certain conditions are met. For example, a district can contract out for services to achieve cost savings, however, there must be a clear demonstration that the contract will result in actual overall cost savings to the district.

Current law specifically prohibits the approval of contracts solely on the basis that savings will result from lower contractor pay rates or benefits, and requires that contractor's wages be at the industry's level and not undercut district pay rates. Current law also does not allow for the displacement of district employees (defined as layoff, demotion, involuntary transfer to a new classification, involuntary transfer to a new location requiring a change of residence, and time base reductions).

**Governor's Trailer Bill.** The Governor's proposal amends existing law governing contracting out for personal services to remove provisions that currently: (1) disallow approval of contracts solely on the basis of cost savings; and, (2) disallow contracts if it causes displacement of school employees who previously provided the services. This new authority would become effective for personal services contracts entered into after January 1, 2011.

**LAO Recommendation.** The LAO supports the Governor's proposal to increase community college districts' fiscal and program flexibility. The LAO recommends adopting the administration's language to allow additional contracting out.

**Staff Comment.** There are no state savings associated with this proposal. The trailer bill language would enact permanent changes to community college personal services contracting law.

**Staff Recommendation.** Staff recommends that the Subcommittee reject this trailer bill language.

### Suggested Questions:

1. If current law already allows for contracting out when there is cost benefit, why is an exemption needed?

## Item 8: UC Administration

### Speakers:

- Patrick Lenz, University of California
- Steve Boilard, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance

**Issue.** The issue before the Subcommittee is the University of California administration growth, and how administrative spending has been altered in response to the reduced state General Fund support.

**Accusations of Administrative Bloat.** The University of California has been accused repeatedly over the last year of providing administrators with high salaries while cutting services to students and denying raises to service employees. For example, on February 28, 2010, the Sacramento Bee published an editorial stating that UC senior administrative positions grew by 97 percent over ten years, while faculty positions grew by only 23 percent during the same period (student enrollment grew by 36 percent during those ten years). This growth in senior administrators means that the UC now has nearly as many senior administrators as faculty.

**UC Budget Changes.** The University of California General Fund budget was reduced from \$3.25 billion in 2007-08 to \$2.59 billion in 2009-10. In response to the loss of state General Fund revenue, the UC Regents raised student fees dramatically.

**UCOP Budget.** The 2009-10 budget for the University of California Office of the President (UCOP), approved by the Regents in May 2009, is \$293.3 million. This includes direct expenses from all funds for both the departments and units reporting to the President as well as the Regents' direct reports. In 2007-08 the UCOP budget was an estimated \$355.5 million. The UCOP does not receive General Fund support.

**UCOP Reductions.** The 2009-10 budget represents a \$62.2 million (17.5 percent) total expenditure reduction (unrestricted and restricted funds) since the beginning of the Office of the President expenditure control and restructuring process began in 2007-08. The 2009-10 budget also reflects a reduction of 630.83 in overall full-time equivalent (FTE) employees (with 1,439 employees remaining), or about 30 percent, since 2007-08.

UCOP expects to maintain a vacancy rate throughout the year of at least ten percent, resulting in an in-year savings of at least \$9 million in personnel expenditures on unrestricted funds.

**Staff Ratios.** Non-academic staff at the UC include a wide range of personnel employed in UC hospitals, auxiliary enterprises (such as housing and dining halls), and central campus functions ranging from academic department administrators to fiscal operations. The UC's ratio of academic to non-academic staff is about 1:3. The proportion of non-academic staff was 73 percent in 1997-98 and 74 percent in 2008-09.

Institutional support, which includes executive management, fiscal operations, general administration, logistical services, and community relations, has declined as a percentage of UC's total expenditures over the last 20 years, falling from about 12 percent of expenditures in 1986-87 to about nine percent in 2008-09.

The UC system has over 180,000 employees. While increases in student enrollment have played a significant role in employment growth across the University, increases in employee FTE have been driven primarily by expansion in Teaching Hospitals (52 percent of growth), Research (eight percent of growth) and Auxiliary Enterprises (ten percent of growth).

**Task Force.** In December 2005, the UC Board of Regents appointed a Task Force on Compensation, Accountability and Transparency. In 2006, the Task Force found disclosures of inappropriate compensation-related activities and practices, including the failure to comply with compensation policies, the failure to disclose compensation in a clear and public manner, and the failure to report certain compensation information to the Regents as required. Steps were taken by UCOP to address these concerns, including the establishment of a Chief Compliance Officer to provide verification of the compensation process.

In August 2009 the Task Force reconvened to examine the progress of the UC in creating accountability and transparency in compensation practices. The Task Force issued a report in October 2009 that found that the majority of the concerns raised in 2006 had been addressed. The Task Force did make new recommendations, including:

1. The compensation system should be simplified, wherever possible, without sacrificing rigorous review, approval, and reporting mechanisms.
2. The Regents should consider delegating responsibility for approval of the total compensation of deans to the chancellor of the respective campus.
3. The Regents must ensure that the effectiveness of UC's compensation program is measured not solely by the level of transparency but by its ability to attract and retain the personnel necessary to lead the institution forward.

**Staff Comment.** As the University of California budget shrinks, and student services are reduced, it is imperative to ask if the university system is as efficient as it could be in its administration. If administrative reductions and efficiencies can be achieved, they should be taken before cuts to courses or student services such as libraries. As General Fund support for the UC is lowered, and student fee revenues must pay for the activities and positions previously financed with General Fund, there should be a close examination of whether or not all of those positions are necessary.

**Staff Recommendation.** No recommendation, informational item.

**Suggested Questions:**

1. Since 1997-98, by how much has middle-management grown at UC?
2. Since the budget cuts to the UC system began in February 2009, how many senior management personnel have received pay raises?

3. How many bargaining units have received raises since 2008-09? How much did these raises cost the UC system?
4. Has student fee revenue been used to provide raises to executive management since 2008-09?
5. The Taskforce on UC Compensation, Accountability, and Transparency released a report in October 2009 outlining recommendations for the UC to improve its compensation process. What progress has the UC made so far toward meeting the Taskforce's recommendations?

## Item 9: Lease-Revenue Bond Funded Capital Outlay Projects

### Speakers:

- Mark Whitaker, Legislative Analyst's Office
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Stan Hiuga, Department of Finance

**Issue.** The issue before the Subcommittee is the University of California and California State University capital outlay projects for which lease-revenue bond funds are proposed.

**Governor's Budget.** The Governor proposes 12 lease-revenue funded capital outlay projects for UC and CSU. Some of the Governor's proposed projects would be initiated with general obligation bonds in 2010-11, but would require lease-revenue bonds to finish in later years. Of these lease-revenue bond funded projects proposed, \$346 million would be appropriated to the UC and \$85 million to the CSU (includes projects that would use lease-revenue for construction). The Governor's proposal relies heavily on lease-revenue bonds for funding projects at UC and CSU because, without the passage of a new general obligation bond measure, existing General Obligation (GO) bond dollars are essentially exhausted. The following chart shows the proposed projects:

#	Project Name	Description	Amount (000)	Source
1	CSU Stanislaus - Science I Renovation (Seismic)	Seismically retrofit Science Building. Increase lecture and office space, reduce laboratory space.	\$ 18,784	Lease-Revenue
2	CSU San Diego - Storm/Nasatir Halls Renovation	Renovate two adjoining buildings, Storm Hall and Nasatir Hall for seismic retrofits, mechanical and electrical systems, ADA accessibility, and an addition of a utility and elevator core.	\$ 57,169	Lease-Revenue
3	CSU Chico - Taylor II Replacement Building	Demolish a 42-year old existing building and replace it with a new 67,000 square foot building to accommodate the College of Humanities and Fine Arts. The future construction cost of the project will be \$58 million in lease-revenue bond funds.	\$ 2,873	1996 Bond Funds
4	CSU Channel Islands - West Hall	Renovate a portion of West Hall and add 28,800 square feet of new space for lecture, laboratory, and faculty offices. The future construction cost of the project will be \$38.4 million in lease-revenue bond funds.	\$ 2,430	1996 Bond Funds

<b>#</b>	<b>Project Name</b>	<b>Description</b>	<b>Amount (000)</b>	<b>Source</b>
5	CSU Fresno - Faculty Office/Lab Building	Construct a new 13,400 square foot facility to house research offices for the masters program in Nursing, two classroom laboratories, and faculty offices. The future construction cost of the project will be \$9.5 million in lease-revenue bonds.	\$ 562	1996 Bond Funds
6	CSU San Jose - Spartan Complex Seismic Renovation	Seismic, ADA, and life-safety renovation and building systems replacement of Uchida Hall/Natorium; Uchida Hall Annex; Spartan Complex East; and Spartan Complex Central. The future construction cost of the project will be \$54 million in lease-revenue bonds.	\$ 3,240	1996 Bond Funds
7	UC Irvine - Business Unit 2	Preliminary Plans and Working Drawings for a new 47,840 square foot building to supplement the Paul Merage School of Business. The future construction cost of the project will be \$44.3 million, mostly from lease-revenue bonds.	\$ 2,604	1996 Bond Funds and Special Funds
8	UC Los Angeles - CHS South Tower Seismic Renovation	Working Drawings and Construction for a project that includes demolition and hazardous materials abatement, seismic retrofit and building shell upgrades, and building infrastructure improvements, including mechanical, electrical, plumbing, and fire and life safety.	\$ 128,953	Lease-Revenue
9	UC Merced - Science and Engineering Building 2	Working Drawings and Construction for a new building to support instruction and research activities for the Schools of Engineering and Natural Sciences.	\$ 81,040	Lease-Revenue
10	UC Santa Barbara - Davidson Library Addition and Renewal	Working Drawings and Construction for new library facilities and renovation and seismic upgrade of existing library facilities.	\$ 67,698	Lease-Revenue
11	UC San Diego - SIO Research Support Facilities	Preliminary Plans and Working Drawings for 21,300 square foot replacement space for the Scripps Institution of Oceanography. The future construction cost of the project would be \$5.5 million from lease-revenue bonds.	\$ 613	1996 Bond Funds

#	Project Name	Description	Amount (000)	Source
12	UC Berkeley - Campbell Hall Seismic Replacement Building	Construction of a new physical science building, which will include laboratory facilities, space for the Department of Astronomy, and integrate with two nearby buildings.	\$ 65,205	Lease-Revenue

**Staff Comment.** The Governor is proposing to use lease-revenue projects because the 2006 general obligation bond for higher education are already almost fully allocated. Thus there are very few options for state support of capital outlay projects outside of lease-revenue bonds.

Staff notes that lease-revenue bonds were approximately ten percent more expensive in 2007 than general obligation bonds. However, the current interest rates are lower than they were in 2007. Yet it must be noted that the usual process for bond sales is currently altered due to the state's fiscal condition; the Pooled Money Investment Board (PMIB) is no longer providing interim financing until bonds can be sold. Therefore, the state must now sell the lease-revenue bonds before construction begins and capitalize the interest during construction, which makes lease-revenue bonds more expensive (thus potentially undoing the benefits of a lower interest rate).

In addition to these concerns, staff notes that the UC and CSU are already carrying a significant amount of bond debt. In 2009-10, the total general obligation bond payment is estimated at \$505 million General Fund. By approving more lease-revenue bond debt, the Legislature would be adding to this debt burden.

However, it is important to note that the UC and CSU estimate that these capital outlay projects, were they to move forward, would generate approximately 5,650 jobs.

**Staff Recommendation.** Staff recommends that the Subcommittee reject the capital outlay projects listed in the above chart without prejudice.

## Vote-Only Items

### Item 10: UC & CSU Capital Outlay Projects – Other Funding Sources

**April Finance Letter.** The Governor submitted an April Finance Letter for the following four capital outlay projects from either special funds or left-over 2006 bond funds. The projects total \$10.5 million, of which \$6 million is from 2006 bond funds and \$4.5 million is from special funds.

#	Project Name	Description	Amount (000)	Source
1	CSU Northridge - Performing Arts Center	Supplemental appropriation for construction of a performing arts center. The additional cost is due to the halting of bond funded projects in 2009.	\$ 1,383	2006 Bond Fund
2	UC Merced - Site Development and Infrastructure Phase 4	Preliminary Plans, Working Drawings, Construction, and Equipment for a project involving erosion control and storm water management, perimeter and interior road improvements, and improvements to the existing corporation yard; improve functionality of the existing central plant and telecommunications building; install utilities to support future buildings; and provide renovation of existing classrooms. No future costs for this project.	\$ 4,500	1996 Bond Funds
3	UC Merced - Site Development and Infrastructure Phase 6	Preliminary Plans, Working Drawings, and Construction for a project that includes: construction of a perimeter road, boundary fencing, storm water management, construction of a kit fox bridge, and salvage of impacted wetland soils. No future costs for this project.	\$ 2,000	2006 Bond Funds
4	UC Irvine - Arts Building	Equipment for the new School of the Arts building. No future costs for this project.	\$ 2,668	2006 Bond Funds

**Staff Recommendation.** Staff recommends that the Subcommittee approve the four capital outlay projects in the above chart.

**VOTE:**

**Item 11: Garamendi Financing Authorization for UC San Diego Clinical and Transitional Research Institute**

**April Finance Letter.** The Governor submitted an April Finance Letter requesting authority for the UC, pursuant to Government Code Section 15820.21, to establish a funding mechanism known as “Garamendi Financing,” to allow increased federal indirect costs generated from research conducted in a proposed new research building on the UC San Diego campus to pay debt service and maintenance costs for the proposed new building. The ability to finance research facilities under this program will allow facilities to “pay for themselves” by permitting the campus to use the gross indirect cost recovery attributable to the new facility to pay for debt service and maintenance.

The proposed new Clinical and Translational Research Institute would support a range of health science departments including the schools of Medicine, Neuroscience, Pathology, and Pharmacology. Since 1990-91, 22 capital projects totaling approximately \$717.0 million were financed using Garamendi Financing.

Therefore, it is requested that Item 6440-402 be added:

- (a) The San Diego Campus—Clinical and Translational Research Institute is authorized pursuant to Section 15820.21 of the Government Code.

**Staff Recommendation.** Staff recommends that the Subcommittee approve the proposal.

**VOTE:**

**Item 12: CCC Capital Outlay Projects**

**The Governor’s Budget.** The Governor’s budget proposes \$3.8 million in new funds from 2006 bond funds for California Community College capital outlay projects. The rest of the projects are paid for with reversions. The reversions pay for most of the new projects, which have become higher priorities due to health and safety concerns. The projects being terminated also required local matching funds which are no longer available.

<b>Project Name</b>	<b>Description</b>	<b>Amount (000)</b>
El Camino College Compton Center	Phase 2: Upgrade campus infrastructure, including water, sewer, and electrical systems.	\$ 16,208
El Camino College Compton Center	Renovate Allied Health Building	\$ 8,946
Imperial Valley College	Modernize 44-year old building that is not ADA compliant	\$ 2,195
Monterey Peninsula College	Modernize Humanities, Business, and Student Services Building	\$ 4,485
Ventura County Community College District	Reversion - Reconstruct Art Studio Project	\$ (180)
Ventura County Community College District	Reversion - Modernize APP, S, and DP Buildings	\$ (5,294)
Santa Barbara College District	Reversion - High Technology Center Project	\$ (22,522)
<b>TOTAL PROJECT COST</b>		<b>\$ 3,838</b>

**Staff Recommendation:** Staff recommends that the Subcommittee approve the CCC capital outlay projects listed in the above chart.

**VOTE:**

Please note: Any community college capital outlay projects received as a May Finance Letter will be heard after May Revise.

### **Item 13: UC and CSU Capital Outlay Reappropriations, Extensions of Liquidation, and Reversion**

**April Finance Letter.** The Governor submitted an April Finance Letter that proposes a series of reappropriations, extensions of liquidation, and a reversion of funds for UC and CSU.

**Reappropriations:** It is requested that \$4,955,000 from the 1988 Higher Education Capital Outlay Bond Fund and \$13,673,789 from the 2004 Higher Education Capital Outlay Bond Fund be reappropriated until June 20, 2011, with the following budget bill language:

6610-490—Reappropriation, California State University. The balances of the appropriations provided in the following citations are reappropriated for the purposes provided for in that appropriation and shall be available for encumbrance until June 30, 2011.

0785—1988 Higher Education Capital Outlay Bond Fund  
(1) Item 6610-002-0785, Budget Act of 2008 (Chs. 268 and 269, Stats. 2008) as reappropriated by Item 6610-490, Budget Act of 2009 (Ch. 1, Stats. 2009, Fourth Extraordinary Session).

6041—2004 Higher Education Capital Outlay Bond Fund  
(2) Item 6610-002-6041, Budget Act of 2008 (Chs. 268 and 269, Stats. 2008) as reappropriated by Item 6610-490 Budget Act of 2009 (Ch. 1, Stats. 2009, Fourth Extraordinary Session).

**Extension of Liquidation:** It is requested that the liquidation period for various capital renewal projects funded in the 2007 Budget Act from the 2006 University Capital Outlay Bond Fund be extended by one additional year, until June 30, 2011. The CSU has experienced delays attributable to the processing of reappropriations by the State Controller's Office and delays stemming from the state's inability to obtain financing to restart suspended projects during the past year. The request includes the following budget bill language:

6610-494—Reappropriation, California State University. Notwithstanding any other provision of law, the period to liquidate encumbrances of the following citations are extended to June 30, 2011.

6048—2006 University Capital Outlay Bond Fund  
(1) Item 6610-002-6048, Budget Act of 2007 (Chs. 171 and 172, Stats. 2007).

**Reversion:** Reversion for UC Irvine, Steinhaus Hall Seismic Improvements Project (Issue 001) - The Steinhaus Hall Seismic Improvements project at the Irvine Campus is now complete and approximately \$2,668,000 in bid and project savings can be reverted

to the 2006 University Capital Outlay Bond Fund (Fund 6048). UC is proposing to appropriate the project savings in an equivalent amount for equipment to support the Arts Building, currently under construction on the Irvine Campus.

Item 6440-496—Reversion, University of California. As of June 30, 2010, the unencumbered balance of the appropriation provided for in the following citation shall revert to the fund from which the appropriation was made:

6048—2006 University Capital Outlay Bond Fund

1. Item 6440-302-6048, Budget Act of 2007 (Chs. 171 and 172, Stats. 2007)

Irvine Campus:

99.09.375-Steinhaus Hall Seismic Improvements--Construction

**Staff Recommendation.** Staff recommends that the Subcommittee approve the reappropriations, extensions of liquidation, and the reversion.

**VOTE:**

## **Item 14: CCC Capital Outlay Reappropriations and Reversion**

**April Finance Letter.** The Governor submitted an April Finance Letter that proposes a series of reappropriations and a reversion of funds for CCC. Amendment to and addition of budget bill items 6870-490 and 6870-497, capital outlay, California Community Colleges:

**Various Reappropriations.** In December 2008, as a result of the state's deteriorating cash position in the Pooled Money Investment Account (PMIA), the Administration issued Budget Letter 08-33, directing departments to suspend any projects that required cash disbursements from PMIA loans. In order to comply with this, all state departments, including the California Community Colleges (CCC), suspended project activities on bond funded projects. Since that time, there have been several bond sales to provide some of the cash needed for projects. However, it is necessary to reappropriate the unspent balances of the requested funds to allow the CCC to fulfill its obligation for the bond funded projects as they are able to restart. Consequently, the following reappropriations are requested:

Add Item 6870-490 to reappropriate funds for the following 17 project phases appropriated from the 2006, 2007, 2008, and 2009 Budget Acts.

