Senate Budget and Fiscal Review

Subcommittee No. 1 2012 Agendas

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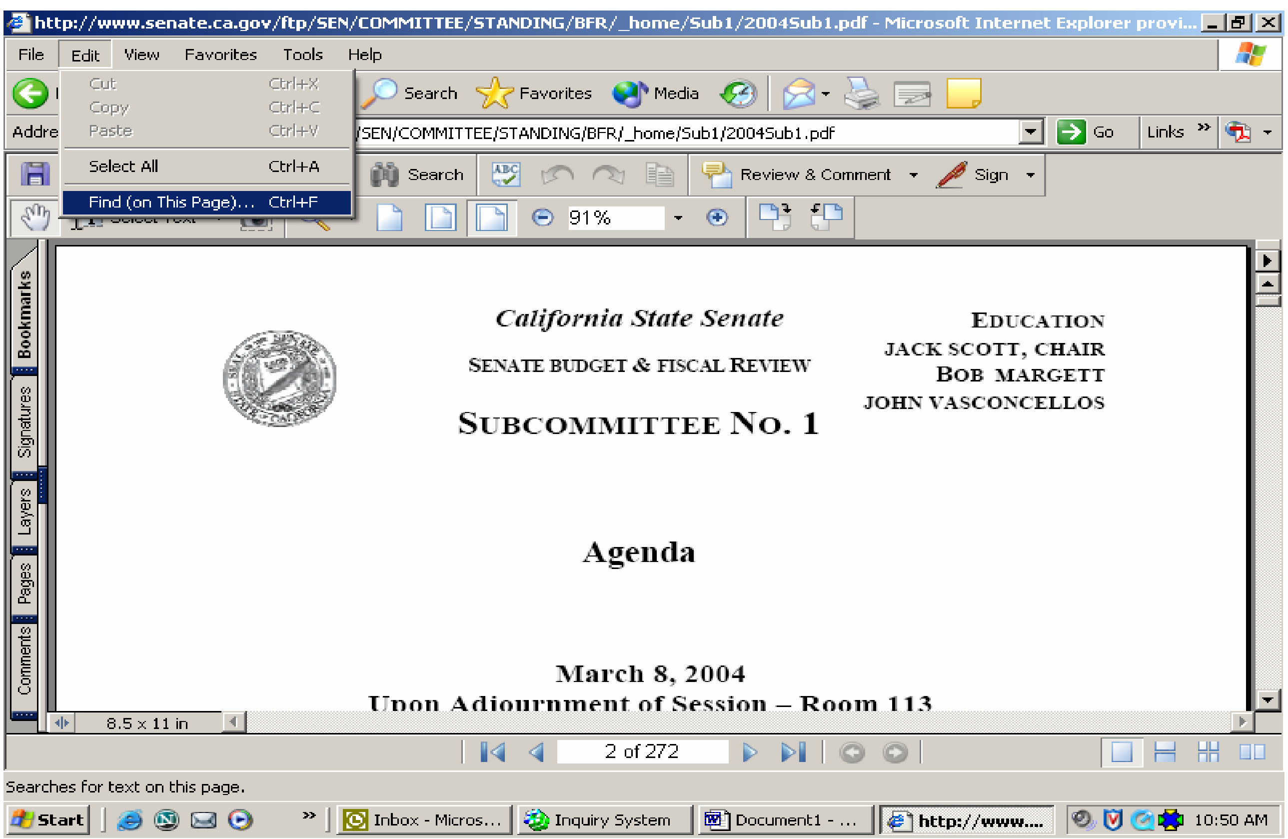

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Thursday, March 8, 2012
10:30 a.m. or Upon Adjournment of Senate
Room 3191, State Capitol

Proposition 98 & K-12 Education Budget Overview Hearing

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

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

III. Comments on the Governor's K-12 Education Budget -- Superintendent of Public Instruction Tom Torlakson

IV. Public Comment

Attachment:

Proposition 98 & K-12 Funding, Senate Budget and Fiscal Review Committee.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Thursday, March 15, 2012
9:30 a.m. or upon adjournment of session
Room 3191, State Capitol

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Item 1: LAO Overview of the Governor's Higher Education Budget Proposals

Description (Informational Item). The LAO will provide to the Subcommittee a brief overview of the Governor 2012-13 Higher Education Budget proposals. The items that follow on today's agenda are the segment specific budget proposals for *only* the University of California (UC), California State University (CSU), and the Hastings College of the Law (Hastings).

This subcommittee is scheduled to hear the Governor's 2012-13 budget proposals for: (1) California Community Colleges (CCC) on March 29; (2) California Student Aid Commission, including financial aid programs such as Cal Grants, on April 19; and (3) Capital Outlay for all departments on May 3.

Figure 1 – Higher Education Core Funding (dollars in millions)

		2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Revised	2012-13 Proposed
UC	GF[1]	$3,257.4	$2,418.3	$2,591.2	$2,910.7	$2,273.6	$2,570.8
	Net Tuition[2]	1,365.3	1,437.4	1,751.4	1,793.1	2,403.7	2,444.1
	ARRA		716.5		106.6		
	Lottery	25.5	24.9	26.1	27.0	32.9	32.9
	subtotal [1]	**4,648.2**	**4,597.1**	**4,368.6**	**4,837.3**	**4,710.2**	**5,047.8**
CSU	GF[1]	2,970.6	2,155.3	2,345.7	2,577.6	2,002.7	2,200.4
	Net Tuition[2]	1,045.8	1,239.3	1,351.7	1,362.4	1,626.0	1,626.0
	ARRA		716.5		106.6		
	Lottery	58.1	42.1	42.4	42.4	47.8	47.8
	subtotal [1]	**4,074.5**	**4,153.2**	**3,739.9**	**4,089.1**	**3,676.5**	**3,874.3**
CCC	GF	4,272.2	3,975.7	3,735.3	3,994.0	3,276.7	3,740.2
	Fees	281.4	302.7	353.6	316.9	353.9	359.2
	LPT	1,970.8	2,028.8	1,992.6	1,959.3	2,107.3	2,101.1
	ARRA			35.0	4.0	0.0	
	Lottery	168.7	148.7	163.0	172.8	178.6	178.6
	subtotal	**6,693.1**	**6,455.9**	**6,279.6**	**6,447.0**	**5,916.4**	**6,379.0**
Hastings	GF[1]	10.6	10.1	8.3	8.4	6.9	8.8
	Net Tuition[2]	21.6	26.6	30.7	36.8	36.5	34.8
	Lottery	0.1	0.1	0.1	0.2	0.2	0.2
	subtotal [1]	**32.3**	**36.8**	**39.1**	**45.3**	**43.6**	**43.8**
CPEC	**GF**	**2.1**	**2.0**	**1.8**	**1.9**	**0.9**	**0.0**
CSAC	GF	866.7	888.3	1,043.5	1,251.0	1,481.7	567.9
	Other[3]	0.0	24.0	32.0	100.0	62.3	766.4
	subtotal	**866.7**	**912.3**	**1,075.5**	**1,351.0**	**1,543.9**	**1,334.3**
GRAND TOTALS		**$16,316.8**	**$16,157.4**	**$15,504.5**	**$16,771.6**	**$15,891.6**	**$16,679.2**
	GF	11,379.6	9,449.7	9,725.8	10,743.6	9,042.4	9,088.1
	Fees/Tuition	2,714.1	3,006.1	3,487.3	3,509.2	4,420.1	4,464.1
	ARRA	0.0	1,433.0	35.0	217.2	0.0	0.0
	LPT	1,970.8	2,028.8	1,992.6	1,959.3	2,107.3	2,101.1
	Lottery	252.4	215.8	231.7	242.4	259.5	259.5
	Other	0.0	24.0	32.0	100.0	62.3	766.4

Source: Legislative Analyst's Office

[1] 2012-13 amount includes GO bond debt service.