1. Cabrillo Community College District, Cabrillo College: Health Wellness Center—Equipment
2. Barstow Community College District, Barstow College: Performing Arts Center—Construction and equipment
3. Chabot-Las Positas Community College District, Chabot College: Math Science Modernization—Working drawings
4. El Camino Community College District, El Camino College Compton Center: Infrastructure Replacement Phase 1—Construction
5. Feather River Community College District, Feather River College: Learning Resource Center Technology Building—Equipment
6. Glendale Community College District, Glendale College: Laboratory College Services Building—Working drawings
7. Los Angeles Community College District, East Los Angeles College, Multi-Media Classrooms—Equipment
8. Mira Costa Community College District, Mira Costa College, Campuswide Fire Line Replacement—Construction
9. Ohlone Community College District, Ohlone College, Fire Suppression—Working drawings and construction
10. Riverside Community College District, Riverside City College: Wheelock Gymnasium Seismic Retrofit—Construction
11. Riverside Community College District, Moreno Valley Center: Phase III Student Academic Services Building—Working drawings
12. San Francisco Community College District, City College of San Francisco: Joint Use Instructional Facility—Equipment
13. Santa Clarita Community College District, College of the Canyons, Administration Student Services—Working drawings

14. Siskiyou Community College District, College of the Siskiyou, Science Complex Modernization—Construction
15. South Orange County Community College District, Irvine Valley College: Life Science Building—Construction and equipment
16. South Orange County Community College District, Saddleback College: Learning Resource Center Renovation—Equipment
17. Mt. San Jacinto Community College District, Menifee Valley Center: General Classroom Building—Construction and equipment

**Reversion.** Traffic studies completed in March 2009 concluded that vehicle and pedestrian traffic patterns at the intersection of El Don Drive and Rocklin Road have significant safety hazards. Placement of the child development center at its planned location would exacerbate these safety issues. In addition, the new Center would require the hiring of additional personnel at a time when the district is determining how to implement severe budget reductions that would likely include layoffs. The district board, therefore, made a difficult decision to postpone further development of the child development facility until it has addressed the safety issues at the planned site or identified a more appropriate site for the facility and the means to operate it effectively.

Amend Item 6870-497 to revert \$7,821,000 in 2006 California Community College Capital Outlay Bond Fund for the Sierra Joint Community College District, Sierra College: Child Developmental Center—Construction and equipment from the 2008 Budget Act.

**Staff Recommendation.** Staff recommends that the Subcommittee approve the reappropriations and the reversion.

**VOTE:**

## SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Thursday, May 13, 2010**  
**Outcomes**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
	<b>Outcomes, Transfers, and Capital Outlay</b>	
<b>6420</b>	<b>California Postsecondary Education Commission (CPEC)</b>	
<b>6440</b>	<b>University of California (UC)</b>	
<b>6600</b>	<b>California State University (CSU)</b>	
<b>6870</b>	<b>California Community Colleges (CCC)</b>	
<b><u>Vote-Only Items</u></b>		<b>Page 2</b>
Item 10	UC and CSU Capital Outlay Projects – Other Funding Sources	Page 2
Item 11	Garamendi Financing Authorization for UC San Diego	Page 3
Item 12	CCC Capital Outlay Projects	Page 4
Item 13	UC & CSU Reappropriations, Extensions of Liquidation, and Reversion	Page 5
Item 14	CCC Capital Outlay Reappropriations and Reversion	Page 7

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## Vote-Only Items

### Item 10: UC & CSU Capital Outlay Projects – Other Funding Sources

**April Finance Letter.** The Governor submitted an April Finance Letter for the following four capital outlay projects from either special funds or left-over 2006 bond funds. The projects total \$10.5 million, of which \$6 million is from 2006 bond funds and \$4.5 million is from special funds.

#	Project Name	Description	Amount (000)	Source
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4	UC Irvine - Arts Building	Equipment for the new School of the Arts building. No future costs for this project.	\$ 2,668	2006 Bond Funds

**ACTION:** Approved the four capital outlay projects in the above chart.

**VOTE:** 2-0 (Wright)

## **Item 11: Garamendi Financing Authorization for UC San Diego Clinical and Transitional Research Institute**

**April Finance Letter.** The Governor submitted an April Finance Letter requesting authority for the UC, pursuant to Government Code Section 15820.21, to establish a funding mechanism known as “Garamendi Financing,” to allow increased federal indirect costs generated from research conducted in a proposed new research building on the UC San Diego campus to pay debt service and maintenance costs for the proposed new building. The ability to finance research facilities under this program will allow facilities to “pay for themselves” by permitting the campus to use the gross indirect cost recovery attributable to the new facility to pay for debt service and maintenance.

The proposed new Clinical and Translational Research Institute would support a range of health science departments including the schools of Medicine, Neuroscience, Pathology, and Pharmacology. Since 1990-91, 22 capital projects totaling approximately \$717.0 million were financed using Garamendi Financing.

Therefore, it is requested that Item 6440-402 be added:

- (a) The San Diego Campus—Clinical and Translational Research Institute is authorized pursuant to Section 15820.21 of the Government Code.

**ACTION:** Approved

**VOTE:** 2-0 (Wright)

## Item 12: CCC Capital Outlay Projects

**The Governor's Budget.** The Governor's budget proposes \$3.8 million in new funds from 2006 bond funds for California Community College capital outlay projects. The rest of the projects are paid for with reversions. The reversions pay for most of the new projects, which have become higher priorities due to health and safety concerns. The projects being terminated also required local matching funds which are no longer available.

<b>Project Name</b>	<b>Description</b>	<b>Amount (000)</b>
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El Camino College Compton Center	Renovate Allied Health Building	\$ 8,946
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Ventura County Community College District	Reversion - Modernize APP, S, and DP Buildings	\$ (5,294)
Santa Barbara College District	Reversion - High Technology Center Project	\$ (22,522)
<b>TOTAL PROJECT COST</b>		<b>\$ 3,838</b>

**ACTION:** Approved the CCC capital outlay projects listed in the above chart.

**VOTE:** 2-0 (Wright)

## **Item 13: UC and CSU Capital Outlay Reappropriations, Extensions of Liquidation, and Reversion**

**April Finance Letter.** The Governor submitted an April Finance Letter that proposes a series of reappropriations, extensions of liquidation, and a reversion of funds for UC and CSU.

**Reappropriations:** It is requested that \$4,955,000 from the 1988 Higher Education Capital Outlay Bond Fund and \$13,673,789 from the 2004 Higher Education Capital Outlay Bond Fund be reappropriated until June 20, 2011, with the following budget bill language:

6610-490—Reappropriation, California State University. The balances of the appropriations provided in the following citations are reappropriated for the purposes provided for in that appropriation and shall be available for encumbrance until June 30, 2011.

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**Extension of Liquidation:** It is requested that the liquidation period for various capital renewal projects funded in the 2007 Budget Act from the 2006 University Capital Outlay Bond Fund be extended by one additional year, until June 30, 2011. The CSU has experienced delays attributable to the processing of reappropriations by the State Controller's Office and delays stemming from the state's inability to obtain financing to restart suspended projects during the past year. The request includes the following budget bill language:

6610-494—Reappropriation, California State University. Notwithstanding any other provision of law, the period to liquidate encumbrances of the following citations are extended to June 30, 2011.

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(1) Item 6610-002-6048, Budget Act of 2007 (Chs. 171 and 172, Stats. 2007).

**Reversion:** Reversion for UC Irvine, Steinhaus Hall Seismic Improvements Project (Issue 001) - The Steinhaus Hall Seismic Improvements project at the Irvine Campus is now complete and approximately \$2,668,000 in bid and project savings can be reverted

to the 2006 University Capital Outlay Bond Fund (Fund 6048). UC is proposing to appropriate the project savings in an equivalent amount for equipment to support the Arts Building, currently under construction on the Irvine Campus.

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6048—2006 University Capital Outlay Bond Fund

1. Item 6440-302-6048, Budget Act of 2007 (Chs. 171 and 172, Stats. 2007)

Irvine Campus:

99.09.375-Steinhaus Hall Seismic Improvements--Construction

**ACTION:** Approved the reappropriations, extensions of liquidation, and the reversion

**VOTE:** 2-0 (Wright)

## **Item 14: CCC Capital Outlay Reappropriations and Reversion**

**April Finance Letter.** The Governor submitted an April Finance Letter that proposes a series of reappropriations and a reversion of funds for CCC. Amendment to and addition of budget bill items 6870-490 and 6870-497, capital outlay, California Community Colleges:

**Various Reappropriations.** In December 2008, as a result of the state's deteriorating cash position in the Pooled Money Investment Account (PMIA), the Administration issued Budget Letter 08-33, directing departments to suspend any projects that required cash disbursements from PMIA loans. In order to comply with this, all state departments, including the California Community Colleges (CCC), suspended project activities on bond funded projects. Since that time, there have been several bond sales to provide some of the cash needed for projects. However, it is necessary to reappropriate the unspent balances of the requested funds to allow the CCC to fulfill its obligation for the bond funded projects as they are able to restart. Consequently, the following reappropriations are requested:

Add Item 6870-490 to reappropriate funds for the following 17 project phases appropriated from the 2006, 2007, 2008, and 2009 Budget Acts.

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17. Mt. San Jacinto Community College District, Menifee Valley Center: General Classroom Building—Construction and equipment

**Reversion.** Traffic studies completed in March 2009 concluded that vehicle and pedestrian traffic patterns at the intersection of El Don Drive and Rocklin Road have significant safety hazards. Placement of the child development center at its planned location would exacerbate these safety issues. In addition, the new Center would require the hiring of additional personnel at a time when the district is determining how to implement severe budget reductions that would likely include layoffs. The district board, therefore, made a difficult decision to postpone further development of the child development facility until it has addressed the safety issues at the planned site or identified a more appropriate site for the facility and the means to operate it effectively.

Amend Item 6870-497 to revert \$7,821,000 in 2006 California Community College Capital Outlay Bond Fund for the Sierra Joint Community College District, Sierra College: Child Developmental Center—Construction and equipment from the 2008 Budget Act.

**ACTION:** Approved the reappropriations and the reversion.

**VOTE:** 2-0 (Wright)

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Thursday, May 20, 2010**

## **Outcomes**

### **Agenda Part A**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
	<b>Open Issues, May Revise, and Capital Outlay</b>	
<b>6440</b>	<b>University of California (UC)</b>	
<b>6600</b>	<b>California State University (CSU)</b>	
<b>6870</b>	<b>California Community Colleges (CCC)</b>	
<b>7980</b>	<b>California Student Aid Commission (CSAC)</b>	
	<b><u>Vote-Only Items</u></b>	
Item 1	UC and CSU Capital Outlay Projects: Reappropriations and Extensions of Liquidation	Page 3
Item 2	CSU San Francisco Library	Page 4
Item 3	CCC Capital Outlay – Continuing Projects	Page 5
Item 4	CCC Gavilan College Water Supply System Replacement	Page 6
Item 5	CCC Math and Science Teacher Initiative	Page 6
Item 6	CCC Emergency Planning and Preparation	Page 7

Item 7	CCC Transportation Contract	Page 7
Item 8	CCC Vocational Education	Page 8
Item 9	CCC Technical Budget Changes	Page 8
Item 10	CCC Energy Sustainability Plan	Page 9
Item 11	UC Tobacco Research Funding	Page 9
Item 12	CSAC Federal Funds Offset	Page 10
Item 13	CSAC Technical Caseload Revisions	Page 11
	<u>Discussion Items</u>	
Item 14	UC: Redistricting Data at UC Berkeley	Page 12
Item 15	CCC Solar Training Collaborative Program	Page 13
Item 16	CSAC and EdFund Detangling	Page 14
Item 17	Student Loan Operating Fund Swap	Page 16
	Public Comment	

## Vote Only Items

6440 UNIVERSITY OF CALIFORNIA  
6610 CALIFORNIA STATE UNIVERSITY

### Item 1: UC and CSU Capital Outlay Projects – Reappropriations and Extensions of Liquidation

**May Finance Letter.** The Governor submitted a May Finance Letter that requests various reappropriations and extensions of liquidation for the University of California and California State University.

#### University of California

##### Various Reappropriations:

Amend Item 6440-492 to reappropriate funds for the following three project phases appropriated from the 2007 Budget Act.

1. Los Angeles Campus, Telemedicine and PRIME Facilities Phase 1—Equipment.
2. San Francisco Campus, Telemedicine and PRIME Urban Underserved Education Facilities—Equipment.
3. Santa Cruz Campus, McHenry Project—Equipment.

##### Various Extensions of Liquidation Periods:

Add Item 6440-493 to extend the liquidation period by one additional year (until June 30, 2011) for the following six project phases appropriated in 2007.

1. Berkeley Campus, Campbell Hall Seismic Replacement Building—Preliminary plans and working drawings.
2. Davis Campus, Veterinary Medicine 3B—Working drawings.
3. Riverside Campus, Boyce Hall, and Webber Hall Renovations—Working drawings and construction.
4. Riverside Campus, Batchelor Hall Building—Preliminary plans
5. San Francisco Campus, Electrical Distribution Improvements, Phase 2—Working drawings.
6. Santa Barbara Campus, Davidson Library Addition and Renewal—Working drawings.

#### California State University

##### Various Reappropriations

Add Item 6610-491 to reappropriate funds for the following two project phases appropriated from the 2007 Budget Act.

1. San Marcos Campus, Social and Behavioral Sciences—Working drawings and construction.
2. Los Angeles Campus, Corporation Yard—Construction.

**Various Extensions of Liquidation Periods:**

Add Item 6610-492 to extend the liquidation period by one additional year (until June 30, 2011) for the following seven project phases appropriated in either 2005, 2006, or 2007:

1. Systemwide, Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 1998 and 2002 Higher Education Capital Outlay Bond Fund).
2. Humboldt Campus, Behavioral and Social Sciences, Phase 1—Construction.
3. Monterey Bay, Library—Equipment.
4. Humboldt, Mai Kai Land Acquisition—Acquisition.
5. San Diego Campus, Storm/Nasatir Halls Renovation—Preliminary plans and working drawings.
6. Stanislaus Campus, Science 1 Renovation (Seismic)—Preliminary plans and working drawings.
7. Northridge Campus, Performing Arts Center—Working drawings and construction.

**ACTION:** Approved

**VOTE:** 3-0

**Item 2: CSU San Francisco Library**

**Project Description.** The project is an 85,000 square foot (sf) five-story addition and 283,000 sf renovation of the existing San Francisco State University library building. The project is funded with lease revenue funds totaling \$121.8 million (design and construction), and also includes the renovation and permanent home of the Sutro Collection of the State Library as part of the project. It is anticipated that the project will be completed by April 2012.

**May Finance Letter.** The Governor submitted a May Finance Letter requesting \$3.0 million in equipment funding from the 2006 University Capital Outlay Bond Fund so that the library can be operational when it is opened.

**ACTION:** Approved

**VOTE:** 3-0

**Item 3: CCC Capital Outlay – Continuing Projects**

**May Finance Letter.** The Governor submitted a May 1<sup>st</sup> Finance Letter requesting the continuation of eight capital outlay projects for California Community Colleges. In the past few months, the California Community Colleges experienced significant bid savings for other on-going projects. This favorable bid environment has resulted in sufficient reversions to fund eight additional phases of existing projects and one critical new start project as follows:

**Add Item 6870-301-0658 to add the following two continuing projects:**

1. Los Rios Community College District, American River College: Life Science and Fine Arts Modernization—Construction
2. Sequoias Community College District, College of the Sequoias: Administration Building Remodel for Efficiency—Construction and equipment.

**Amend Item 6870-301-6049 to add the following six continuing projects:**

1. Kern Community College District, Bakersfield College: Performing Arts Modernization—Construction
2. Los Rios Community College District, Consumnes River College: North East Building Modernization—Construction
3. Riverside Community College District, Moreno Valley Center: Phase III Student Academic Services Building—Construction and equipment
4. Chabot-Las Positas Community College District, Chabot College: Math-Science Modernization—Construction
5. State Center Community College District, Fresno City College: Old Administration Building, North and East Wings, Phase III—Construction
6. Yuba Community College District, Yuba College: Building 1100 Learning Resource Center Renovation—Construction and equipment

**ACTION:** Approved

**VOTE:** 3-0

**Item 4: CCC Gavilan College Water Supply System Replacement**

**May Revise.** The Governor's May Revise proposal includes budget bill language for the Gavilan Community College District, Gavilan College water supply system replacement project. This project is moving forward a streamlined project without Public Works Board overview, and adding this budget bill language is common for streamlined projects. The budget bill language is:

1. Notwithstanding Section 13332.11 of the Government Code, the Gavilan Community College District shall complete the project within the funds appropriated for the project. This condition does not limit the authority of the district to use nonstate funds to fund or augment these projects with the approval of the State Public Works Board.
2. Gavilan Community College District shall complete the project identified without any change to its scope. The scope of the project, in this context, means the intended purpose of the project as determined by reference to the following elements of the budget request for the project submitted by the Board of Governors of the California Community Colleges to the Department of Finance: (a) the program elements related to project type and (b) the functional description of spaces required to deliver the academic and supporting programs as approved by the Legislature.
3. Notwithstanding any other provision of law, the appropriation made in this item is available for encumbrance during fiscal years 2010-11 and 2011-12.

**ACTION:** Approved

**VOTE:** 3-0

**Item 5: CCC Math and Science Teacher Initiative**

**Finance Letter.** The Governor submitted an April Finance Letter requesting an increase of \$12,000 in federal funds to the Math and Science Teacher Initiative. The increased funds reflect additional one-time carryover of federal funds. Adding these funds brings the state operations share for this program to \$18,000 (local assistance is a separate line-item receiving \$56,000).

**ACTION:** Approved

**VOTE:** 3-0

**Item 6: CCC Emergency Planning and Preparation**

**Finance Letter.** The Governor submitted an April Finance Letter for an increase of \$100,000 in reimbursement authority to reflect additional federal homeland security funding received through an interagency agreement with the California Emergency Management Agency. The funding would be used to continue vulnerability assessments and emergency preparedness plans for the community college districts. The proposal also includes an amendment to budget bill language:

1. The funds appropriation in Schedules (2) and (5) reflect an interagency agreement with the California Emergency Management Agency for ~~\$400,000~~ \$500,000 in reimbursements to conduct emergency planning and preparedness training for community college districts.

**ACTION:** Approved

**VOTE:** 3-0

**Item 7: CCC Transportation Contract**

**Finance Letter.** The Governor submitted an April Finance Letter requesting a decrease of \$1,340,000 in reimbursement authority to reflect the elimination of the State Transportation Contract Bidding Training Program. The Program was funded through an interagency agreement with the Department of Transportation to develop and improve the capabilities of Disadvantaged Business Enterprises and other small businesses by providing specialized technical assistance and business skills needed for bidding on highway contracts. The contract has expired and will not be renewed. The proposal includes the removal of authorizing budget bill language.

**ACTION:** Approved

**VOTE:** 3-0

**Item 8: CCC Vocational Education**

**May Revise.** The Governor's May Revise includes a decrease by \$1,995,000 in reimbursements to align the amount budgeted to the expected federal Carl D. Perkins Vocational and Technical Education funding received through an interagency agreement with the State Department of Education. The funding amount is set through a formula of how many students enroll in qualifying CTE courses at K-12 and Community College institutions.

**ACTION:** Approved

**VOTE:** 3-0

**Item 9: CCC Technical Budget Changes**

**May Revise.** The Governor's May Revise proposes two technical budget adjustments to the California Community Colleges: reducing property tax revenues and reducing oil and mineral revenues.

**Reduce Property Tax Revenues.** Increase local assistance by \$6,413,000 Proposition 98 General Fund to offset an estimated reduction in local property tax revenue for community colleges. It is further requested that property tax expenditures be reduced to conform to this action.

**Reduce Oil and Mineral Revenues.** Increase by \$3,073,000 Proposition 98 General Fund to offset an estimated reduction in oil and mineral revenue for community colleges. It is further requested that oil and mineral revenue expenditures be reduced to conform to this action.

**ACTION:** Approved

**VOTE:** 3-0

6870  
6440

**CALIFORNIA COMMUNITY COLLEGES  
UNIVERSITY OF CALIFORNIA**

**Item 10: CCC Energy Sustainability Plan**

**May Revise.** The Governor's May Revise requests \$266,000 in reimbursement authority for the development of an Energy Sustainability Plan that will be completed by a community college selected by the Chancellor's Office. The funding will come from the Petroleum Violation Escrow Account through an interagency agreement with the California Energy Commission and will be used to develop strategies for energy efficiency, utility planning and efficient operation of campus facilities, renewable energy opportunities, waste reduction, reuse and recycling, transportation alternatives, water, waste water, and pollution prevention.

**ACTION:** Approved

**VOTE:** 3-0

**Item 11: UC Tobacco Research Funding**

**May Revise.** The Governor's May Revise includes a technical amendment to decrease tobacco-related research by \$431,000, due to an expected decline in Proposition 99 tobacco tax revenues. These revenues fund tobacco-related research on prevention, causes and treatments for pancreatic cancer, lung cancer, and heart disease. Additional activities include investigating the health impacts of environmental exposures to tobacco, nicotine dependence, and breaking addictions. This reduction leaves \$12.5 million for tobacco-related research.

**ACTION:** Approved

**VOTE:** 3-0

**Item 12: California Student Aid Commission Federal Funds Offset**

**New Federal Funds.** The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) reauthorized the federal College Access Challenge Grant (Challenge Grant) Program and increased funding available nationwide. The current estimate from the U.S. Department of Education is that California will receive \$15,039,000 per year for the next five years; up from the \$7,679,000 annually that California had been receiving.

**May Revise Proposal.** The Governor's May Revise proposes an increase of \$7,360,000 in federal funds spending for local assistance financial aid programs and Cash for College Program outreach material costs; and a decrease of \$7,227,000 General Fund for these programs. The proposal also includes the following budget bill language to item 7980-001-0890:

2. Of the funds appropriated in this item, ~~\$130,000~~ 263,000 is available for the Cash for College Program. This amount reflects funds anticipated from the College Access Challenge Grant Program ~~contingent upon final enactment of HR 3221, or similar authorizing statute~~, for the 2010-11 through 2014-15 federal fiscal years.

The proposal also adds the following budget bill language to item 7980-101-0890:

4. Of the funds appropriated in this item, \$7,227,000 is available for the purpose of offsetting General Fund costs of financial aid programs.

**Use of Funds.** The new federal funds will be used to:

1. Provide an additional \$133,000 for the publishing and distribution of Cash for College Program outreach materials (commonly referred to as the Cash for College Box) currently paid for by EdFund per the operating agreement between CSAC and EdFund. These services would otherwise end once the EdFund is sold later in 2010.
2. Offset financial aid program General Fund costs with newly available federal funds, which will help narrow the budget gap. The use of Challenge Grant funds for the General Fund financial aid programs is allowable under federal statute.

**ACTION:** Approved

**VOTE:** 3-0

**Item 13: CSAC Technical Caseload Revisions**

**Background.** Each year, as part of May Revise the Governor revises the caseload estimates for the various California Student Aid Commission (CSAC) grants. The revisions are based on updated 2009-10 caseload numbers. The changes to caseload drive changes to the appropriations amounts requested in the Budget.

**May Revise Proposal.** The Governor's May Revise includes the following technical amendments to CSAC grant and loan programs for 2010-11:

2. \$10,027,000 General Fund for the CalGrant Program
3. \$547,000 General Fund for the loan assumption programs

**ACTION:** Approved

**VOTE:** 3-0

## Discussion Items

### 6440 UNIVERSITY OF CALIFORNIA

#### Item 14: Redistricting Data at UC Berkeley

**Redistricting Data.** In November of 2008, voters adopted Proposition 11 which modified California's redistricting process. Among the changes, the measure added Section 8253(b) to the Government Code which states in part that "The Legislature shall take all steps necessary to ensure that a complete and accurate computerized database is available for redistricting, and that the procedures are in place to provide the public ready access to redistricting data and computer software for drawing maps." Since 1992, the responsibility for developing, maintaining, and providing public access to a complete, accurate and computerized database has been given to the Statewide Database housed at the Institute of Governmental Studies at the University of California, Berkeley.

**Census Data.** The collection of Census data in 2010 marks the beginning of the redistricting cycle. The Statewide database must be prepared to provide merged census and political data so that the constitutional and Voting Rights requirements fundamental to the redistricting process can be properly assessed. Because the timetable of the Proposition 11 Commission requires that the data be delivered to them one month after census, it is imperative that the full funding for this project should be guaranteed.

**Staff Recommendation.** Staff recommends that the Subcommittee appropriate:

1. \$240,000 in General Fund for UC employees overseeing data base construction, management, and outreach; and
2. \$360,000 in restricted funds for contracted data construction services, rental, equipment, supplies, and other related direct costs. The restricted fund portion of this appropriation shall be exempted from any cuts, charges, or diversions imposed by the University in order that the Redistricting Commission and other redistricting entities can receive their data and carry out their constitutionally mandated functions in a timely manner.

**ACTION:** Held open

**VOTE:** None taken

**Item 15: CCC Solar Training Collaborative Program**

**Solar Training Collaborative Program.** The Solar Training Collaborative Program (Program) is intended to meet the growing demand for qualified workers in the solar power industry as a result of recent legislation and the increased awareness and demand for clean energy. Specifically, the Program will train students for entry into the solar power installation field, provide standards on safety and fundamentals of the trade, and provide students a certificate upon successfully completing the Program. Once this program is implemented, it will serve 6,500 students annually.

**May Revise.** The Governor's May Revise requests to:

1. Increase state operations by \$67,000 in federal American Recovery and Reinvestment Act of 2009 (ARRA) funds from the United States Department of Energy to support the implementation of the Solar Training Collaborative Program.
2. Increase local assistance by \$660,000 federal ARRA funds from the Solar Training Collaborative Program.

May Revise also requests the following budget bill language changes:

6870-002-0890 Provisions:

1. The funds appropriated in Schedule (1) of this item are available to support personnel and operating expenses necessary for the implementation of the Math and Science Teacher Initiative program pursuant to a one-time grant from the United States Department of Education pursuant to Public Law 105-277.
2. The funds appropriated in Schedule (2) of this item are available to support personnel and operating expenses necessary for the implementation of the Solar Training Collaborative Program pursuant to a one-time grant from the United States Department of Energy.

6870-101-0890 Provisions:

1. The funds appropriated in Schedule (1) of this item are available for the Math and Science Teacher Initiative program pursuant to a one-time grant from the United States Department of Education pursuant to Public Law 105-277.
2. The funds appropriated in Schedule (2) of this item are available for the implementation of the Solar Training Collaborative Program pursuant to a one-time grant from the United States Department of Energy.

**Current year Funding Request.** Additionally, the Department of Finance submitted a Control Section 28.00 notification letter to the Legislature. The California Community College Chancellor's Office submitted a state operations budget revision request for \$29,203 federal funds to support current year efforts to develop a statewide standardized curriculum for the Program.

**ACTION:** Approved

**VOTE:** 3-0

**Item 16: CSAC and EdFund Detangling**

**Shared Services.** Final bids for the EdFund sale are currently under review. It is anticipated that a sale will be consummated in the near future, which will require the Commission to assume responsibility for various services in 2010-11 supporting the CalGrant program such as mail, printing, and information technology currently provided by EdFund. In total, the Department of Finance has determined that up to \$1.226 million General Fund and 9.0 positions will be essential for these purposes.

**Current Budget.** The California Student Aid Commission's (CSAC) budget currently contains \$514,000 in the Student Loan Operating Fund (SLOF) and 6.0 positions for EdFund oversight. Upon completion of the sale of EdFund, the Commission's Federal Policy and Program Division (FPPD) oversight function will no longer be necessary. The sale will occur at some point during 2010-11.

**Governor's Budget.** The Governor's January 10 Budget already contains budget bill language authorizing \$550,000 of General Fund carryover for detangling costs to further the sale of EdFund in 2010-11. However, the Budget did not score the technical shift of funds from one year to the next. The May Revise (see below) requests the scoring of this technical shift.

**May Revise.** The Governor's May Revise requests funding contingent on the sale of EdFund and upon approval from the Department of Finance, for the CSAC to assume responsibility for activities that are being performed by EdFund on behalf of the Commission per their operating agreement. Specifically, the request is for:

1. New Funds: \$676,000 General Fund
2. Reappropriation: \$550,000 General Fund carryover to reappropriate detangling costs associated with the sale of EdFund. These funds were appropriated in fiscal year 2009-10 but will not be spent for this purpose. Instead, these funds are anticipated to be needed by the Commission during 2010-11. This adjustment will serve as that technical shift of expenditures from 2009-10 to 2010-11.

The request also includes the following two items of budget bill language:

1. Item 7980-001-0001: X. Of the funds appropriated in Schedule (1), up to \$676,000 is available for any expenses that may be necessary or convenient for the Commission to assume activities currently provided by EdFund, to further the intent of the sale, or other authorized transaction of EdFund pursuant to Chapter 182 of the Statutes of 2007. These funds shall not be expended unless first approved in writing by the Department of Finance.
2. Item 7980-001-0784: 1. Upon the sale or other authorized transaction of EdFund pursuant to Chapter 182 of the Statutes of 2007, the Director of Finance may reduce this appropriation by an amount that leaves sufficient funds for the Commission to phase out Federal Policy and Program activities.

The budget bill language for Item 7980-001-0784 is intended to authorize Finance to reduce the appropriation that supports the Commission's Federal Policy and Program Division (FPPD) as it relates to the sale of EdFund. In the event a sale of EdFund is completed, there will be no need for the FPPD to continue its oversight of EdFund operations after it is finalized. Therefore, the Governor's May Revise requests that Finance be provided authority to reduce the FPPD appropriation that: (1) leaves the Commission's FPPD sufficient resources for its fiscal year 2010-11 wind down and (2) reverts resources to the Student Loan Operating Fund (SLOF), which is General Fund fungible.

**Staff Comment.** The budget bill language proposed by the Governor for item 7980-001-0784 (1) is too open ended. It allows the Department of Finance to reduce CSAC's budget once the sale of EdFund is completed, but does not define the extent of the reduction.

**Staff Recommendation.** Staff recommends that the Subcommittee take the following actions:

1. Approve the \$676,000 in General Funds
2. Approve the \$550,000 reappropriation
3. Approve the budget bill language for Item 7980-001-0001
4. Reject the budget bill language for Item 7980-001-0784 proposed by the Governor
5. Approve the following budget bill language for Item 7980-001-0784:

Upon the sale or other authorized transaction of EdFund pursuant to Chapter 182 of the Statutes of 2007, the Director of Finance may reduce this appropriation by up to \$514,000. Any augmentation shall be authorized no sooner than 30 days after notification in writing to the chairpersons of the committees in each house of the Legislature that consider appropriations, the chairpersons of the committees and appropriate subcommittees that consider the State Budget, and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee or his or her designee may determine.

**ACTION:** Held open for analysis of new information

**VOTE:** None taken

**Item 17: Student Loan Operating Fund Swap**

**May Revise Proposal.** The Governor’s May Revise includes a funding swap for the CSAC budget of \$75 million General Fund to be replaced by \$75 million from the Student Loan Operating Fund to support CalGrant Program costs. To accomplish this swap the following language must be added to the budget bill:

7980-101-0784—For local assistance, Student Aid Commission, CalGrant Program, for payment to Item 7980-101-0001, payable from the Student Loan Operating Fund.....75,000,000

(4) Amount payable from the Student Loan Operating Fund (Item 7980-101 0784).....75,000,000

**Staff Comment.** The Student Loan Operating Fund (SLOF) is composed of penalty and interest revenue, and thus is fungible with General Fund. The SLOF balance varies throughout the year, but the fund balance can sustain a larger swap than is proposed by the Governor.

**Staff Recommendation.** Staff recommends that the Subcommittee swap \$100 million General Fund from CSAC budget with SLOF funds for an additional \$25 million in savings over the Governor’s proposal.

**ACTION:** Approved swap of \$100 million

**VOTE:** 3-0

# SUBCOMMITTEE NO.1 on Education



**Subcommittee No. 1**

**Chair, Carol Liu**

**Member, Robert Huff**

**Member, Roderick Wright**

**Thursday, May 20, 2010  
9:30 a.m. or Upon Adjournment of Session  
Room 3191, State Capitol**

## **AGENDA - PART B**

### **OUTCOMES**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
<b>6110</b>	<b>Department of Education</b>	
<b>Item 1</b>	<b>DOF Budget Letters – Various State Operations &amp; Local Assistance Adjustments (<b>Consent Vote</b>)</b>	<b>Page 2</b>
<b>Item 2</b>	<b>County Court School Funding (<b>Vote</b>)</b>	<b>Page 6</b>
	<b>Public Comment</b>	

**ITEM 1.     DOF Budget Letters – Various State Operations and Local Assistance Adjustments (Consent Vote)**

**DESCRIPTION:** The Department of Finance (DOF) proposes the following technical adjustments to various federal state operations and local assistance items in the 2010-11 budget. These revisions are proposed by the DOF April and May Budget Letters. 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.

**April Finance Letter -- Federal Funds Adjustments**

**1. Item 6110-001-0001, State Operations, One-Time Carryover for the California High School Exit Exam Equivalence Assessment (Issue 001).** Request that Item 6110-001-0890 be increased by \$1,050,000 federal special education funds and that Item 6110-001-0001 be amended to undertake the activities required pursuant to Chapter 666, Statutes of 2008 (AB 2040), which directed the State Department of Education (SDE) to form an independent panel to examine and provide recommendations to the State Board of Education (Board) on an equivalent assessment for students with disabilities. The bill further required the Board to make a recommendation and adopt regulations by October 2010. The 2009 Budget Act provided carryover of \$1,050,000 federal funds for this purpose and the panel has provided its recommendation to the Board. The Board intends to address the panel's recommendation in the coming months and the SDE requests to carryover the remainder of funds for workload that would occur in fiscal year 2010-11.

It is further requested that provisional language be added to Item 6110-001-0890 as follows to conform to this action:

- X. Of the funds appropriated in this item, \$1,050,000 federal special education funds is available on a one-time basis for the activities described in Chapter 666, Statutes of 2008.

**2. Item 6110-183-0890, Local Assistance, Safe and Drug Free Schools Program (Issue 641).** Request that this item be decreased by ~~\$24,931,000~~ \$24,681,000 federal Title IV funds to reflect the elimination of the Safe and Drug Free Schools Program by the federal government and the availability of ~~\$2.0~~ \$2.25 million 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 to Item 6110-183-0890 as follows to conform to this action:

- X. The funds appropriated in this item are available on a one-time basis to support the closing of the program.

**3. Item 6110-001-0890, State Operations, Safe and Drug Free Schools Program (Issue 642).** Request that Item 6110-001-0890 be decreased by ~~\$1,400,000~~ \$1,650,000 federal Title IV funds and that Item 6110-001-0001 be amended to reflect the elimination of the Safe and Drug Free Schools Program by the federal government and the availability of ~~\$500,000~~ \$250,000 in 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 to Item 6110-001-0890 as follows to conform to this action:

X. Of the funds appropriated in this item, ~~\$500,000~~ \$250,000 is provided in one-time carryover funds to support the closing of the Safe and Drug Free Schools Program.

### **May Revise Letter -- Federal Funds Adjustments**

**4. Item 6110-161-0001, Local Assistance, Special Education (Issues 569 and 571).** Request that Schedules (1) and (2) of this item be realigned to correct the amount scheduled in the Governor's Budget. Schedule (2)—Early Education Program for Individuals with Exceptional Needs was overstated by \$247,000, the amount of which should have been included in Schedule (1)—Special Education Instruction.

It is further requested that this item be decreased by \$9,224,000 Proposition 98 General Fund to reflect revised property tax estimates. Proposition 98 General Fund and property tax revenue make up the total state contribution to special education; therefore, the General Fund contribution would be decreased as a result of the projected increase of \$9,224,000 in property tax revenue.

**5. Item 6110-201-0890, Local Assistance, Federal Child Nutrition Program (Issue 702).** Request that this item be decreased by \$31,295,000 Federal Trust Fund due to the anticipated decline in meals served through the Child Nutrition Program. Local educational agencies, private schools, public and private centers, homes, halls, shelters, and camps are reimbursed for meals served through this federal entitlement program.

### **May Revise Letter -- General Fund and Other Adjustments**

**6. Item 6110-102-0231, Local Assistance, Tobacco-Use Prevention Education Program (Issue 713).** Request that this item be decreased by \$500,000 Health Education Account to reflect declining revenue estimates from the Cigarette and Tobacco Products Surtax Fund (Proposition 99). These funds are used for health education efforts aimed at the prevention and reduction of tobacco use. Activities may include tobacco-specific student instruction, reinforcement activities, special events, and cessation programs for students.

**7. Item ~~6110-112-0001~~ 6110-211-0001, Local Assistance, Charter School Categorical Block Grant Growth Adjustment (Issue 739).** Request that this item be decreased by \$55,000 to reflect revised attendance estimates for charter schools. The Charter Categorical Block Grant provides charter schools with categorical funding in lieu of separate funding for specific categorical programs.

**8. Item 6110-202-0001, Local Assistance, Non-Proposition 98 Child Nutrition Program (Issue 709).** Request that this item be decreased by \$120,000 General Fund to align with the revised estimate of meals to be served through the Child Nutrition Program by private entities.

**9. Item 6110-203-0001, Local Assistance, Proposition 98 Child Nutrition Program (Issue 711).** Request that this item be decreased by \$2,231,000 Proposition 98 General Fund to align with the revised estimate of meals served through the Child Nutrition Program at public school districts. The resulting appropriation would fully fund, at the statutory rate, all meals projected to be served in 2010-11.

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

“4. Of the funds appropriated in this item, ~~\$19,719,000~~ \$17,488,000 is for the purpose of providing a growth adjustment due to an increase in the projected number of meals served.”

**10. Items 6110-492 and 6110-001-3085, Reappropriation, Mental Health Services Act, Proposition 63 (Issue 566).** Request that \$239,000 in Mental Health Services funds appropriated in Item 6110-001-3085, Budget Act of 2009 (Chapter 1, Statutes of 2009, Third Extraordinary Session), be reappropriated in 2010-11. Of these funds, \$153,000 will be provided to contract with an outside source to develop an online professional development system regarding youth suicide issues and prevention, which was delayed in the current year due to contract issues. The remaining \$86,000 will be provided to SDE to partially fund the development of a regional training system that will train staff in the early detection of mental health issues.

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

6110-492—Reappropriation, Department of Education. Notwithstanding any other provision of law, the balance of the appropriation provided in Item 6110-001-3085 of the Budget Act of 2009 (Chapter 1, Statutes of 2009, Third Extraordinary Session), is reappropriated and shall be available for encumbrance or expenditure until June 30, 2011, to contract with mental health/educational professionals or education agencies to support the involvement of local education agencies in local mental health planning and implementation efforts pursuant to the Mental Health Services Act (Proposition 63, as approved by the voters at the November 2, 2004 statewide general election).

## **May Revise Letter -- Current Year Adjustments**

**11. Item 6110-641-0001, Local Assistance, King City Joint Union High School District (Issue 164).** Request that this item be decreased by \$17,000 General Fund to reflect the repayment of interest from lease-revenue bonds sold on behalf of King City Joint Unified High School District for a General Fund loan provided to the district pursuant to Chapter 20, Statutes of 2009 (SB 130).

**ACTION ITEM: STAFF RECOMMENDATION (CONSENT):** Staff recommends approval of all of the DOF Budget Letters proposals listed above, including staff revisions highlighted for some issues. These revisions provide corrections to the DOF Budget Letters. No issues have been raised for any of these issues.

### **OUTCOMES:**

**1. Approved issues # 2-11. (Vote: 3-0)**

**2. Approved issue #1. (Vote: 2-1)**

## ITEM 2. County Court School Funding

**DESCRIPTION:** The Governor’s budget provides an estimated **\$110.4 million** in Proposition 98 funding for county court school revenue limits in 2010-11, which reflects a reduction of **\$4.9 million** from the revised 2009-10 level. This level of funding is based upon 13,524 student average daily attendance (ADA) for county court schools statewide. This reduction is a part of the Governor’s \$1.5 billion revenue limit reduction for K-12 school districts and county offices of education in 2010-11.