[2] Includes systemwide and nonresident tuition and fee revenues less amounts redirected to institutional financial aid programs.

[3] Other funds for CSAC include SLOF and TANF reimbursements.

Staff Recommendation. None; this is an informational item.

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Item 2: Highlights of the Governor's Long-Term Plan for Higher Education

Description (Informational Item). The Administration will provide to the Subcommittee the highlights of the Governor's long-term budget plan for UC, CSU, and Hastings. This long-term plan is comprised of several major components; each of these components will be individually discussed in detail in Agenda Items 3 thru 7 below.

Background. California's public higher education system involves three "segments," UC, CSU, and CCC, and the Hastings College of the Law. The state's Master Plan for Higher Education ascribes distinct missions to each of the segments and expresses a set of general policies, including the state's intent that higher education remain accessible, affordable, high-quality, and accountable.

University of California. Drawing from the top 12.5 percent of the state's high school graduates, the UC has ten campuses and is the primary institution authorized to independently award doctoral degrees and professional degrees in law, medicine, business, dentistry, veterinary medicine, and other programs. UC manages one U.S. Department of Energy national laboratory, partners with private industry to manage two others, and operates five medical centers that support the clinical teaching programs of the UC's medical and health sciences schools and handle more than 3.8 million patient visits each year.

Figure 2 – UC Full-Time Equivalent Student Enrollment

	2010-11	2011-12	2012-13
General Campuses			
Undergraduate	169,664	171,421	171,421
Graduate	34,354	34,408	34,408
Subtotal, General Campus	*204,018*	*205,829*	*205,829*
State-Supported Summer	16,275	16,653	16,653
Total, General Campus	**220,293**	**222,482**	**222,482**
Resident	*200,809*	*200,095*	*200,095*
Non-Resident	*19,484*	*22,387*	*22,387*
Health Sciences	14,579	14,736	14,736
Total Enrollment	**234,872**	**237,218**	**237,218**
Resident	*214,692*	*214,112*	*214,112*
Non-Resident	*20,180*	*23,106*	*23,106*

California State University. Drawing students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, the CSU provides undergraduate and graduate instruction through master's degrees and independently awards doctoral degrees in education, nursing practice, and physical therapy, or jointly with UC or private institutions in other fields of study. With 23 campuses, the CSU is the largest and most diverse university system in the country. It also is one of the most affordable. The CSU plays a critical role in preparing the workforce of California.

Figure 3 – CSU Full-Time Equivalent Student Enrollment

	2010-11	2011-12	2012-13
Undergraduate	295,493	303,763	310,938
All Graduate, including Post-Baccalaureate	43,741	44,902	45,911
State-Supported Summer	2,495	4,909	5,025
Total Enrollment	**341,729**	**353,574**	**361,874**
Resident	*328,155*	*340,000*	*348,300*
Non-Resident	*13,574*	*13,574*	*13,574*

Hastings College of the Law. Hastings was founded in 1878 and on March 26, 1878, the Legislature provided for affiliation with the UC. Hastings' campus consists of four buildings in the historic Civic Center neighborhood of San Francisco: two academic facilities, a mixed use facility primarily serving as student housing, and a parking garage with ground floor retail. Hastings is the oldest law school and one of the largest public law schools in the West. Its mission is to provide an academic program of the highest quality, based upon scholarship, teaching, and research.

Figure 4 – Hastings Full-Time Equivalent Student Enrollment

	2010-11	2011-12	2012-13
Total Enrollment	**1,283**	**1,254**	**1,135**
Resident	*1,183*	*1,165*	*1,058*
Non-Resident	*100*	*89*	*77*

From 2007-08 through 2012-13, the state reduced funding for UC, CSU, and Hastings by roughly $1.8 billion GF. The most notable consequences of these reductions have been significant student tuition fee increases (as illustrated in Figure 5 below), effectively shifting a larger share of total education cost to students, and declining course offerings, which have made it difficult for students to complete their degrees in a timely manner.