The Governor proposes to reduce Proposition 98 funding for the Division of Juvenile Justice from **\$33.4 million** in 2009-10 to **\$29.8 million** in 2010-11, a reduction of **\$3.5 million**. This level of funding reflects 1,399 DJJ wards.

The Subcommittee has been asked to evaluate options for moving Proposition 98 savings from the Division of Juvenile Justice (DJJ) to county court schools.

### BACKGROUND:

**Division of Juvenile Justice (DJJ).** DJJ is the state agency responsible for the housing, supervision, and rehabilitation of individuals who have been committed to their custody. As of May Revise, about **1,517 wards** (generally ages 13 to 25 years; average age 19 years) currently reside in DJJ institutions. Currently DJJ is comprised of five youth correctional facilities and two camps. Per the Governor’s proposals, the number of wards is estimated to drop to **1,399** in 2010-11.

**DJJ Education Funding.** The Governor proposes **\$29.8 million** in Proposition 98 funding for education services for an estimated 1,399 youth committed to DJJ in 2010-11. This represents a reduction of **\$3.5 million** from the Governor’s revised 2009-10 budget.

DJJ Funding	04-05	05-06	06-07	07-08	08-09	09-10	10-11 (Proposed)
<b>Budget Appropriations</b>	\$34.7m	\$33.4m	\$48.6m	\$46.0m	\$35.6m	\$33.4m	\$29.8m
<b>Average Daily Population</b>	3,537	3,044	2,697	2,260	1,743	1,517	1,399
<b>Per Pupil Funding</b>	\$9,796	\$10,981	\$18,007	\$20,343	\$20,399	\$21,988	\$21,332

The DJJ population has declined significantly for nearly fifteen years for a number of reasons, including: decline in juvenile arrest rates; statutory changes that increase the likelihood that youthful offenders will end up in adult institutions; increased capacity at the county level to retain juvenile offenders; and the enactment of financial incentives for counties to keep lower-level offenders.

More recent declines in the DJJ population are also due to (1) changes in state law that limits DJJ commitments to violent, serious, or sex offenders [Chapter 175; Statutes of 2007 (SB 81/Committee on Budget and Fiscal Review)]; and (2) a decrease in the juvenile population.

Education funding for DJJ is built upon a historical base amount adjusted annually for workload and other program purposes. While population has fallen steadily, per pupil Proposition 98 funding levels rose significantly in 2006-07, and have continued to increase at a more modest level since then. This higher level of funding maintains improvements in treatment and services needed to comply with remedial plans approved by the courts in the *Farrell* lawsuit settlement. The remedial plans covered six areas, including education.

Per state statute, DJJ is prohibited from receiving state categorical funds administered by the Department of Education. However, DJJ does receive federal funds for the following programs: Workforce Investment Act; Carl Perkins –Vocational Education; No Child Left Behind (NCLB) - Title I- Part D (Delinquent); NCLB Title III – English Learners; and Special Education. In addition, DJJ also receives other reimbursements from the E-Rate Fund and K-12 Technology Vouchers (Microsoft Settlement).

**DJJ Proposition 98 Savings.** The Governor’s budget proposes the following Proposition 98 adjustments for DJJ in 2009-10 and 2010-11.

<b>DJJ Proposition 98 Adjustments</b>	
<i>(In Thousands)</i>	
<b>2009-10 Budget Act</b>	<b>\$49,696</b>
<b>Governor's Current-Year Adjustments</b>	
EC/PERS/PPO/3.90	-4,400
Population Adjustments – Fall	-2,184
Prop 98 Corrections BCP	-6,366
Business Model/Staffing Standards	-2,284
<b>May Revise Current-Year Adjustments</b>	<b>\$34,462</b>
Population Adjustment - Spring	-1,105
<b>Revised 2009-10 Budget</b>	<b>\$33,357</b>
<b>Governor's Budget-Year Adjustments</b>	
EC/PERS/Price/ECP/One-times	4,345
Population Adjustment – Fall	-2,624
Business Model/Staffing Standards	-2,886
Juvenile Offender Population Mgt Reforms	-6,720
<b>May Revise Budget-Year Adjustments</b>	<b>\$25,472</b>
Population Adjustment - Spring	-1,929
Juvenile Offender Population Mgt Reforms	6,300
<b>2010-11 Proposed Budget</b>	<b>\$29,843</b>

Only one category of savings is associated with changes in the DJJ population. The Governor proposes reductions of **\$3.3 million** in 2009-10 and an additional **\$4.5 million** in 2010-11 associated with a decrease in the wards committed to DJJ. All other savings

proposals relate to implementing budget corrections, program efficiencies, and a small population management proposal to limit sentencing ages that would increase juvenile commitments to adult institutions.

**County Court Schools.** County boards of education are responsible for the administration and operation of juvenile court schools, which include juvenile halls, ranches, camps, and other programs. There are 49 county offices of education that operate approximately 64 court schools statewide.

**Court School Funding –Revenue Limits.** County court schools are funded through Proposition 98 formulas that allocate dollars automatically based upon the number of students they serve. The largest share of formula funding is from court school revenue limits. Base revenue limit funds, as adjusted for annual COLAs, are allocated based upon student average daily attendance (ADA).

In 2009-10, court school revenue limits are budgeted at **\$8,527** per pupil. With an estimated **13,524 pupils** in ADA, county court schools will receive approximately **\$115.3 million** in revenue limit funding in 2009-10. The Governor’s 2010-11 budget proposes to further reduce per pupil revenue limits to **\$8,163** to reflect additional base reductions and to adjust for a negative COLA of 0.39 percent for K-12 revenue limit programs. This reduced rate provides approximately **\$110.4 million** in total revenue limit funding, which equates to a **\$4.9 million** reduction. This reduction is a part of the Governor’s \$1.5 billion revenue limit reduction for K-12 school districts and county offices of education in 2010-11.

County Court Schools	04-05	05-06	06-07	07-08	08-09	09-10 Estimated	10-11 Estimated
Revenue Limit Appropriations (Deficited)	\$134.5m	\$138.0m	\$146.7m	\$149.1m	\$139.5m	\$115.3 m	\$110.4m
Per Pupil Revenue Limit Rates (Deficited)		\$8,514	\$9,100	\$9,512	\$9,262	\$8,527	\$8,163
Average Daily Attendance	16,257	16,207	16,117	15,678	15,064	13,524	13,524

Per pupil revenue limit rates have declined in recent years due base reductions and no COLA in 2008-09 and 2009-10. As a result of these reductions, which were applied to all revenue limit programs, county court schools lost an estimated **\$3.9 million** in 2008-09 and **\$6.0 million** in 2009-10 statewide (excluding reductions due to student ADA losses). Deficit factors have been created to track these losses and eventually return these formulas to their statutory levels, when the state budget allows.

Most of the recent court school losses are associated with a decline in student ADA levels. Statewide, court school ADA has been decreasing for more than ten years, dropping more significantly in 2009-10. While Chapter 175 (2007) prohibits counties from committing non-violent and non-serious offenders to DJJ, county court school ADA has not increased. Instead, population reductions seem to be associated with a decline in the juvenile population and juvenile arrest rates.

**County Court School Funding – Categorical Programs.** In addition to revenue limits, county offices of education also earn funding from state categorical program formulas that provide funding based upon ADA and other student counts.

According to the LAO, county offices of education have access to at least half of the state's 60 plus state education categorical programs available to school districts. Many of these categorical programs are subject to the categorical flexibility program, which allows school districts and county offices to use funds for any education purpose for a five year period that extends through 2012-13.

Definitive lists of categorical programs available to county offices are not available from the California Department of Education (CDE). But CDE has identified one major program categorical program – Economic Impact Aid -- that county offices do not receive. This program provides additional services for economically disadvantaged students and English learners.

In general, county offices decide how to distribute categorical funds among programs. For example, the Los Angeles County Office of Education (LACOE) court schools receive the following state categorical programs: Special Education, Instructional Materials Fund; CAHSEE Intervention Grants; Professional Development Block Grants; School and Library Improvement Grants; Arts and Music Block Grants; Math and Reading Training; Community Based English Tutoring; Administrator Training Program; and Tobacco Use Prevention Education.

County offices of education also receive State Lottery funds – including Lottery Instructional Materials funds.

In addition, county offices receive funds for several federal programs, most notably NCLB Title I, Special Education, and Nutrition (School Meals). The American Recovery and Reinvestment Act (ARRA) provided significant, one-time funding increases for federal Title I and Special Education programs in 2009-10. These ARRA funds are available for expenditure until September 30, 2011.

### **LAO Estimates of Categorical Funding**

Categorical funds are not generally allocated to court schools directly, but rather to county offices of education. Furthermore, county offices do not track the allocation of categorical revenues and expenditure for programs. As a result, it is difficult to know exactly how much categorical funding court schools receive on an annual basis. For this reason, the LAO has developed estimates of categorical funding available to court schools in 2008-09 on a per pupil basis.

According to the LAO, a total of **\$91.6 million** in Proposition 98 categorical funding was available to court schools in 2008-09, in addition to the **\$140.0 million** appropriated for revenue limits. As a result, the LAO estimates that a total of **\$231.2 million** in Proposition 98 funding – revenue limits and categorical funding – was available for county court schools in 2008-09, which provided about **\$15,343** per student enrolled.

<b>Funds Available for Court Schools</b>	<b>08-09</b>	<b>08-09</b>
	<b>Per Pupil Amounts</b>	<b>Total Funds</b>
<b>P-98 Funds</b>		
Revenue Limits (Deficited)	\$9,263	\$140.0 m
Categorical Funds	\$6,080	\$91.6 m
<b>P-98 Subtotal</b>	<b>\$15,343</b>	<b>\$231.2 m</b>
<b>General Funds</b>		
Juvenile Offender Block Grant Funds	<b>\$853</b>	
<b>Total</b>	<b>\$16,196</b>	<b>244.0 m</b>
Student Enrollment	15,064	15,064

In addition, the LAO estimates that county court school youth receive approximately **\$853** per pupil for the Youthful Offender Block Grant (YOBG) Fund program. These funds are allocated to counties and are available for education purposes. This program provides funding to counties to enhance the capacity of county probation, mental health, drug and alcohol, and other county departments to provide appropriate preventive, rehabilitative, and supervision services to youthful offenders. Example program areas include school-based educational, tutoring, or literacy programs; counseling or specialized mental health services; mentoring; substance abuse prevention and intervention; and organized recreational programs.

### **Funding Comparisons for DJJ and County Court Schools**

The table below compares per pupil funding for County Court Schools and DJJ schools for 2008-09, utilizing the LAO estimates.

<b>Per Pupil Funds</b>	<b>2008-09</b>
<b>County Court Schools –P98 Funds</b>	<b>\$15,343</b>
<b>County Court Schools – P98 &amp; YOBG Funds</b>	<b>\$16,196</b>
<b>DJJ – P98 Funds</b>	<b>\$20,399</b>

The difference between the **\$15,343** per student in Proposition 98 funds for courts schools and the **\$20,399** per student for DJJ schools appears to reflect the programmatic needs of the more serious and violent offenders served by DJJ.

**Los Angeles County Office of Education (LACOE) Facing Budget Difficulties.** In December 2008, the Auditor-Controller Department of Los Angeles County hired School Services of California, Inc., (SSC) to perform a review of LACOE juvenile court programs funding. The review was directed by the Los Angeles County Board of Supervisors. The SSC report, published on May 29, 2009, reported that LACOE court school programs were under funded, with a project deficit of **\$20 million** for 2008-09. LACOE attributed the deficit to the following factors:

- collective bargaining agreements that limited class sizes;
- large number of court school classrooms;
- physical facility limitations;
- higher percentage of special education students; and
- U. S. Department of Justice (DOJ) requirements.

LACOE also raised the idea of a new residential service model based upon student enrollment rather than student attendance.

In response to the SSC report findings, the Los Angeles Auditor-Controller's Department made a number of recommendations to address these and other issues in response to the deficit, while complying with the U. S. DOJ requirements. Other issues included evaluating the appropriateness of:

- salaries and benefits of court school instructors;
- use of substitute teachers; and
- number of court school administrators – estimated at twice the level for comparison court schools.

The Auditor-Controller also recommended that LACOE pursue legislative changes to implement the new funding model.

#### **RELATED LEGISLATION:**

**SB 698 (Negrette-McCleod).** Exempts funding for juvenile court school apportionments from the deficit factors established for the 2008-09 and 2009-10 fiscal years and would replace average daily attendance (ADA) with average daily enrollment (ADE) as the basis for funding. At the time, the bill was estimated to cost **\$32 million** to restore revenue limit cuts for the two years and an additional **\$15 million** annually to change the revenue limit funding base from ADA to ADE. **Status:** Held in Senate Appropriations (2009).

**DOF APRIL LETTER REQUEST:**

**Item 6110-491, Reappropriation, English Learner Program for County Court and Division of Juvenile Justice Schools (Issue 721).** It is requested that the availability of **\$1.6 million** in federal Title III carryover funding be extended to 2011-12 to complete the English Language Learner program for county court and Division of Juvenile Justice schools. The Budget Act of 2008 appropriated these funds for 2008-09 through 2010-11 to provide technical assistance and professional support for educators working with English learner incarcerated youth. This extension is requested due to a delay in selection of a contractor. The anticipated project completion date is now June 30, 2012.

It is further requested that Item 6110-491 be added to conform to this action.

6110-491. Reappropriation, Department of Education. The balance of the appropriation provided in the following citation is reappropriated for the purposes provided for in that appropriation and shall be available for encumbrance or expenditure until June 30, 2012:

0890-Federal Trust Fund:

- 1) Provision 33 of Item 6110-001-0890, Budget Act of 2008 (Chapters 268 and 269, Statutes of 2008)

**STAFF COMMENTS:**

- **Per Pupil Funding Comparisons Reflect Differences in Severity of Offenders.** According to the LAO comparisons for 2008-09, the state currently provides approximately **\$15,343** per student for county court schools and **\$20,399** per student at DJJ. It appears reasonable that DJJ schools earn more funding since they are serving more serious and violent juvenile offenders.
- **Population Declining for Both DJJ and County Court Schools Which Has Created Proposition 98 Savings.** It is interesting to note that the population of juvenile offenders committed to DJJ and county court schools has been declining for both systems for more than ten years. While Chapter 175 (2007) prohibits counties from committing non-violent and non-serious offenders to DJJ, county court school ADA has not increased. Instead, ADA reductions seem to be associated with a decline in the juvenile population and juvenile arrest rates.
- **County Court Schools Have Lost Revenue Limit and Categorical Funds as a Part of Statewide K-12 Reductions.** In addition to funding losses associated with decreasing student ADA, base revenue limits were reduced by **\$3.9 million** in 2008-09 and **\$6.0 million** 2009-10 for court schools. These decreases were enacted as a part of reductions for all K-12 revenue limit programs for school districts and county offices of education over the last two years as a result of the state's budget shortfall.
- **Governor Proposes Further Base Revenue Limit Cuts in 2010-11.** The Governor proposes additional base revenue limit reductions of **\$4.9 million** for county court schools, as a part of **\$1.5 billion** in revenue limit cuts for school districts and county offices of education in 2010-11. In addition, The Governor proposes to apply a

negative COLA of -0.39 percent for all revenue limit and categorical programs subject to statutory adjustments.

- **No Need to Shift Proposition 98 Savings from DJJ to Court Schools.** Proposition 98 funding is provided automatically through revenue limit and categorical funds for students committed to county court schools. The Governor proposes to use DJJ Proposition 98 savings – as well as county court school savings - to offset other K-12 program reductions in 2010-11, more specifically revenue limit programs. Therefore, any increases dedicated to court schools will require commensurate reductions to other K-12 revenue limit programs for school districts and county offices.
- **Any Court School Funding Adjustments Should Work Within Existing Formulas.** County court schools receive Proposition 98 funding through existing revenue limit and categorical program formulas. If the Legislature is interested in increasing funding for court schools, adjustments should be made within existing funding formulas in order to retain ties to workload and program need.
- **Residential Model of Funding Removes Important Attendance Incentives.** This model changes funding from a school attendance basis to a population basis. All other revenue limit programs for school districts and county offices utilize average daily attendance as the measure of the school population, in large part to maintain funding incentives for student attendance. While confinement in court schools should lead to high attendance rates, access to a full instructional day (240 minutes) remains an issue for some court school students, as evidenced by lawsuits filed with county court schools in California. While this model would presumably increase funding for juvenile court schools, it does not ensure that the youth who would earn additional funding would have access to appropriate educational programs or services to address their unique needs. Further, the model does not increase accountability systems for ensuring that youth attend school.
- **Need to Improve Court School Access to Existing Categorical Funding Streams.** Court schools generally earn state categorical funds for various student counts through the county office of education, which in turn allocates funds to court schools and other programs. County offices of education are not eligible to receive as many categorical funds as school districts. Among the largest categorical programs, county offices are not eligible to receive funds from the Economic Impact Aid (EIA) program. According to CDE, county court schools could earn between **\$2.7 million** and **\$3.1 million** statewide from EIA, which would provide important additional resources for economically disadvantaged students and English learners. As a result, court schools would be included in the Categorical Program Monitoring (CPM) process – to strengthen CDE oversight and technical assistance for court schools.
- **County Offices Statewide Could Benefit from Special Education Equalization in the Long Term.** County offices of education are eligible to receive funding from special education -- the largest, state funded K-12 categorical program. Special education funding is allocated through more than 100 Special Education Local Planning Areas (SELPA) based upon student ADA. Historically, SELPA funding rates have been very unequal statewide. Chapter 854; Statutes of 1997 (AB 602)

began a multi-year process to equalize funding by bringing all SELPAs up to the statewide average, as calculated at that time. However, SELPA rates have never been fully equalized. In general, many county offices of education statewide continue to receive funding below the statewide average, compared to school districts. For example, while the LACOE Court School has its own SELPA funding rate, the remaining five LACOE SELPAs earn less than **\$640** per ADA. In contrast, the LAUSD SELPA earns **\$718** per ADA. Because funding is calculated on total student ADA, not just special education student counts, special education equalization tied to the current statewide target could generate **\$7.4 million** more in annual funding for just LACOE SELPAs alone. Special education equalization is expensive statewide – approximately \$100 million in ongoing costs to bring SELPAs to the current statewide average – so this is a long term consideration, once the state budget experiences healthy growth again.

- **Other Existing County Funding Approaches Should Be Explored for Court Schools.** The Legislature may wish to explore other funding options to augment funding for county court schools:
  - **LACOE Special Education Model.** LACOE has six of its own SELPAs, including a separate SELPA just for its court schools. LACOE is the only county in the state that has a court school SELPA. Under this arrangement, special education funds are earned and expended by the LACOE courts school SELPA. In all other counties in the state, funding is earned at the county level and then allocated to court schools by one or more SELPAs. Reportedly, the LACOE SELPA was created to increase the amount of funding earned by the court school and guarantees that funds are spent for court schools. This arrangement may have benefits for court schools in other counties in the state.
  - **School District Fees.** Most county offices bill back school districts for the costs of their instructional programs for their resident students. However, only one county – San Diego - charges for the excess costs of their court programs and services. Specifically, San Diego County has an agreement with its school districts and SELPAs to pay the excess costs of special education for their resident students.
- **Need to Better Align Court School and Alternative School Funding.** The Legislature could also reexamine the funding levels for court schools and alternative school programs to make sure that formulas are aligned to programmatic need and reflect an effective local continuum of programs. In particular, court school rates, community school, and community day school rates should be harmonized. The LAO published a report in 2007 entitled *Improving Alternative Education in California* – which highlights differences in the funding rates for alternative programs and recommends an alternative funding formula. The alternative funding formula would require six hours of instruction daily – more than currently required for alternative schools. The new funding formula would also reinforce school district responsibility for creating effective options and create a stronger safety net for students.