Figure 5 – UC, CSU, and Hastings Annual Tuition Fees

Full-Time Resident Students							Change from 2007-08	
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*	Amount	Percent
University of California								
Undergraduate	$ 6,636	$ 7,126	$ 8,373	$ 10,302	$ 12,192	$ 12,192	$ 5,556	84%
Graduate	7,440	7,986	8,847	10,302	12,192	12,192	$ 4,752	64%
California State University								
Undergraduate	2,772	3,048	4,026	4,440	5,472	5,472	$ 2,700	97%
Teacher credential	3,216	3,540	4,674	5,154	6,348	6,348	$ 3,132	97%
Graduate	3,414	3,756	4,962	5,472	6,738	6,738	$ 3,324	97%
Doctoral	7,380	7,926	8,676	9,546	10,500	10,500	$ 3,120	42%
Hastings College of the Law	21,303	26,003	29,383	36,000	37,747	43,486	$ 22,183	104%

Source: Legislative Analyst's Office
*Proposed.

THE GOVERNOR'S LONG-TERM PLAN FOR HIGHER EDUCATION

The Administration's long-term plan for UC and CSU is rooted in the belief that higher education should be affordable and that student success can be improved. The Administration proposes stable and increasing state funding and fiscal incentives to allow UC and CSU to better manage their resources. The significant components are:

1. *Affordability*. The plan will curtail tuition fee increases and lessen the pressure for students to take out loans.
2. *Student Success*. The plan will make annual GF augmentations contingent upon each institution achieving the Administration's priorities, including improvements in specific accountability metrics, such as graduation rates, time to completion, transfer students enrolled, and faculty teaching workload.
3. *Stable Funding Source*. The state will increase its GF contribution annually by a minimum of four percent per year, from 2013-14 through 2015-16, contingent upon the passage of the Governor's tax initiative in November 2012.
4. *Fiscal Incentives*. The state currently budgets separately, and adjusts annually, the retirement program contributions and general obligation and lease revenue bond debt service for UC and CSU capital improvement projects. The budget proposes to move these appropriations into each segment's base budget in 2012-13. The Administration further states that no further augmentations for these purposes will be provided, to encourage the segments to factor these costs into their overall fiscal outlook and decision-making process. However, the entire, enlarged base budgets would be subject to the four percent annual increase described above.
5. *Flexibility*. The plan will remove nearly all "earmarks" from UC's and CSU's GF appropriations and provides no enrollment targets.

Note, the only portions of the long-term plan applicable to Hastings' are: (1) a $49,000 base budget adjustment for retired annuitant health and dental benefit cost increases and (2) a $1.8 million base budget augmentation for general obligation debt service costs.

Staff Comment. The Administration is proposing to recast the higher education funding model. First, the Administration proposes to "reset" the higher education budgets with most costs included and provide the funding with significantly new flexibility beginning in 2012-13. Starting in 2013-14, and contingent upon passage of the Governor's tax initiative, a new "funding agreement" is proposed through 2015-16 that increases each segment's base budget by a minimum of four percent per year if the segment achieves the Administration's priorities.

However, for purposes of 2012-13 the Administration's proposal is best described as: (1) providing UC and CSU with flat year-to-year funding, effectively resetting the segments' budgets to current workload and (2) via new and increased flexibility, directing the segments to do the best they can, in a constrained fiscal environment, to manage their budgetary demands within those resources. However, should the voters reject the tax package, the segments' budgets would be reduced by $200 million each.

LAO Comment. While the LAO can appreciate the Governor's attention to higher education accountability, many aspects of the Governor's plan would reduce the Legislature's ability to allocate higher education funding according to its priorities. The elimination of enrollment targets and the promise of automatic funding increases are of particular concern.

Staff Recommendation. None; this is an informational item.

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Item 3a: Flexibility Provisions – Earmarks

Governor's Budget Proposal. To provide UC and CSU with new flexibility, the January budget proposes to remove nearly all "earmarks" from the segments' GF appropriations.