- **Other Prevention Programs and After-Care Programs May Hold Promise for Preventing Court School Commitments.** For example:
  - **Soledad Charter School Funding.** The Soledad Enrichment Action Charter School – as approved by LACOE -- serves approximately 1,600 pupils at approximately 18 schools sites and is considered a successful program in improving educational outcomes for at-risk students and keeping them away from crime. While not a court school, the Soledad Charter School receives a special funding rate – higher than charter school rates and higher than county court school rates – to assist students with multiple educational risks. More specifically, the Soledad Charter School receives community day school funding, which provides supplemental funding on top of the county court school rate. This equates to a per pupil funding rate of approximately **\$10,608** in 2009-10. In contrast, per pupil court school rates are set at **\$8,527** in 2009-10. As authorized by Chapter 58; Statutes of 1997, Soledad Charter School is the only charter school in the state with this special rate. Students typically attend the school for one or two semesters and then return to their regular schools. As such, this might be an important program for preventing court school placements. [In 2006, SB 1170 (Alquist) would have authorized charter schools for at-risk students in Santa Clara County to receive the community day school rates.] The Soledad Charter School also receives state funding from the Charter Schools Facility Grant Program to offset up to 75 percent of its facility rental and lease costs.
  
- **Need for Improved Court School Accountability and Oversight.** County court schools are included in the state’s Alternative Schools Accountability Model (ASAM) system. In its 2007 report – Improving Alternative Education – the LAO found that the existing ASAM system is ineffective. Per the LAO, data provided by the existing system does not permit an evaluation of student progress at the most basic levels. As a result, the LAO recommended complete overhaul of the ASAM system. The LAO also found that other state and federal accountability systems are not adequately holding schools and districts responsible for the achievement of students in alternative programs. While the LAO did not specifically include court schools in their review, some of its criticisms of ASAM apply to court schools. For example, alternative schools are free to choose three performance measures among 14 indicators. Different measures make statewide comparisons difficult. In addition, most of the 14 indicators in ASAM are not direct measures of student achievement. Most importantly, the LAO recommended that any changes in the funding formula for alternative schools be accompanied by improvements in accountability.

## **STAFF RECOMMENDATIONS:**

### **For action today:**

1. Staff recommends that the Subcommittee approve the DOF April Letter request to extend expenditure authority for \$1.7 million in one-time federal Title III funds one additional year in order to complete the technical assistance to DJJ and courts schools.

**OUTCOME: Approved DOF April Letter. (Vote: 3-0)**

### **For consideration when the Full Committee takes final actions on May Revise Proposition 98 Issues:**

1. Staff recommends that the Subcommittee hold court schools harmless from further revenue limit reductions in 2010-11 when the Subcommittee takes final actions for May Revise. This will allow county court schools to retain approximately **\$4.9 million** in revenue limit funds in 2010-11.
2. Staff recommends that the Subcommittee adopt Supplemental Report Language requiring the LAO to identify options as a part of the 2011-12 budget to (1) improve access to existing state and federal categorical funding – including Economic Impact Aid -- for county court schools; and (2) compare court school funding with funding rates for other alternative programs.
3. Staff recommends that the Subcommittee take budget action to require the Fiscal Management and Crisis Team to conduct a fiscal assessment of the LACOE court schools.

## **SUGGESTED QUESTIONS:**

1. Amid local concerns about a shift of juvenile offenders from DJJ to county court schools, county court school ADA statewide has been falling steadily for more than ten years. Court school ADA is estimated to fall another 12 percent from 2008-09 to 2009-10. Is this trend likely to continue?
2. Why is San Diego County the only county that charges fees to school districts for excess court school costs? Could other counties take this approach?
3. Can CDE explain why some categorical programs - such as Economic Impact Aid – are not available to county offices of education and court schools?
4. Do county court schools receive community college funding for students who have completed their secondary education? Are county court schools eligible to receive Adult Education funding?
5. Can county offices utilize reimbursements from the LEA Medi-Cal Billing Option for supplemental services to court school students? The types of reimbursement

services provided by the Medi-Cal Billing Option would seem to be very beneficial for these students.

6. Does CDE routinely monitor county court schools? Does CDE include court schools in its Categorical Program Monitoring (CPM) Reviews? In particular, how is CDE assuring that court schools are providing a minimum of 240 minutes of daily instruction to students?
7. What has CDE learned from the limited-term technical assistance projects for English Learner programs and Special Education programs at court schools?
8. Does the Alternative Schools Accountability Model (ASAM) provide an effective accountability system for county court schools? How will changes currently underway for ASAM improve accountability for court schools? What is the timeline for implementation of these changes?
9. Why did CDE initially disapprove the LACOE budget in 2009-10? Does CDE believe the LA County audit of LACOE – conducted by School Services of California (SSC) – pinpoints the fiscal problems? Is CDE satisfied that the report’s basic recommendation is to increase funding via a residential funding model? (Per the SCC report, the “model was assembled from data and concepts developed by a variety of agencies, individuals, and School Services of California, Inc.”)
10. Is CDE aware of the U.S. Department of Justice Memorandum of Understanding with LACOE court schools? What is CDE’s role in providing oversight and technical assistance?

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
**Chair, Carol Liu**  
**Member, Robert Huff**  
**Member, Roderick Wright**

**Monday, May 24, 2010**

## **Outcomes**

<b><u>Item</u></b>	<b><u>Department</u></b>	<b><u>Page</u></b>
	<b>Open Issues, May Revise, and Capital Outlay</b>	
<b>6120</b>	<b>California State Library</b>	
<b>6440</b>	<b>University of California (UC)</b>	
<b>6600</b>	<b>California State University (CSU)</b>	
<b>6870</b>	<b>California Community Colleges (CCC)</b>	
<b>7890</b>	<b>California Student Aid Commission (CSAC)</b>	
	<b><u>Vote-Only Items</u></b>	
Item 1	California State Library – CCHE	Page 3
Item 2	CCC Contracting Out Proposal	Page 4
Item 3	CCC 75/25 Faculty Ratio	Page 5
Item 4	CCC Categorical Flex Items	Page 6
Item 5	Add CalWORKs Recipients Categorical to Flex Item	Page 9
Item 6	Reduce CalWORKs Reimbursements to CCC	Page 9
Item 7	CalGrant Pilot Project Trailer Bill	Page 10
Item 8	TANF Funds for CalGrants	Page 11

Item 9	Adjust Federal Child Care Funds	Page 11
Item 10	Career Technical Education Carryover Funds	Page 12
Item 11	Child Care Quality Activities	Page 12
	<u>Discussion Items</u>	
Item 12	Early Learning Advisory Council	Page 13
Item 13	Preschool Assessment	Page 15
Item 14	Adult Education	Page 17
Item 15	California Student Aid Commission and EdFund Detangling	Page 20
Item 16	Student Academic Preparation	Page 23
Item 17	Lease-Revenue Funded Capital Outlay	Page 26
Item 18	Redistricting Data at UC Berkeley	Page 29
Item 19	Medical Education	Page 30
Item 20	Nursing Initiative	Page 31
Item 21	CCC Basic Skills	Page 35
Item 22	BOG Waivers and FAFSA	Page 38
Item 24	Career Technical Education Pathways Initiative	Page 40

Public Comment

## Vote-Only Items

6120 CALIFORNIA STATE LIBRARY

### ITEM 1: California Cultural and Historical Endowment (CCHE)

**Background.** The California State Library's (Library) purpose is to preserve California's heritage. AB 716 (Firebaugh, 2002), the California Cultural and Historical Endowment Act, established within the Library the California Cultural and Historical Endowment (CCHE). The CCHE is intended to preserve and protect California's cultural and historical resources. The CCHE provides grants for cultural and historical preservation projects, including artifacts, collections, archives, historic structures, and properties.

**Survey Requirement.** In addition to providing grants, the CCHE has an unfulfilled requirement to conduct a survey of the existing collection of preserved historic and cultural resources in California, and to make recommendations to the Governor and Legislature on statewide policy regarding historic and cultural resource preservation. The survey was supposed to be completed in 2005. The CCHE has yet to begin work on the survey.

**Governor's Budget.** The Governor's Budget proposes \$560,000 million from Proposition 40 bond funds for 2010-11, of which \$60,000 would be for state operations and \$500,000 for local assistance. This proposal also requests Proposition 40 bond funds over the next four years, which, along with budget year, total \$2.7 million:

- 2010-11: \$560,000 – \$60,000 for state operations; \$500,000 for local assistance
- 2011-12: \$656,000 – all for state operations
- 2012-13: \$554,000 – all for state operations
- 2013-14: \$480,000 – all for state operations
- 2014-15: \$450,000 – all for state operations

**Staff Comment.** The enabling legislation, AB 716 (Firebaugh, 2002), imposes a five percent programmatic expenditures cap for Proposition 40 bond funds on the CCHE. However, funds requested in this proposal come from a different section of Proposition 40 intended for general historical preservation purposes, and those funds have no administrative cap. Thus previous concerns about the administrative funds expenditures are not sufficient to not fund this historical preservation proposal.

**ACTION:** Approved

**VOTE:** 2-1 (Huff)

**ITEM 2: CCC Contracting Out Proposal**

**Current Law.** Under current law (SB 1419, Chapter 894, Statutes of 2002), community colleges can contract out for many non-instructional services, such as food service, maintenance, clerical functions, and payroll, only if certain conditions are met. For example, a district can contract out for services to achieve cost savings, however, there must be a clear demonstration that the contract will result in actual overall cost savings to the district.

Current law specifically prohibits the approval of contracts solely on the basis that savings will result from lower contractor pay rates or benefits, and requires that contractor's wages be at the industry's level and not undercut district pay rates. Current law also does not allow for the displacement of district employees (defined as layoff, demotion, involuntary transfer to a new classification, involuntary transfer to a new location requiring a change of residence, and time base reductions).

**Governor's Trailer Bill.** The Governor's proposal amends existing law governing contracting out for personal services to remove provisions that currently: (1) disallow approval of contracts solely on the basis of cost savings; and, (2) disallow contracts if it causes displacement of school employees who previously provided the services. This new authority would become effective for personal services contracts entered into after January 1, 2011.

**LAO Recommendation.** The LAO supports the Governor's proposal to increase community college districts' fiscal and program flexibility. The LAO recommends adopting the administration's language to allow additional contracting out.

**Staff Comment.** There are no state savings associated with this proposal. The trailer bill language would enact permanent changes to community college personal services contracting law.

**ACTION:** Rejected

**VOTE:** 2-1 (Huff)

**ITEM 3: CCC 75/25 Faculty Ratio**

**75/25 Requirement.** Instruction at the community colleges is provided by a combination of full-time (permanent) and part-time (adjunct) faculty. State statute expresses legislative intent that 75 percent of credit instructional hours be taught by full-time faculty, with no more than 25 percent taught by part-time faculty. Implementing regulations developed by BOG (which oversees the statewide system) generally require districts move closer to the 75 percent target by hiring more full-time faculty in years in which they receive additional enrollment funding. While the 75/25 statutory ratio is merely a guideline for districts, the CCC regulation (commonly known as the full-time Faculty Obligation Number, or “FON”) imposes financial penalties on districts that fail to meet their employment target for full-time faculty members.

**Governor’s Trailer Bill.** The Governor proposes trailer bill language to suspend the 75/25 statute (and with it, the FON regulation) until 2012-13 in order to provide added flexibility to districts. There are no savings calculated from this proposal.

**LAO Recommendation.** The LAO notes that there is no sound analytical basis for the specific full-time faculty ratio currently in statute. The LAO thinks there are several benefits to colleges employing full-time faculty. For example, full-time faculty members are more likely to provide direction and leadership for program planning and curriculum development. However, it is widely acknowledged that part-time faculty can provide many benefits, as well. For example, they can bring unique and practical experience to the classroom. The use of part-time faculty can also allow colleges to respond quickly to changing student demands and labor-market needs. The LAO points out that while the state has an interest in ensuring that districts employ faculty to maximize educational outcomes, the LAO has not seen any evidence that prescribing a specific ratio or number for full- and part-time faculty will do this.

The LAO points out that if the community colleges received additional enrollment growth funds (as proposed by the Governor) and the FON requirement continued to remain in effect, districts could be required to hire new full-time faculty regardless of their own local spending preferences or priorities. For instance, certain districts might prefer to delay making a commitment to employ additional permanent faculty (and instead hire part-time faculty) given the uncertainty of the state’s—and, by extension, CCC’s—current fiscal condition. Other districts may prefer to first hire back valued noninstructional staff that were recently let go, such as counselors and tutors. In order to increase districts’ ability to make their own resource-allocation decisions, the LAO thus recommends the Legislature adopt the Governor’s proposal.

**Staff Comment.** The division of faculty on a community college campus is a complicated matter, because part-time faculty are less expensive and thus can teach more courses, but the full-time faculty designs the courses and provide continuity to the department and disciplines on the community college campuses.

The contract agreements for many of the permanent faculty guarantee that permanent faculty cannot be laid off for budget reasons before the temporary faculty have been laid off. Thus, allowing community college campuses to use a faculty ratio other than 75/25 may not produce savings for the campuses. Adopting the Governor’s trailer bill language may, however, allow the community colleges to avoid future costs if they receive enrollment growth funding in 2010-11 that is lost in a future fiscal year for some reason.

**ACTION:** Rejected

**VOTE:** 2-1 (Huff)

**ITEM 4: CCC Categorical Flex Items**

**Categorical Flexibility in the 2009-10 Budget Act.** Community colleges received deep cuts in the *2009-10 Budget Act*, which were focused primarily on categorical programs. Year-to-year support for categorical programs declined by 37 percent, from \$705 million in 2008-09 to \$441 million in 2009-10. To alleviate the severity of the categorical program reductions, the Legislature, through trailer bill language, permitted the community colleges to shift funds between the 12 categorical programs that were included in the flexibility item (flex item). There are a total of 21 categorical items.

Programs Included in Flex Item	Programs Excluded From Flex Item
Academic Senate	Basic Skills Initiative <sup>a</sup>
Apprenticeship	CalWORKs Student Services
Campus Child Care Support	Disabled Students Program
Career Technical Education Initiative <sup>b</sup>	Extended Opportunity Programs and Services <sup>a</sup>
Economic and Workforce Development	Financial Aid Administration
Equal Employment Opportunity	Foster Care Education Program
Matriculation	Fund for Student Success <sup>a</sup>
Part-Time Faculty Compensation	Nursing Grants
Part-Time Faculty Health Insurance	Telecommunications and Technology Services
Part-Time Faculty Office Hours	
Physical Plant and Instructional Support	
Transfer Education and Articulation	

<sup>a</sup> Governor proposes to include this program in flex item beginning in 2010-11.  
<sup>b</sup> Governor proposes to remove this program from the flex item in the current and budget years.

Source: LAO

**Moving Funds Between Flex Items.** Under categorical flexibility, from 2009-10 to 2012-13, districts are permitted to transfer funds from categorical programs in the flex item to any other categorical spending purpose. (Such decisions must be made by local

governing boards at publicly held hearings.) By contrast, funds in categoricals that are excluded from the flex item must continue to be spent on their own specific program in accordance with statutory and regulatory requirements. For example, funds in the Economic and Workforce Development program (within the flex item) may instead be spent on Financial Aid Administration (outside the flex item), though Financial Aid Administration can only be spent for that purpose. As of April 15, 2010, 33 of the 72 community college districts had chosen to utilize the categorical flexibility option.

**Governor’s Budget.** The Governor proposes to remove the Career Technical Education (CTE) program from the “flex item” and replace it with the three programs currently not in flex: the Basic Skills Initiative, Extended Opportunity Programs and Services (EOPS), and the Fund for Student Success. The Governor’s proposed 2010-11 budget contains the following funding for these programs:

- Basic Skills Initiative: \$20 million
- EOPS: \$63.3 million
- Fund for Student Success: \$3.3 million

*Basic Skills Initiative.* Funds in the Basic Skills Initiative (formally known as “Student Success for Basic Skills Students,” which is separate from the Fund for Student Success) are used by districts for activities and services such as curriculum development, professional development workshops, and supplemental counseling and tutoring for CCC students who lack college-level proficiency in English and mathematics. For more background, please see Item 3 above.

*Extended Opportunity Programs and Services.* The EOPS program provides various supplemental services (such as orientation, counseling, tutoring, and financial assistance to purchase textbooks) for low-income—and typically underprepared—students. (The Cooperative Agencies Resources for Education program is a subset of EOPS that serves welfare-dependent single parents who are attending CCC.)

*Fund for Student Success.* The Fund for Student Success consists of three separate programs: Middle College High School (MCHS); Puente; and Mathematics, Engineering and Science Achievement (MESA).

- Middle College High School: The 13 existing MCHS programs are located on community college campuses. Students in the program typically take their high school classes together during one half of the school day, and attend community college classes during the other half. In addition to working toward a high school diploma, MCHS students have an opportunity to earn an associate’s degree and credits that are transferable to a four-year institution. The \$1.5 million of 2009-10 General Fund support for MCHS is typically used for purposes such as helping high school students buy their college textbooks and paying the partial salary of a CCC counselor to advise students and their parents on courses to take.
- Puente: Puente is a partnership among 58 community colleges, the UC, and the private sector. Staff from the UC Office of the President train CCC faculty to implement the program, which consists of intensive reading and writing classes (typically involving Latino literature), mentoring, and counseling services. The

- program is designed for students from historically underrepresented groups who are interested in transferring to a four-year institution. In 2009-10, the state provided Puente with \$1.6 million in General Fund monies.
- **Mathematics, Engineering, and Science Achievement:** The purpose of MESA is to increase transfer rates of low-income students pursuing degrees in math-based fields (such as engineering, computer science, and physics). Students in the MESA program receive counseling, tutoring, mentoring, and other services at one of the 30 participating community college campuses. The 2009-10 Budget Act provides \$2.1 million in General Fund support for the program.

**Staff Comment.** The categorical flexibility was adopted as part of the *2009-10 Budget Act* for the duration of three years. The program is only in its first year, and has been utilized so far by only 33 of the 72 community college districts. Since the community colleges set their annual budgets in the summer, often before the budget passes, it is difficult for the districts to quickly respond to budget changes. The Legislature may wish to allow the categorical flexibility program to operate as planned for the three-year pilot phase before changing the categorical items that are part of the program.

Services to the most vulnerable student populations within the community college system have historically been important to the Legislature. The Fund for Student Success and EOPS programs target students who come from low-income backgrounds and who may be the first in their families to attend college. These students benefit from the additional counseling and assistance provided to them by the EOPS and Fund for Student Success programs. Students from low-income backgrounds frequently need assistance in navigating the college requirements in order to succeed and attain their goals of higher education.

The Basic Skills Initiative provides the community colleges with the resources to plan courses that allow students who need remedial education to succeed in college. Without basic skills instruction, the students who did not gain the necessary foundational skills in high school would be left to struggle in college courses that they are not adequately prepared to complete. The Basic Skills Initiative is discussed in more detail in Item 14.

A portion of the Financial Aid Administration categorical item pays for a portion of the state mandates regarding community college financial aid. If this categorical was placed into the flex item, the community colleges would not necessarily have to allocate the categorical funding to the mandate in the budget year, but the state would still owe that money for the mandate to the community colleges in the future.

**ACTION:** Rejected

**VOTE:** 2-1 (Huff)

**ITEM 5: Add CalWORKs Recipients Categorical to Flex Item**

**May Revise.** The Governor's May Revise proposes to add the California Community Colleges Schedule (7), Special Services for California Work Opportunities and Responsibility to Kids (CalWORKs) Recipients, to the categorical program flexibility. The Governor is proposing moving Schedule (7) to flexibility due to the proposed elimination of the CalWORKs Program in the Department of Social Services' budget. The Governor's proposal would allow community college districts to shift CalWORKs Proposition 98 General Fund to any other categorical program as specified by the current flexibility statute. The Governor's proposal includes conforming budget bill language.