Background. Typically, the annual budget act includes a number of conditions on UC's and CSU's GF appropriations. These earmarks for UC and CSU funding have varied over the years in keeping with the Legislature's and Governor's particular concerns at the time. They are either separately scheduled GF appropriations or contained in budget provisional language, as illustrated in Figure 6 below.

Figure 6 – 2011-12 UC and CSU GF Earmarks (dollars in millions)

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

Source: Legislative Analyst's Office

* Would be funded through the Department of Education in Governor's 2012-13 budget proposal.

** Remains earmarked in the Governor's 2012-13 budget proposal.

The Administration indicates that this proposal is intended to expand the segments' freedom to determine how their funding should be used and, when taken as a whole with other proposed changes, to provide incentives for the segments to make better use of their base funding. In addition, the Administration indicates that this proposal is intended to assist the segments in their management of recent unallocated budget reductions.

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

Given this dynamic, where significant budget authority has already been delegated to UC and CSU, staff notes that the Legislature has relied on earmarks to ensure key concerns are addressed within the funding appropriated to the universities. This is more evident with UC's budget, as illustrated in Figure 6 above; given UC's constitutional autonomy, a greater number of programs have been "earmarked." The inclusion of earmarks in the budget bill provides a clear public record of budgetary allocations and expectations. The Governor's proposal effectively eliminates this budgetary tool. It is not clear what, if any, tools would remain that are as effective and would ensure that state funds are spent in a manner consistent with the Legislature's intent.

It is also a legitimate concern that recent budget reductions have made it more difficult for the segments to fulfill the public missions assigned to them. While they are able to absorb some budget reductions by drawing on funding reserves, increasing efficiencies, and dramatically increasing student fees, reductions of the magnitude sustained in 2011-12, when UC and CSU were cut by $750 million each, understandably require a prioritization and narrowing of some activities.

LAO Recommendation. It is reasonable for the Legislature to make some adjustments to the conditions it places on funding for UC and CSU, given recent budget reductions. Such adjustments should take into account the net change in UC's and CSU's programmatic funding, rather than simply the change in GF support. However, rather than simply abandoning all earmarks in the universities' budgets, the LAO recommends that the Legislature reevaluate budgetary earmarks on a case-by-case basis. In some cases, the Legislature may decide that a particular earmark is no longer a priority. In others, the Legislature may wish to keep or change or add an earmark. To help in evaluating potential earmarks, the Legislature may wish to develop guidelines that could be used for the budget year and beyond. For example, the Legislature might decide to approve only earmarks that serve a broader state purpose. To the extent that the Legislature chooses to retain any earmarks, the budget bill should be amended accordingly.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to raise the following questions:

1. Is there an operative difference between placing an earmark in a separately scheduled GF appropriation versus placing it in budget bill provisional language; i.e., under either scenario does the funding get expended as intended?
2. Absent the earmarks related to lease-revenue bond debt costs, earmarks represent roughly five and two percent, respectively, of UC's and CSU's GF appropriation. Given this, do these earmarks really constrain the segments?
3. In 2011-12, the Legislature approved up to five percent reductions to various earmarks, in recognition of overall budget reductions. Did this not provide sufficient flexibility?
4. With regard to the California Subject Matter Projects, the budget proposes to move this funding to the Department of Education and then transfer it back to UC for expenditure once it has been matched with federal funds. Why this approach? How will the Administration ensure that the entire amount will be transferred back to UC for program expenditures?

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

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Item 3b: Flexibility Provisions – Enrollment Targets

Governor's Budget Proposal. To provide UC and CSU with new flexibility, the January budget proposes to eliminate enrollment targets.

Background. In most years, UC's and CSU's budget is tied to a specified enrollment target. To the extent that the segments fail to meet those targets, the state funding associated with the missing enrollment is reverted. As part of the 2011 Budget Act, budget trailer bill language (Chapter 7, Statutes of 2011) provided enrollment targets for UC and CSU; companion budget bill provisional language stated that the state would not revert funds appropriated to the universities even if the universities did not meet their enrollment goal.