**ACTION:** Rejected

**VOTE:** 2-1 (Huff)

**ITEM 6: Reduce CalWORKs Reimbursements to CCC**

**May Revise.** The Governor's May Revise proposes to decrease by \$6.0 million reimbursement authority for the CalWORKs Program to reflect the proposed elimination of the program in the Department of Social Services' budget. However, under the Governor's May Revise proposal, \$2.0 million in federal Temporary Assistance to Needy Families Reimbursements would remain available to provide services for the first-quarter of the fiscal year.

**Staff Recommendation.** Staff recommends that this item conform to the Budget Committee's decision on the proposed elimination of CalWORKs (vote on Tuesday, May 25).

**ACTION:** This item will conform to the overall CalWORKs vote on Tuesday, May 25.

**ITEM 7: CalGrant Pilot Project Trailer Bill**

**Decentralization Pilot Project.** AB 187 (Committee on Budget, 2009) created a pilot program to decentralize financial aid programs administered by the California Student Aid Commission (CSAC) and granted authority for up to 35 qualifying institutions to voluntarily administer award grants under the CalGrant A and B Entitlement Programs and the California Community College Transfer CalGrant Entitlement Program. Specifically, the University of California (UC), the California State University (CSU) and the California Community Colleges (CCC) would participate in a pilot program to administer CalGrant entitlement awards for students attending the respective institutions.

AB 187 prohibits CSAC from implementing the pilot alternative delivery system until prescribed conditions are met, including receiving commitments from at least 30, but not more than 35, qualifying institutions electing to participate in the alternative delivery system and to pay the costs associated with developing and implementing the pilot alternative delivery system.

**Trailer bill.** The Governor's January 10 Budget includes trailer bill language that makes changes to the CalGrant's pilot project language. The primary changes are:

1. Eliminate the requirement that a minimum of 30 institutions have to participate to start the pilot. Keeps the requirement that the pilot include no more than 35 institutions.
2. Eliminate the requirement that the California Student Aid Commission approve a qualifying institution's application to participate in the pilot program. Instead, institutions would submit an application to the Commission certifying their compliance with program requirements and the submission of the application would be deemed sufficient to begin the awarding of CalGrants.
3. Clarifies that only the administrative costs associated with the pilot program are to be paid by the participating institutions.

**Staff Comments.** The pilot project emergency regulations have only just been completed (ahead of schedule). Because there were no regulations until May 2010, no institutions have volunteered to participate in the pilot program. By allowing a lower number of institutions to participate, it is possible that one or more of the higher education segments will not participate in the pilot project at all.

The language of AB 187 was somewhat ambiguous as to which expenditures the institutions would be responsible for in the CalGrant pilot program. The trailer bill language clarifies that the institutions cover only the administrative costs.

**ACTION:** Rejected

**VOTE:** 2-1 (Huff)

**ITEM 8: TANF Funds for CalGrants**

**May Revise.** The Governor’s May Revise requests an increase of \$10,333,000 in reimbursements for the CalGrant program within the California Student Aid Commission. The reimbursements come from the federal Temporary Assistance for Needy Families (TANF) Block Grant, and are available only due to the Governor’s proposal to eliminate the California Work Opportunities and Responsibility to Kids (CalWORKs) program.

**January 10 Budget.** The Governor’s January 10 Budget allocated \$18,336,000 from the TANF Grant to offset General Fund costs of the CalGrant program available as a result of a proposed 15.7 percent cash assistance rate reduction in the California Work Opportunities and Responsibility to Kids (CalWORKs) program. Because the Legislature did not adopt that proposal in the Special Session, General Fund savings erosion of \$4,584,000 is reflected.

**Staff Recommendation.** Staff recommends that this item conform to the Budget Committee’s decision on the proposed elimination of CalWORKs (vote on Tuesday, May 25).

**ACTION:** This item will conform to the overall CalWORKs vote on Tuesday, May 25.

**ITEM 9: Adjust Federal Child Care Funds**

**May Revise.** The Governor’s May Revise proposes to increase federal funds for the CalWORKs Stage 3 child care program in Item 6110-196-0001 of the California Department of Education by \$3,902,000 to reflect the following:

1. An increase of \$2,115,000 in ongoing federal funds; and
2. An increase of \$1,787,000 in one-time federal funds available from prior years.

This proposal includes the following budget bill language:

“5. Of the funds appropriated in this item, ~~\$21,951,000~~ \$23,738,000 is available on a one-time basis for CalWORKs Stage 3 child care from federal Child Care and Development Block Grant funds appropriated prior to the 2010 federal fiscal year.”

**ACTION:** Approved

**VOTE:** 3-0

**ITEM 10: Career Technical Education Carryover Funds**

**Finance Letter.** The Governor submitted an April Finance Letter requesting an increase of \$498,000 in reimbursement carryover funds for the Career Technical Education (CTE) Program. These funds will allow for the completion of two projects that could not be completed during 2009-10 due to contract delays.

The Finance Letter also includes budget bill language that would provide the CTE funding to the Department of Education from the Quality Education Investment Act. Education Code Section 52055.770(f) sets aside the Quality Education Investment Act dollars for CTE. Currently, the Quality Education Investment Act funds are going to the California Community Colleges CTE program.

The proposed budget bill language reads:

1. Funding in this item shall be provided through a transfer from Schedule (21) of Item 6870-101-0001 and from the Quality Education Investment Act in accordance with Education Code Section 52055.770(f), pursuant to an interagency agreement between the Office of the Chancellor of the California Community Colleges and the State Department of Education.

**ACTION:** Approved

**VOTE:** 3-0

**ITEM 11: Child Care Quality Activities**

**May Revise.** The Governor's May Revise includes a technical proposal to increase federal funds for child care quality activities. It is requested that Provision 3(a) and (b) of this item be amended to adjust the quality earmarks under the Child Care and Development Block Grant as follows:

“(a) ~~\$1,980,315~~ \$2,002,671 is for the schoolage care and resource and referral earmark.

(b) ~~\$11,215,998~~ \$11,342,626 is for the infant and toddler earmark and shall be used for increasing the supply of quality child care for infants and toddlers.”

**ACTION:** Approved

**VOTE:** 3-0

## Discussion Items

6110 CALIFORNIA DEPARTMENT OF EDUCATION

### ITEM 12: Early Learning Advisory Council

#### Speakers:

- Camille Maben, California Department of Education
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance

**Issue.** The issue before the Subcommittee is the Governor's May Revise proposal for funding the California Department of Education's (CDE) work with the Early Learning Advisory Council, and the staff's alternative level of funding.

**May Revise.** The Governor's May Revise includes a request for \$118,000 in increased reimbursement authority from the California Children and Families Commission to fund one redirected position and associated committee expenses to support the Advisory Council on Early Learning Childhood Education and Care (ELAC), established by Executive Order S-23-09, subject to an expenditure plan approved by the Department of Finance.

This funding would augment the current resources available for the Early Learning Quality Improvement System Advisory Committee (ELQIS) created by Chapter 307, Statutes of 2008, which has been subsumed within the ELAC. It is anticipated that these resources will enable the state to develop a successful proposal for \$10.6 million in federal American Recovery and Reinvestment Act (ARRA) funds authorized for the ELAC.

The Governor's May Revise also requests that reimbursement authority for two existing limited-term positions for the ELQIS be extended through June 30, 2013 to support the work of the ELAC. The Governor's proposed budget bill language is as follows:

“22. (a) Of the reimbursements appropriated in Schedule (8) of this item, \$439,000 and 2.0 limited-term positions until July 1, ~~2011~~ 2013, pursuant to an agreement with the California Children and Families Commission, shall be available to the State Department of Education (SDE) to support the activities of the Early Learning Quality Improvement System Advisory Committee established by Chapter 307 of the Statutes of 2008, and the Advisory Council on Early Childhood Education and Care (ELAC) pursuant to Executive Order S-23-09.

(b) Of the reimbursement funds appropriated in this item, \$118,000 is provided for one redirected position and associated committee expenses to support the activities of the ELAC, pursuant to an agreement with the California Children and Families Commission. The SDE shall submit a plan for the expenditure of these funds for approval by the Department of Finance by September 1, 2010.”

**CDE Support for ELAC.** CDE staff will be needed to work with the ELAC to, among other things, convene and support ELAC meetings; facilitate ARRA funding applications for the State; identify opportunities for collaboration and coordination among entities carrying out federally-funded, state-funded and locally-funded child development, child care and early childhood education programs; and facilitate the ELAC to make recommendations for improvement in state early learning standards, as appropriate.

**Staff Comment.** The California Department of Education (CDE) has received a \$2 million grant over three years from the First 5 California Commission. However, the Department of Finance only approved \$118,000 in expenditures from this grant for the first of the three years. If the contract funds were spent according to the three year plan, the CDE would need \$503,000 in reimbursement authority (First 5 California Commission funds are federal funds). Also, CDE estimated that they would need four positions to complete the work.

**ACTION:**

“22. (a) Of the reimbursements appropriated in Schedule (8) of this item, \$439,000 and 2.0 limited-term positions until July 1, ~~2014~~ 2013, pursuant to an agreement with the California Children and Families Commission, shall be available to the State Department of Education (SDE) to support the activities of the Early Learning Quality Improvement System Advisory Committee established by Chapter 307 of the Statutes of 2008, and the Advisory Council on Early Childhood Education and Care (ELAC) pursuant to Executive Order S-23-09.

(b) Of the reimbursement funds appropriated in this item, ~~\$118,000~~ \$503,000 is provided for one redirected position, two new limited-term positions until July 1, 2013, and associated committee expenses to support the activities of the ELAC, pursuant to an agreement with the California Children and Families Commission.”

**VOTE:** 2-1 (Huff)

### ITEM 13: Preschool Assessment

**Speakers:**

- Camille Maben, California Department of Education
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance

**Issue.** The issue before the Subcommittee is a staff proposal to expedite the work of the ELQIS Data Subcommittee in the development of the Quality Rating System with a \$1 million redirection from existing funds.

**Importance of Preschool.** A RAND report finds that at kindergarten entry, California children begin school with varying levels of readiness, in terms of cognitive and non-cognitive skills that have been shown to be predictive of later school success. Socioeconomically disadvantaged children enter kindergarten with lower levels of readiness than their more advantaged peers. By second and third grades, these readiness gaps are manifested in achievement differences in statewide standardized tests.

Preschool preparation can lower these achievement differences. There is an accumulation of convincing evidence from research that young children are more capable learners than current practices reflect and that good education experiences in the preschool years can have a positive impact on school learning.

**Current Preschool Programs.** The primary options for children attending preschool are public preschool programs, federally funded Head Start programs, or private preschool programs. Approximately 60 percent of California's young children attend public preschool or Head Start programs prior to kindergarten.

**Preschool Data Collection.** The General Child Care program has been in existence since 1943, and the State Preschool program since 1966, without an evaluation system that gives the department and the public a clear sense of its classroom accomplishments. California should be able to provide its own data in order to show the program's impact and to enable the improvement of staff development programs based on program success.

**ELQIS.** The Early Learning Quality Improvement System Advisory Committee (ELQIS) was created by Chapter 307, Statutes of 2008. The ELQIS is a new State advisory body that will develop the policy and implementation plan for an Early Learning Quality Improvement System to improve the quality of early education programs. Development of the quality improvement system will consider research, policies, program information, and best practices at the national, state, and local levels. The ELQIS is also charged with developing an early learning rating scale that includes features that most directly contribute to high quality care and a funding model aligned with the quality rating scale.

The ELQIS has five subcommittees, one of which works on data. The Data Subcommittee is working on a multitude of projects intended to increase understanding

of early childhood programs. One of the Data Subcommittee's projects is the Quality Rating System, which once developed will be a method to assess, improve, and communicate the level of quality in early and school-age care settings. The Data Subcommittee will present their recommendations in December 2010.

**Staff Comment.** The ELQIS process is a broad-scale effort to bring together various stakeholders to comment on early learning in California. It may be premature to undertake a data collection effort on preschool effectiveness separate from the ELQIS Data Subcommittee's projects. ELQIS is likely to be the method for establishing any long-range data gathering system in California. Parallel efforts may be useful in informing policy in the near-term, but would not be used beyond the five-year horizon.

Without a student identifier that can be used to track a student from year-to-year, any study conducted would have to seek permission from the parents of the child for that child's records to be sought in later grades. Such permission would not be difficult to attain for a small number of children, but as the sample of preschoolers becomes larger, so the long-term tracking becomes more difficult.

**ACTION:** Approved \$1 million one time federal funds and three PY for the Quality Rating feasibility study that the ELQIS will recommend.

**VOTE:** 2-1 (Huff)

## 6110 CALIFORNIA DEPARTMENT OF EDUCATION

### ITEM 14: Adult Education

**Description:** The Governor's January 2010 Budget proposes an appropriation of \$745 million in Proposition 98 funding for K-12 adult education. The governor's decision to fund this year's negative cost-of-living adjustment (COLA), computed at -0.38 percent in the statutory inflationary index, results in a budget reduction of \$3 million when compared to the 2009-10 Budget. Also, due to categorical flexibility approved in 2009, K-12 adult education will undergo an additional 19.81 percent reduction and with the final 2010-11 budget appropriation estimated at \$632 million.

The Department of Finance April Letter request that Budget Item 6110-156-0890 (Issue 404) be adjusted to include \$3 million in one-time carryover funds for the Federal Adult Education Program.

#### **BACKGROUND:**

California provides a system of education to adults that consist of two main providers: adult schools governed by school districts and county offices of education, and non-credit programs administered by the California Community Colleges. Both providers receive public funds to support the same nine adult program areas with adult schools also providing an Apprenticeship program.

The nine program areas include: Parenting Education, Elementary and Secondary Basic skills, English as a Second Language, Immigrants, Disabled Adults, Short term Vocational Education, Older Adults, Home Economics, and Health and Safety education.

Similar to adult schools, non-credit programs offer courses and credits toward acquiring a high school diploma or short term vocational education certificates.

#### Adult School Funding Sources

Adult education is one of the largest categorical programs funded through the general apportionment process. Categorical funding limits school districts to only spending those funds for the specified purpose of adult education. As a result, adult schools are almost entirely supported by the adult education categorical program.

#### CCC Non-Credit Program Funding:

Unlike funding for adult schools, the general apportionment funding for noncredit programs is not a separate entitlement program; it is a portion of each community college revenue limit in which funding for noncredit courses is computed based on positive student attendance.

Furthermore, both adult schools and non-credit programs receive a small amount of federal funds to implement and administer federal adult education programs through an array of sources such as the Federal Workforce Investment Act (WIA) and the Perkins Vocational and Technical Education Act (VTEA).

Annual State Funding For Adult Education

	FY2009-10	FY 2008-09	FY 2007-08	FY 2006-07	FY 2005-06
K-12 Adult Schools	\$634,753,000	\$653,744,000	\$753,717,000	\$698,552,000	\$647,950,000
CCC Non-Credit Programs	n/a*	\$149,488,517	\$2,752,941	\$228,763,104	\$188,974,151
CCC Non-Credit CDCP Programs	n/a*	\$139,849,616	\$968,507	\$0	\$0

\*Reapportionment figures are currently unavailable.

Adult Education Enrollment

	AY 2008-09	AY 2007-08	AY 2006-07	AY 2005-06
K-12 Adult Schools	n/a	1,239,449	1,206,864	1,158,002
CCC Non-Credit Programs	863,074	849,571	806,206	796,259

\*Enrollment numbers for the 2009-10 academic year will not be available until August of 2010.

Categorical Flexibility

As part of the 2009-10 budget agreement, the Legislature approved statutory changes in the education budget trailer bill (SBX3 4, EC section 42605, February 2009) which would allow local school districts to have “maximum flexibility” over the allocation of funding for 39 categorical programs including Adult Education. Furthermore, categorical programs would be subject to fixed funding cuts in the amount of 15 percent in FY 2008-2009 and an additional 4.94 percent in every subsequent year until FY 2012-2013.

Impacts of Categorical Flexibility

Although, quantitative data is currently unavailable to measure the impacts and changes created by categorical flexibility, anecdotal evidence reveals that many school districts have diverted funds away from K-12 Adult Education. School districts have shifted these toward areas they deem to be more of a priority as local governing boards face large budget deficits. A recent survey conducted by the Legislative Analyst’s Office (LAO) suggests that 60 percent of districts surveyed shifted funds away from programs such as adult education. In addition, 70 percent of responding districts reported making major or minor programmatic changes to their adult education programs as a result of categorical flexibility.

Categorical flexibility did not affect CCC non-credit programs directly, community colleges have shifted away from providing non-academic non-credit programs (i.e., Home Economics) to prioritizing ESL, Basic skills, and credit transfer courses.

## Staff Comments

- **Evaluate full fiscal impact of categorical flexibility on adult education in the K-12 system.** Although, we currently have anecdotal information, having more substantive quantitative data of how many districts have shifted funds from the categorical program and also the amount of funds would be critical and helpful in informing the Legislature as to how to proceed with this issue.
- **Consider efficacy of these adult education programs as school districts and community colleges make programmatic and fiscal changes.** Adult schools and community non-credit programs have relatively low levels of course completion and matriculation. However, due to the nature of adult education, students who enter these programs tend to be non-traditional students. For the most part, many are very low skilled and have family responsibilities, and/or other non-classroom related challenges that keep them from completing their educational goals. Keeping these challenges and limited funding resources in mind, it's important to consider whether the state or local entities can implement changes in the current programs to improve student performance.
- **Increase collaboration and integration of CCC non-credit programs and K-12 adult schools.** Non-credit programs and adult schools share very similar goals and objectives and provide similar services to the same group of students. Can both providers improve program efficiency and efficacy and mitigate some of the funding cuts by working closer together to minimize course duplicity? Although, this already occurs in some regions, it is important to consider the potential benefits of further collaboration if this is done across the state.

**ACTION:** Approved the April Letter to adjust Budget Item 6110-156-0890 (Issue 404) to include \$3 million in one-time carryover funds for the Federal Adult Education Program.

**VOTE:** 3-0

**ITEM 15: CSAC and EdFund Detangling**

**Shared Services.** Final bids for the EdFund sale are currently under review. It is anticipated that a sale will be consummated in the near future, which will require the Commission to assume responsibility for various services in 2010-11 supporting the CalGrant program such as mail, printing, and information technology currently provided by EdFund. In total, the Department of Finance has determined that up to \$1.226 million General Fund and 9.0 positions will be essential for these purposes.

**Current Budget.** The California Student Aid Commission's (CSAC) budget currently contains \$514,000 in the Student Loan Operating Fund (SLOF) and 6.0 positions for EdFund oversight. Upon completion of the sale of EdFund, the Commission's Federal Policy and Program Division (FPPD) oversight function will no longer be necessary. The sale will occur at some point during 2010-11.

**Governor's Budget.** The Governor's January 10 Budget already contains budget bill language authorizing \$550,000 of General Fund carryover for detangling costs to further the sale of EdFund in 2010-11. However, the Budget did not score the technical shift of funds from one year to the next. The May Revise (see below) requests the scoring of this technical shift.

**May Revise.** The Governor's May Revise requests funding contingent on the sale of EdFund and upon approval from the Department of Finance, for the CSAC to assume responsibility for activities that are being performed by EdFund on behalf of the Commission per their operating agreement. Specifically, the request is for:

1. New Funds: \$676,000 General Fund
2. Reappropriation: \$550,000 General Fund carryover to reappropriate detangling costs associated with the sale of EdFund. These funds were appropriated in fiscal year 2009-10 but will not be spent for this purpose. Instead, these funds are anticipated to be needed by the Commission during 2010-11. This adjustment will serve as that technical shift of expenditures from 2009-10 to 2010-11.