The Governor's 2012-13 proposal would allow UC and CSU to make their own decisions about how many students to enroll with the funding available to them.

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

However, given the significant reductions that have been made to UC's and CSU's budgets in recent fiscal years it is legitimate to ask what changes, if any, should be made to enrollment levels. In some years, the Legislature has reduced these enrollment targets in recognition of funding reductions. In other cases, the Legislature has directed the segments to accommodate funding reductions without reducing enrollment below budgeted levels.

Under the Governor's proposal, and in theory, the segments would have wide discretion with regard to enrollment. For example, they could significantly reduce the number of students served, thus raising the amount of funding available per student. This funding could be used to increase salaries for faculty, staff, and executives, a goal UC and CSU have expressed at various times. Or UC and CSU could reduce the number of undergraduates served, and use the funding to add a smaller number of higher-cost graduate students. Alternatively, UC and CSU could employ an enrollment reduction to shift a larger amount of their budgets away from direct education costs toward research or other non-instructional programs. UC and CSU could also limit the acceptance or receipt of community college transfer students, which is a long-identified state priority. These kinds of decisions have implications not just for educating students, but they could also have a profound effect on the level of access provided at each segment.

LAO Recommendation. The Legislature should reject the Governor's proposal to eliminate enrollment targets. Instead, the Legislature should restore provisional language that specifies enrollment targets for UC and CSU. As a starting point, the Legislature may wish to consider maintaining each segment's enrollment at its current year level, given that the budget proposes roughly flat funding for each segment. To the extent that the Legislature chooses to significantly reduce or increase a segment's budget, it may wish to modify the enrollment targets. Alternatively, the Legislature may wish to require the segments to achieve greater efficiencies without reducing enrollment.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to raise the following questions:

1. What assurances does the Legislature have that UC and CSU will continue to serve all students eligible for their institutions under the Master Plan? What recourse would be available if the segments fail to do so?
2. UC and CSU, where are you in the fall 2012 admission process; how does the number of eligible applicants compare with this time last year?
3. UC and CSU, how could the Governor's proposed Cal Grant reductions affect enrollment?
4. UC and CSU, what are recent trends in the percentage of enrollment going to graduate students? To non-resident students?
5. UC and CSU, what are your projections about spring semester transfer admissions in the 2013 and 2014 academic years?

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

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Item 4: Debt Service Payments

Governor's Budget Proposal. The January budget proposes major changes to the manner in which both general obligation (GO bond) and lease-revenue bond (LRB) debt is repaid for UC, CSU, and Hastings facility projects.

For UC and CSU, the major components of the proposal include: (1) all debt funding for 2012-13 is included in the base appropriations; (2) funding provided is not restricted for debt service, yet the segments would still have to make the required payments; (3) no future adjustments will be provided for this purpose, but base appropriations could increase by four percent annually from 2013–14 through 2015–16, and (4) no changes to state review process of capital projects. In 2012-13, UC and CSU would receive base budget augmentations of $196.8 million and $189.8 million, respectively, related to GO bond debt. UC and CSU would also receive one final adjustment of $9.7 million and $5.5 million, respectively, related to LRB debt.

In 2012-13, Hastings' base budget would be augmented by $1.8 million related to GO bond debt; Hastings does not have any LRB debt. Hastings would receive no further adjustments for debt service payments; however, unlike UC and CSU, Hastings is not included in the "funding agreement."

Background. There are two major types of debt service in higher education: (1) GO bonds and (2) LRB.

- ✓ The California Constitution requires that GO bonds be approved by a majority of the voters and sets repayment of this debt before all other obligations except those related to K–14 education. The Budget Act continuously appropriates this debt service from the GF. Funding to repay this debt is not currently included in direct budget appropriations for UC, CSU, and Hastings. Rather, it resides on the state's budget. The state makes annual GO bond debt payments on the segments' behalf, the amount of which fluctuates from year to year due to the varying debt service payment schedules related to different projects.