The request also includes the following two items of budget bill language:

1. Item 7980-001-0001: X. Of the funds appropriated in Schedule (1), up to \$676,000 is available for any expenses that may be necessary or convenient for the Commission to assume activities currently provided by EdFund, to further the intent of the sale, or other authorized transaction of EdFund pursuant to Chapter 182 of the Statutes of 2007. These funds shall not be expended unless first approved in writing by the Department of Finance.
2. Item 7980-001-0784: 1. Upon the sale or other authorized transaction of EdFund pursuant to Chapter 182 of the Statutes of 2007, the Director of Finance may reduce this appropriation by an amount that leaves sufficient funds for the Commission to phase out Federal Policy and Program activities.

The budget bill language for Item 7980-001-0784 is intended to authorize Finance to reduce the appropriation that supports the Commission's Federal Policy and Program

Division (FPPD) as it relates to the sale of EdFund. In the event a sale of EdFund is completed, there will be no need for the FPPD to continue its oversight of EdFund operations after it is finalized. Therefore, the Governor's May Revise requests that Finance be provided authority to reduce the FPPD appropriation that: (1) leaves the Commission's FPPD sufficient resources for its fiscal year 2010-11 wind down and (2) reverts resources to the Student Loan Operating Fund (SLOF), which is General Fund fungible.

**Staff Comment.** The budget bill language proposed by the Governor for item 7980-001-0784 (1) is too open ended. It allows the Department of Finance to reduce CSAC's budget once the sale of EdFund is completed, but does not define the extent of the reduction.

The Governor's proposal also does not include some expenditure items that CSAC has stated are necessary for uninterrupted operations after the detangling. CSAC put forth a \$4.4 million request to the Department of Finance, which approved \$1,226,000, a difference of \$3.2 million. Staff has reviewed the expenditure items not approved by the Department of Finance and concluded that the following additional items should be funded (Total for these additional items is \$478,000 General Fund):

1. \$280,000 for the Fund Your Future publication [one-time funds in action]
2. \$106,000 for one additional PY for IT
3. \$60,000 for equipment and software (additional to DOF amount). This includes network switches and database server and software to read the scanned documents that EdFund has processed for CSAC, and that only exist in electronic form now.
4. \$32,000 for security system/video surveillance.

**ACTIONS:** The Subcommittee took the following five actions:

1. Approved \$1,154,000 in General Funds, of which \$280,000 is one-time  
**VOTE:** 2-1 (Huff)
2. Approved the \$550,000 reappropriation  
**VOTE:** 3-0
3. Approved the budget bill language for Item 7980-001-0001  
**VOTE:** 3-0
4. Rejected the budget bill language for Item 7980-001-0784 proposed by the Governor  
**VOTE:** 2-1 (Huff)
5. Approved the following budget bill language for Item 7980-001-0784:

Upon the sale or other authorized transaction of EdFund pursuant to Chapter 182 of the Statutes of 2007, the Director of Finance may reduce this appropriation by up to \$514,000. Any reduction shall be authorized no sooner than 30 days after notification in writing to the chairpersons of the committees in each house of the

Legislature that consider appropriations, the chairpersons of the committees and appropriate subcommittees that consider the State Budget, and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee or his or her designee may determine.

**VOTE:** 2-1 (Huff)

## ITEM 16: Student Academic Preparation

### Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Judy Heiman, Legislative Analyst's Office
- Sara Swan, Department of Finance

**Issue.** The issue before the Subcommittee is staff proposed budget bill language to guarantee funding for outreach programs that encourage students to attend a college or university.

**Governor's Budget.** The Governor's Budget provides the following for budget bill language directives for student access programs:

- \$1,897,200 General Fund for UC California State Summer School for Mathematics and Science (COSMOS), including budget bill language requiring a report on the effectiveness of the program.
- \$3.5 million in federal funds for UC GEAR UP.

The Governor's Budget does not earmark funding for the UC Student Academic Preparation and Educational Partnership (SAPEP) programs. The Governor's Budget also does not earmark funding for the CSU student academic outreach programs.

**SAPEP Purpose.** The UC's Student Academic Preparation and Education Partnership programs are concentrated in the following areas: 1) student-centered programs that provide academic enrichment through tutoring, mentoring, college advising, college preparatory coursework, and educational experiences beyond the classroom for K-12 students; 2) school/university partnerships that offer curriculum development, direct instruction, community engagement, and other assistance to many of California's lowest-performing schools; and 3) enrichment and informational programs for K-12, community college, and graduate and professional students that facilitate ongoing educational opportunities.

**UC Accountability Framework.** The UC adopted an Accountability Framework for its Academic Preparation programs in 2006. Under this Accountability Framework, programs are charged with meeting broad academic achievement goals over a three-to five-year period. The goals for students participating in these programs include: (1) completing the A-G college preparatory course pattern in high school; (2) being academically ready for a four-year college (not just UC); (3) completing high school (by graduating and passing the CAHSEE); and (4) being ready to transfer to a four-year institution as a community college student. In addition, programs have the goal of establishing and maintaining K-20 educational partnerships.

**COSMOS.** The California State Summer School for Mathematics and Science (COSMOS) is one of the outreach programs in UC SAPEP. The COSMOS provides academic preparation activities for high achieving high school students in a residential environment. While not part of UC's formal Accountability Framework, student success in this program has been highly regarded and "graduates" of the program are much more likely to ultimately pursue careers in science, technology, engineering, or mathematics.

**CSU Outreach Programs.** The CSU outreach and student academic preparation programs provide information and academic support to California's diverse population of elementary, middle, secondary, and post-secondary students. Student academic outreach programs target students who are disadvantaged educationally and economically, who are enrolled in public schools that have low college-going rates, and who need assistance in strengthening basic skills in math and English. These programs provide academic support services that raise the aspirations and improve the academic performance of students, advise students about courses needed to meet admissions requirements, help students acquire English and mathematics skills needed to succeed in college, provide instructional programs for students requiring academic support before they matriculate at a CSU campus, and provide retention services to students after they enroll in CSU.

**Early Assessment Program.** At the CSU, the Early Assessment Program (EAP) is one of the outreach programs receiving state support. The EAP program seeks to improve the proficiency level of entering students by assessing their English and mathematics skill levels while the student is still in high school. The EAP reached nearly 500,000 high-school students in 2008.

**LAO Recommendation.** In prior Analysis of the Budget, the Legislative Analyst has raised concerns with how the funds are allocated, as well as the data available from evaluations of the programs. The LAO generally supports student academic preparation programs. In prior analyses, the LAO has recommended an alternative approach to funding academic preparation programs. Under the LAO's previous recommendations, the state would implement a new College Preparation Block Grant program, whereby the Legislature would shift the funding away from the university systems and instead use the dollars to target K-12 school districts with low college participation rates. Further, the LAO has recommended that the legislature transfer funding that has been set aside for evaluation and research from the university systems to an external evaluator, in order to better assess the efficacy of the programs.

**Staff Comment.** Staff notes that while the university systems, students, and the Legislature continue to see the success of student academic preparation programs, the Governor has repeatedly proposed to eliminate budget bill language that protects funding for these programs. While funding for student academic preparation is clearly a high priority for the Legislature, it remains unclear why the Administration continues to propose the elimination of budget bill language guaranteeing state funding for these programs. Staff notes that the budget bill language included in the staff recommendation was included in the *2009-10 Budget Act*.

**ACTION:** Approved the following budget bill language:

*Budget Bill Language for the UC:*

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 SAPEP by September 1 of each year.

X. 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 state and university funds for student academic preparation and education programs (SAPEP) by September 1 of each year. The university shall not reduce funding for these programs, relative to 2007-08 levels, in an amount that is greater, proportionally, than the reduction in overall General Fund support. The university shall submit a report on the reductions made to SAPEP to the fiscal committees of each house of the Legislature no later than April 1, 2011.

*Budget Bill Language for the CSU:*

Of the amount appropriated in Schedule (1), \$52,000,000 is appropriated for student academic preparation and student support services programs. The California State University shall provide \$45,000,000 to support the Early Academic Assessment Program and the Educational Opportunity Program.

X. The California State University shall provide a plan to the Department of Finance and the fiscal committees of each house of the Legislature for expenditure of state and university funds for student academic preparation and outreach programs by September 1 of each year. The university shall not reduce funding for these programs, relative to 2007-08 levels, in an amount that is greater, proportionally, than the reduction in overall General Fund support. The university shall submit a report on the reductions made to the Early Academic Assessment Program and Educational Opportunity Program to the fiscal committees of each house of the Legislature no later than April 1, 2011.

**VOTE:** 2-1 (Huff)

6440  
6610

**UNIVERSITY OF CALIFORNIA  
CALIFORNIA STATE UNIVERSITY**

**ITEM 17: Lease-Revenue Bond Funded Capital Outlay Projects**

**Speakers:**

- Mark Whitaker, Legislative Analyst’s Office
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Stan Hiuga, Department of Finance

**Issue.** The issue before the Subcommittee is the University of California and California State University capital outlay projects for which lease-revenue bond funds are proposed.

**Governor’s Budget.** The Governor proposes 12 lease-revenue funded capital outlay projects for UC and CSU. Some of the Governor's proposed projects would be initiated with general obligation bonds in 2010-11, but would require lease-revenue bonds to finish in later years. Of these lease-revenue bond funded projects proposed, \$346 million would be appropriated to the UC and \$85 million to the CSU (includes projects that would use lease-revenue for construction). The Governor’s proposal relies heavily on lease-revenue bonds for funding projects at UC and CSU because, without the passage of a new general obligation bond measure, existing General Obligation (GO) bond dollars are essentially exhausted. The following chart shows the proposed projects:

#	Project Name	Description	Amount (000)	Source
1	CSU Stanislaus - Science I Renovation (Seismic)	Seismically retrofit Science Building. Increase lecture and office space, reduce laboratory space.	\$ 18,784	Lease-Revenue
2	CSU San Diego - Storm/Nasatir Halls Renovation	Renovate two adjoining buildings, Storm Hall and Nasatir Hall for seismic retrofits, mechanical and electrical systems, ADA accessibility, and an addition of a utility and elevator core.	\$ 57,169	Lease-Revenue
3	CSU Chico - Taylor II Replacement Building	Demolish a 42-year old existing building and replace it with a new 67,000 square foot building to accommodate the College of Humanities and Fine Arts. The future construction cost of the project will be \$58 million in lease-revenue bond funds.	\$ 2,873	1996 Bond Funds
4	CSU Channel Islands - West Hall	Renovate a portion of West Hall and add 28,800 square feet of new space for lecture, laboratory, and faculty offices. The future construction cost of the project will be \$38.4 million in lease-revenue bond funds.	\$ 2,430	1996 Bond Funds

<b>#</b>	<b>Project Name</b>	<b>Description</b>	<b>Amount (000)</b>	<b>Source</b>
5	CSU Fresno - Faculty Office/Lab Building	Construct a new 13,400 square foot facility to house research offices for the masters program in Nursing, two classroom laboratories, and faculty offices. The future construction cost of the project will be \$9.5 million in lease-revenue bonds.	\$ 562	1996 Bond Funds
6	CSU San Jose - Spartan Complex Seismic Renovation	Seismic, ADA and life-safety renovation and building systems replacement of Uchida Hall/Natorium; Uchida Hall Annex; Spartan Complex East; and Spartan Complex Central. The future construction cost of the project will be \$54 million in lease-revenue bonds.	\$ 3,240	1996 Bond Funds
7	UC Irvine - Business Unit 2	Preliminary Plans and Working Drawings for a new 47,840 square foot building to supplement the Paul Merage School of Business. The future construction cost of the project will be \$44.3 million, mostly from lease-revenue bonds.	\$ 2,604	Special Funds
8	UC Los Angeles - CHS South Tower Seismic Renovation	Working Drawings and Construction for a project that includes demolition and hazardous materials abatement, seismic retrofit and building shell upgrades, and building infrastructure improvements, including mechanical, electrical, plumbing, and fire and life safety.	\$ 128,953	Lease-Revenue
9	UC Merced - Science and Engineering Building 2	Working Drawings and Construction for a new building to support instruction and research activities for the Schools of Engineering and Natural Sciences.	\$ 81,040	Lease-Revenue
10	UC Santa Barbara - Davidson Library Addition and Renewal	Working Drawings and Construction for new library facilities and renovation and seismic upgrade of existing library facilities.	\$ 67,698	Lease-Revenue

#	Project Name	Description	Amount (000)	Source
11	UC San Diego - SIO Research Support Facilities	Preliminary Plans and Working Drawings for 21,300 square foot replacement space for the Scripps Institution of Oceanography. The future construction cost of the project would be \$5.5 million from lease-revenue bonds.	\$ 613	1996 Bond Funds
12	UC Berkeley - Campbell Hall Seismic Replacement Building	Construction of a new physical science building, which will include laboratory facilities, space for the Department of Astronomy, and integrate with two nearby buildings.	\$ 65,205	Lease-Revenue

**Staff Comment.** The Governor is proposing to use lease-revenue projects because the 2006 general obligation bonds for higher education are already almost fully allocated. Thus there are very few options for state support of capital outlay projects outside of lease-revenue bonds.

Staff notes that lease-revenue bonds were approximately ten percent more expensive in 2007 than general obligation bonds. However, the current interest rates are lower than they were in 2007. Yet it must be noted that the usual process for bond sales is currently altered due to the state's fiscal condition; the Pooled Money Investment Board (PMIB) is no longer providing interim financing until bonds can be sold. Therefore, the state must now sell the lease-revenue bonds before construction begins and capitalize the interest during construction, which makes lease-revenue bonds more expensive (thus potentially undoing the benefits of a lower interest rate).

In addition to these concerns, staff notes that the UC and CSU are already carrying a significant amount of bond debt. In 2009-10, the total general obligation bond payment is estimated at \$505 million General Fund. By approving more lease-revenue bond debt, the Legislature would be adding to this debt burden.

However, it is important to note that the UC and CSU estimate that these capital outlay projects, were they to move forward, would generate approximately 5,650 jobs.

**ACTION:** Approved the following health/life-safety projects:

- CSU Stanislaus - Science I Renovation (Seismic): \$18.8 million
- CSU San Jose - Spartan Complex Seismic Renovation: \$3.2 million
- CSU San Diego - Storm/Nasatir Halls Renovation (Seismic): \$57.2 million
- UC Los Angeles - CHS South Tower Seismic Renovation: \$129 million
- UC Berkeley - Campbell Hall Seismic Replacement Building: \$65.2 million
- UC Santa Barbara - Davidson Library (Seismic): \$67.7 million

**VOTE:** 3-0

**ITEM 18: Redistricting Data at UC Berkeley**

**Redistricting Data.** In November of 2008, voters adopted Proposition 11 which modified California's redistricting process. Among the changes, the measure added Section 8253(b) to the Government Code which states in part that "The Legislature shall take all steps necessary to ensure that a complete and accurate computerized database is available for redistricting, and that the procedures are in place to provide the public ready access to redistricting data and computer software for drawing maps." Since 1992, the responsibility for developing, maintaining, and providing public access to a complete, accurate, and computerized database has been given to the Statewide Database housed at the Institute of Governmental Studies at the University of California, Berkeley.

**Census Data.** The collection of Census data in 2010 marks the beginning of the redistricting cycle. The Statewide database must be prepared to provide merged census and political data so that the constitutional and Voting Rights requirements fundamental to the redistricting process can be properly assessed. Because the timetable of the Proposition 11 Commission requires that the data be delivered to them one month after census, it is imperative that the full funding for this project should be guaranteed.

**ACTION:** Approved one-time redirection of funds for the Statewide Database & Election Administration Research Center at the University of California Berkeley as follows:

1. \$240,000 in General Fund for UC employees overseeing data base construction, management, and outreach. The amount would fund only existing employees.
2. \$360,000 in restricted funds for contracted data construction services, rental, equipment, supplies, and other related direct costs. The restricted fund portion of this appropriation shall be exempted from any cuts, charges, or diversions imposed by the University in order that the Redistricting Commission and other redistricting entities can receive their data and carry out their constitutionally mandated functions in a timely manner.

**VOTE:** 3-0

**Item 19: Medical Education****Speakers:**

- Patrick Lenz, University of California
- Mark Whitaker, Legislative Analyst's Office
- Sara Swan, Department of Finance

**Issue.** The issue before the Subcommittee is funding medical education at the University of California.

**Background.** The University of California currently has five medical schools. These schools produce the majority of California's doctors. However, some areas continue to be woefully underserved for their medical needs. The Governor and the Legislature supported the creation of the UC PRIME programs in an effort to address the need for culturally sensitive physician care for an increasingly diverse state. The special training provided to PRIME students ranges from enhancing cultural sensitivities to the use of technology to overcome geographic barriers to quality care. During 2010-11, the PRIME program will help train an additional 135 doctors to serve underrepresented areas.

**UC Programs.** The current UC medical programs are located at UC San Francisco, UC Davis, UC Irvine, UC Los Angeles, and UC San Diego.

**UC Riverside.** The Inland Empire east of Los Angeles is a medically underserved community. A new medical school has been approved by the UC Regents to open at UC Riverside. UC Riverside medical school is California's first new public medical school in four decades. In February 2010 a dean was hired to oversee the start of operations. If the medical school was to receive the appropriate start-up funding, it could begin admitting students in 2012. Currently, it is not certain when the medical school can start admitting students because there is no funding.

**Staff Comment.** The state needs additional medical doctors to serve underrepresented areas, and as the population ages the need for doctors increases. Also, the recent changes in federal law will lead to currently uninsured individuals being able to access medical care at greater rates than before, thus leading to a need for new doctors.

**ACTION:** Approved \$15 million from UC's existing budget for the UC Riverside medical school start-up costs in order to being training new doctors to meet the state's growing need. Also approved budget bill language stating that if federal funds materialize for medical purposes, to the extent allowed by law, those federal funds shall be used to replace the General Fund used for the start-up costs of the UC Riverside medical school.

**VOTE:** 3-0

**6440 UNIVERSITY OF CALIFORNIA**  
**6870 CALIFORNIA COMMUNITY COLLEGES**

**ITEM 20: Nursing Initiative**

**Speakers:**

- Patrick Lenz, University of California
- Erik Skinner, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Kevin Woolfork, California Postsecondary Education Commission

**Issue.** The issue before the Subcommittee is the Governor's proposal to provide Workforce Investment Act (WIA) funds for UC and CCC nursing programs as part of the Governor's Nursing Initiative.

**Need for Nurses.** Beginning in the late 1990s and early 2000s, a number of reports warned of the growing mismatch between the demand for registered nurses and the size of the registered nurse workforce. In response, the state augmented funding for CCC, CSU, and UC to increase nursing enrollment slots. In addition, new laws sought to improve the nursing pipeline by addressing matters such as student attrition and faculty recruitment. In large part due to these measures, nursing graduations reached 10,600 in 2008-09, a 100 percent increase over the amount in 2000-01. The latest report by the University of California, San Francisco (September 2009), forecasts that the state is on track to addressing its nursing shortage within the next several years. However, the report cautions that this forecast is based on the assumption that nursing graduations continue at least at the present level. And given recently enacted federal health care reform, which will expand health care coverage to millions of residents, it is likely that the state will have to further increase its supply of nurses to meet future statewide demand.

**UNIVERSITY OF CALIFORNIA**

**Governor's Budget.** The Governor's January Budget proposal includes \$1.7 million for an additional 122 FTE students in entry-level clinical nursing programs and entry-level master's degree programs in nursing. Of this funding, \$103,000 would be appropriated for supplemental marginal cost funding for 20 master's degree level nursing students.

The University did not receive increased enrollment growth funding in the last two Budget Acts. Given the demand for nurses, the California Labor and Workforce Development Agency has put forth a proposal in which, beginning in 2009-10, approximately \$12 million dollars in new, one-time federal Workforce Investment Act funding provided over five years would be available to UC through participation in the Governor's Nursing Education Initiative, for UC to train and graduate a single cohort of new California nurses.

**May Revise.** The Governor's May Revise proposes to increase by \$2,650,000 reimbursement authority to reflect that the University of California will receive federal Workforce Investment Act funding, through subgrants with the Employment Development Department to support the Nursing Education Initiative and Allied Health Programs. This funding will be used to support 185 nursing students in fiscal year 2010-11. The proposal also includes the following amendment to budget bill language:

11. (a) The amount in Schedule (1) includes \$1,720,000 to continue increased enrollments in nursing programs beyond the levels served in 2005-06 as follows:
  - (1) \$1,617,000 for full cost of a minimum of 122 full-time equivalent students in entry-level clinical nursing programs and entry-level master's degree programs in nursing.
  - (2) \$103,000 for supplemental marginal cost funding for 20 master's degree level nursing students.
- (b) The reimbursement funds appropriated in Schedule (8) are available to support the full cost of 55 undergraduate, 107 master's degree, and 23 doctoral nursing enrollments in 2010-11.
- ~~(b)~~ (c) The University of California shall report to the Legislature and the Governor by May 1, 2011, on the total enrollment in the 2010-11 academic year in the baccalaureate nursing degree programs, the entry-level clinical and master's degree nursing programs, and the master's of science nursing degree programs.

Under this proposal, UC must provide matching funds, and would train nearly **350** nurses across multiple degree programs. The University notes that this is one-time funding only for a single cohort of students to complete their nursing programs. After this funding is used, enrollment will return to State-budgeted levels, and no growth will occur until State funding is again provided.

## **CALIFORNIA COMMUNITY COLLEGES**

**Governor's Budget.** The Legislature has provided supplemental funding to CCC (on top of base funding for slots) to expand nursing enrollments and graduations, though this level of support has dropped as a result of the state's fiscal condition. In 2008-09, the state provided \$14 million to support 2,400 FTE nursing students (plus an additional \$8 million for support services designed to reduce attrition rates). Due to the state's fiscal condition, the *2009-10 Budget Act* provides \$8.5 million in supplemental enrollment funding for 1,480 FTE students—or 920 FTE students below 2008-09 levels. In addition, funding for support services would total \$4.9 million.

The Governor's 2010-11 Budget proposes sustained levels of support for CCC nursing programs compared to 2009-10. Specifically:

- \$8,475,000 for nursing program enrollment and equipment needs, reduced from \$11.7 million in 2009-10
- \$4,903,000 for diagnostic and support services, preentry course-work, alternative program delivery model development, and other services to reduce incidence of student attrition in nursing programs; reduced from \$6.8 million in 2009-10.

**April Finance Letter.** The Governor submitted an April Finance Letter requesting two separate actions regarding the community colleges nursing program.

*Continue Limited-Term Positions.* The April Finance Letter requests \$161,000 in reimbursement authority and two limited-term positions to be added to the Governor's Nursing Education Initiative and Allied Health Programs. The federal Workforce Investment Act funding will be received through an interagency agreement with the Department of Employment Development (EDD). However, the funding is currently budgeted in local assistance and the Governor's proposal would shift the funding to state operations.

The positions that CCC currently has to administer the Nursing Education Initiative are limited-term and will expire on June 30, 2010. Approval of the two limited-term positions requested in the April Finance Letter would allow these positions to continue for two more years. The April Letter requests the following budget bill language:

6. The funds appropriated in Schedules (2) and (5) reflect an interagency agreement with the Employment Development Department to provide \$161,000 in reimbursements and 2.0 five-year, limited-term positions to support the Governor's Nursing Initiative and Allied Health program activities. The positions shall expire June 30, 2015.

*Decrease Overall WIA Funds for CCC Nursing.* The Governor's April Finance Letter requests that CCC reimbursements be decreased by \$6,221,000 to reflect the Workforce Investment Act funding that CCC will receive through an interagency agreement with the EDD. Specifically, the April Letter requests:

- \$3 million decrease to reflect a reduction in funding for the Governor's Nursing Initiative from \$6.0 million to \$3.0 million. Phase I of the Governor's Nursing Initiative provided \$30 million over a five-year period, or \$6.0 million per year, and is scheduled to end on 2009-10. Phase II of the Nursing Initiative will provide \$15 million over a five-year period, or \$3.0 million per year, and is scheduled to begin in 2010-11.
- \$1,860,000 decrease to remove excess reimbursement authority.
- \$1.2 million decrease to remove funding for the Corpsman to Registered Nurse Program, which will not be implemented in 2010-11.
- \$161,000 decrease to reflect a funding shift from local assistance to state operations to fund 2.0 limited-term positions that will support the Governor's Nursing Initiative and the Allied Health Program. Specifically, \$97,000 will be shifted from the \$3.0 million designated for the Governor's Nursing Initiative and \$64,000 will be shifted from the \$2.0 million currently designated for the Allied Health Program. (This amount is shown in the above discussion on continuing the limited-term positions.)

These reductions are necessary to properly reflect Workforce Investment Act funding to be received through interagency agreements with the EDD.

The Governor's proposal includes the following budget bill language:

~~"5. The funds appropriated in Schedule (5) reflect an increase of \$3,200,000~~  
\$1,936,000 to support interagency agreements between the Office of the  
Chancellor of the California Community Colleges and the Employment  
Development Department for the following purpose:

~~(a) Offering bridging courses and programs for licensed vocational nurses,  
paramedics or independent duty corpsmen to meet the requirements for taking and  
successfully completing examinations to become a registered nurse.~~  
~~(b) Expanding enrollments in allied health occupation programs in community  
colleges."~~

~~"6. The funds appropriated in Schedule (5) reflect an increase of \$6,000,000~~  
\$2,906,000 to support interagency agreements between the Office of the  
Chancellor of the California Community Colleges and the Employment  
Development Department for continued support of the Governor's Nursing  
Initiative."

**Staff Comment.** It is far less expensive to train nurses at the community colleges than it is at the University of California. However, community colleges only provide associate degrees and certificates, which are necessary for the most basic work. The UC provides bachelor's degrees, Master's degrees, and PhDs in nursing. The Master's degrees are necessary to teach nursing at community colleges. The PhDs in nursing are needed for instruction at CSUs and UCs, as well as research.

**ACTION:** Approved April Finance Letters and May Revise proposals on nursing funding.

**VOTE:** 3-0

## 6870 CALIFORNIA COMMUNITY COLLEGES

### ITEM 21: CCC Basic Skills

#### Speakers:

- Paul Steenhausen, Legislative Analyst's Office
- Erik Skinner, California Community Colleges
- Ed Hanson, Department of Finance

**Issue.** The issue before the Subcommittee is staff proposed budget bill language to encourage increased effectiveness of basic skills instruction in the community college system.

**Basic Skills Background.** Most students who enter California Community Colleges (CCC) lack sufficient reading, writing, and mathematics skills to undertake college-level work. Thus, one of the CCC system's core missions is to provide precollegiate "basic skills" instruction to these students. (Basic skills are typically used interchangeably with terms such as foundational skills and remedial and developmental education.) These skills form the foundation for success in college and the workforce, yet data suggest that most incoming CCC students are not ready for college-level work.

Despite the name, students taking credit basic skills courses do not receive college credit. That is, units for these courses do not count toward an associate's degree, and are not transferable to UC or CSU. However, the units are taken into account for financial aid purposes.

**California Students Struggling to Graduate from High School.** The California Postsecondary Education Commission (CPEC) found that when averaged over all residents, California is in the bottom ten states for the percentage of 19- to 25-year-olds with a high school diploma. Of the 15 largest states, only Georgia and Texas have a lower percentage of young adults with a high school diploma. Those students who do not graduate from high school can enter a community college, where they will most likely have to take basic skills training. Even those students who do graduate high school may not be ready for college-level work.

**Placement Into Basic Skills.** Statute prohibits community colleges from requiring students to take any particular class (such as a basic skills writing class) based on their assessment. According to the CCC Academic Senate, this is a problem because over one-third of students assessed as needing basic skills courses choose not to enroll in them. Also, California's community colleges cannot require their students to address their basic skills deficiencies within a certain time period. Instead, these students are free to enroll in any course they choose, provided they meet any prerequisites. However, as the Institute for Higher Education Leadership and Policy and others have noted, CCC regulations make it difficult for districts to establish math and English prerequisites for college-level courses in other disciplines such as history and economics.

**Success in Basic Skills.** Completion rates for under-prepared students, such as those in need of basic skills, are generally low. The problem of students entering the CCC system without basic skills has taken on a greater sense of urgency in light of the system's decision to increase math and English proficiency requirements beginning in fall 2009 for students receiving an associate's degree. Currently, just over nine percent of all credit units taken at community colleges are for basic skills classes.

Success rates for basic skills students are generally low. For example, the LAO's review of CCC data shows that:

- *Many Students Do Not Pass Their Basic Skills Courses:* Of those students who enroll in credit basic skills courses, only about 60 percent successfully complete a basic skills English course, while just 50 percent of students successfully complete a basic skills math course. The course completion rate for ESL is better (about 75 percent). These percentages do not take into account an unknown number of students who initially enroll in a basic skills course but drop out before the third week of classes, when an official student count (census) is taken.
- *About One-Half of Basic Skills Students Do Not Persist in College:* About one-half of students enrolled in credit basic skills math, English, and ESL courses in any given fall term do not return to college the following fall.
- *About One-Half of "Successful" Basic Skills Students Do Not Advance:* According to the Chancellor's Office, of those students that successfully complete a credit basic skills math, English, or ESL course, only about one-half go on to complete a higher-level course in the same discipline within three years.
- *Few Noncredit Students Move on to Credit Courses:* The CCC system frequently states that one of the purposes of noncredit basic skills courses is to serve as a gateway to credit instruction and the attainment of a college degree. Yet, less than 10 percent of noncredit basic skills students eventually advance to and successfully complete one degree-applicable credit course (excluding physical education). It should be noted, however, that an unknown number of noncredit students do not endeavor to achieve such a goal.

**Basic Skills Categorical Item.** The majority of the funding for basic skills instruction is in the base funding for CCC. The categorical funding only provides a supplement to the base funding for planning purposes. In 2006–07, the state launched a "basic skills initiative" that provides CCC with additional funding to address the issues of basic skills student non-persistence. Districts are permitted to use these funds for a number of purposes, such as curriculum development, faculty training, and student tutorial services. As a condition of receiving these funds in 2007-08, colleges agreed to assess the extent to which their individual policies and practices align with evidence-based "best practices".

**2010-11 Budget.** The Governor's proposed budget provides \$20 million for the basic skills categorical item. The Governor also proposes to place the basic skills into categorical flexibility, discussed in Item 4 below. In 2008-09, the Basic Skills Initiative received \$33.1 million.

**LAO Recommendation.** While the LAO recognizes that community colleges can make certain changes on their own (such as using more effective instruction techniques), the LAO concludes that there are several structural and systemwide changes that are needed in order to improve student preparedness and success. Taken together, the LAO believes that these recommendations would help to increase the level of awareness and preparation of high school students interested in attending a community college, as well as assist the colleges to identify, place, and advise basic skills students. These changes include:

- Assessing prospective CCC students while they are still in high school to signal their level of college readiness and giving them an opportunity to address basic skills deficiencies before enrolling in a community college.
- Making available a statewide CCC placement test derived from K-12's math and English standards tests.
- Creating a strong incentive for students to take required assessments, as well as requiring underprepared CCC students to begin addressing their basic skills deficiencies immediately upon enrollment.
- Giving colleges' fiscal flexibility to provide students with the appropriate mix of classroom instruction and counseling services.

**Staff Comment.** The Basic Skills Initiative is important in allowing community colleges to effectively serve a vulnerable student population. Those students taking basic skills classes tend to come from disadvantaged backgrounds where the K-12 system did not provide them with sufficient preparation for completing college-level academic work. In order to help these students succeed not only in college but in their careers after college, the basic skills courses are necessary to provide a foundation in literacy and mathematics. Basic skills courses also provide English as a second language instruction that helps non-native English speakers participate more fully in their communities. However, many basic skills students do not complete the basic skills courses they start and even fewer go on to complete a degree. The community college system should be encouraged to adopt practices and teaching methods that will assist basic skills students to completion.

**ACTION:** Approved the following budget bill language:

(b) ~~\$19,068,000~~ \$15,254,000 for allocation by the chancellor to community college districts for improving outcomes of students who enter college needing at least one course in ESL or basic skills, with particular emphasis on students transitioning from high school.

(X) \$3,814,000 for allocation by the chancellor to community college districts for improving outcomes of students who enter college needing at least one course in ESL or basic skills, with particular emphasis on students transitioning from high school, to be allocated to campuses based upon a formula reflecting full-time equivalent students (FTES) weighted by the difference between the number of students successfully completing a basic skills course in the two preceding years.

**VOTE:** 2-1 (Wright)

## 6870 CALIFORNIA COMMUNITY COLLEGES

### ITEM 22: BOG Waivers and FAFSA

#### Speakers:

- Paul Steenhausen, Legislative Analyst's Office
- Erik Skinner, California Community Colleges
- Ed Hanson, Department of Finance

**Issue.** The issue before the Subcommittee is staff proposed budget bill language to encourage community colleges to increase the number of community college students who apply for federal financial aid.

**BOG Waivers.** The Board of Governors Waiver (BOG waiver) is a tuition fee waiver provided by community colleges for financially needy students. Approximately 900,000, or 30 percent of, community college students receive a BOG waiver. Only legal California residents are eligible for a BOG waiver.

**FAFSA.** The Free Application for Federal Student Aid (FAFSA) is a single application for federal financial aid. Through the FAFSA, a student can receive grants, loans, or work-study. A student does not have to accept loans that are offered.

**CCC Students Less Likely to Apply for Federal Aid.** According to the Institute for College Access & Success, only one third (33 percent) of CCC students apply for federal financial aid, compared to nearly half (46 percent) of community college students in other states. Regardless of family income or many other important characteristics, CCC students are less likely than those in other states to complete the FAFSA. Even full-time students and Pell Grant-eligible students at the CCCs are less likely than those in other states to complete the FAFSA. The Institute for College Access & Success estimates that CCC students leave \$500 million in federal aid on the table, aid that would help these students attain their educational goals by requiring them to work less and/or take out fewer loans.

**Staff Comment.** The students who receive BOG waivers are low-income people, and due to their limited financial resources many of them are also eligible for federal financial aid. Filling out the FAFSA could allow students who are part-time, because they have to work to receive aid for books and living expenses, receive federal funds to pay for those expenses instead, and thus attend college full-time. Full-time students are more likely to succeed in college.

**ACTION:** Adopted the following change to budget bill language:

(2) Of the amount appropriated in Schedule (5), not more than \$34,200,000 shall be for direct contact with potential and current financial aid applicants. Each CCC campus shall receive a minimum allocation of \$50,000. The remainder of the funding shall be allocated to campuses based upon a formula reflecting full-time equivalent students (FTES) weighted by a measure of low-income populations as demonstrated by ~~BOG fee~~

~~waiver program participation~~ Federal Pell Grant Program participation within a district. It is the intent of the Legislature, to the extent that funds are provided in this item, that all campuses provide additional staff resources to increase both financial aid participation and student access to low-income and disadvantaged students who must overcome barriers in accessing postsecondary education. Funds may be used for screening current students for possible financial aid eligibility and offering personal assistance to these students in accessing financial aid, providing individual help in multiple languages for families and students in filling out the necessary paperwork to apply for financial aid, and increasing financial aid staff to process additional financial aid forms.

**VOTE: 3-0**

## 6870 CALIFORNIA COMMUNITY COLLEGES

### ITEM 23: Career Technical Education Pathways Initiative

#### Speakers:

- Paul Steenhausen, Legislative Analyst's Office
- Erik Skinner, California Community Colleges
- Patrick Lenz, University of California
- Ed Hanson, Department of Finance

**Issue.** The issue before the Subcommittee is the Governor's proposal to remove Career Technical Education (CTE) from the categorical flexibility and to provide \$68 million for CTE, an increase of \$20 million General Fund from 2009-10.

**Career Technical Education Background.** SB 70 (Scott, 2005) created the CTE Pathways Initiative. SB 70 established a program to "improve linkages and career technical education pathways" between K-12 and community colleges. These "pathways" are designed to help K-12 students develop vocational skills sought by employers in the area, while also preparing students for more-advanced academic or vocational coursework at a community college or university.

The CCC Chancellor's Office and California Department of Education (CDE) administer the initiative and allocate funds through a competitive grant process. Local projects are jointly developed by community colleges and K-12 entities (high schools and Regional Occupation Centers/Programs). Most local projects are also required to involve local businesses. Grants typically provide short-term improvement funding to develop or strengthen CTE programs rather than ongoing operational support. Currently, the initiative consists of 19 separate grant categories.

**Funding History.** As the chart below illustrates, the CTE Pathways Initiative program was funded only with Proposition 98 funds during the first two years of operation (2005-06 and 2006-07). Chapter 751, Statutes of 2006 (SB 1133, Torlakson), included additional annual funding for the initiative as part of the Quality Education Investment Act (QEIA). The QEIA payments are suspended in the current year. Instead, the program is funded by \$48 million in Proposition 98 funds in the current year.

#### CTE Pathways Initiative (SB 70)

*(dollars in thousands)*

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Proposition 98	\$ 20,000	\$ 60,000	\$ 10,000	\$ 20,000	\$ 48,000	\$ 20,000
QEIA	\$ -	\$ -	\$ 32,000	\$ 38,000	\$ -	\$ 48,000
<b>Total</b>	<b>\$ 20,000</b>	<b>\$ 60,000</b>	<b>\$ 42,000</b>	<b>\$ 58,000</b>	<b>\$ 48,000</b>	<b>\$ 68,000</b>

**Governor's Budget.** The Governor's proposal would remove CTE from the categorical flexibility item, as well as increase CTE's funding to \$68 million (\$48 million from QEIA and \$20 million GF). The Governor would pay for this augmentation by reducing

base support by \$10 million each from the part-time faculty compensation program (currently in the flex item) and EOPS (proposed to be in the flex item); both of these programs experienced roughly 40 percent reductions in 2009-10.

**LAO Recommendation.** In order to give districts more discretion in how they use their limited resources, the LAO recommends that the Legislature reject the Governor's proposal to provide \$20 million in additional Proposition 98 support for the program, and instead fund the program entirely with \$48 million in non-Proposition 98 QEIA funds.

**Staff Comment.** The CTE Pathways Initiative is a program that holds a lot of promise to provide career technical education to both community college and high school students. Maintaining funding for the program at its current year level would allow for sustained operations. However, increasing the program beyond the current year level at the expense of other categorical programs would not be prudent.

The Extended Opportunity Programs and Services (EOPS) program is directed at an underrepresented group of college attendees. Also, the Part-Time Faculty Compensation Program is a means to retain successful part-time instructors at the colleges. Both of these programs were reduced greatly in 2009-10, and taking \$10 million out of each of them in 2010-11 would make it even more difficult for these programs to successfully fulfill their mission.

The categorical flexibility was adopted as part of the *2009-10 Budget Act* for the duration of three years. The program is only in its first year, and has been utilized so far by only 33 of the 72 community college districts. Since the community colleges set their annual budgets in the summer, often before the budget passes, it is difficult for the districts to quickly respond to budget changes. The Legislature may wish to allow the categorical flexibility program to operate as planned for the three-year pilot phase before changing the categorical items that are part of the program.

**ACTION:** The Subcommittee took the following five actions:

1. Approved \$48 million in QEIA funds for CTE Pathways  
**VOTE:** 3-0
2. Rejected the \$20 million General Fund augmentation for CTE Pathways  
**VOTE:** 2-1 (Huff)
3. Approved \$10 million General Fund for EOPS (restoration)  
**VOTE:** 2-1 (Huff)
4. Approved \$10 million General Fund for Part-time Faculty Compensation (restoration)  
**VOTE:** 2-1 (Huff)
5. Rejected moving CTE Pathways out of the flex item  
**VOTE:** 2-1 (Huff)