- ✓ LRBs are also used to finance capital outlay projects for the segments. LRBs may be authorized with a majority vote of the Legislature with the debt service covered from the future rental payments on the facilities that are built. LRB debt is typically issued for 25 years, although there have been some 20 year bonds for UC projects. As opposed to how GO bond debt is currently handled, funding for these rental payments is currently included in UC's and CSU's budget appropriations. However, the funding is restricted specifically for paying the debt service and is adjusted each year to account for fluctuations in the amount of debt to be repaid.

With regard to GO bond debt, and under the Administration's proposal, the payments would still be continuously appropriated from the GF, but instead reside in the segments' base budget appropriation. Proposed budget bill language would require that the segments reimburse the GF for making GO bond debt payments related to their capital projects. In essence, the State Controller would simply transfer the necessary amounts. The proposal does not result in increased GF costs in 2012-13; rather, it merely subjects GO bond debt repayment to the process already in place for paying LRB debt.

UC has the ability to issue LRB debt for instructional facilities (CSU does not have this authority). Should this proposal be adopted, UC indicates that it would likely refinance its existing LRB debt and lower its short-term costs by lengthening the period of time (to 30 years) over which the debt would be repaid; i.e., restructuring 15-year debt to 30 year-debt by refinancing bonds that have an average of 15 years of payments remaining.

Staff Comment. Some of the details of this proposal remain unclear, including what, if any, budget trailer bill language the Administration will propose as well as applicability of the new approach to existing vs. future LRB debt service costs. It is also unclear, contrary to the Administration's assertions, if UC and CSU would be required to seek Administration and legislative approval for all projects in future years.

Regardless of these unknowns, this approach is a departure from how UC, CSU, and Hastings capital outlay has been historically addressed. Under the current system, and in the last ten years, the LAO reports that the state spent an estimated $10.1 billion on higher education infrastructure; 80 percent of that support came from GO bonds and an additional 19 percent from LRBs. Associated higher education debt-service costs more than doubled during this same time period, from about $516 million in 2000-01 to an estimated $1.1 billion in 2010-11. Most of the GO bond spending was from bonds approved by the voters in 1998, 2002, 2004, and 2006. In general, the state provides less funding for higher education projects when the balance of GO bonds is exhausted. In the case of UC and CSU, the state has typically offset some of this reduction by funding some projects with LRBs.

One meritorious aspect of the Governor's proposal is that it would provide incentives to the segments to economize on projects. Because of the current approach for both GO bonds and LRB debt, the segments' base budgets are largely insulated from any consideration of the debt costs associated with their respective capital outlay plans. However, it is difficult to predict how the segments' state-funded debt payments for existing debt obligations would otherwise change in future years absent this proposal. In addition, it is not clear that providing these adjustments to the base budget one last time, and then growing that base by four percent a year for three years, would result in the right level of resources to fund the segments' long-term capital outlay needs.

LAO Recommendation. While the LAO agrees with the Administration that certain aspects of the current state debt financing system for the segments does not always provide the right incentives, overall the LAO finds that the Governor's proposal does not fully address these issues and makes the Legislature's future capital outlay budgeting decisions for the segments (and the state as a whole) even more difficult. Moreover, the LAO finds that some aspects of the Governor's proposal regarding Legislative oversight of the segments' state-related projects raise serious concerns. For these reasons, the LAO recommends that the Legislature reject the Governor's proposed approach. Specifically, the LAO recommends reducing the GF appropriations for UC, CSU, and Hastings by $196.8 million, $189.8 million, and $1.8 million, respectively to take debt service for GO bonds out of their budgets (as well as deleting the associated budget bill language). Further, the LAO recommends restricting the amounts proposed for LRB debt service in 2012–13 to that purpose only. These actions would result in no net changes in GF spending in 2012–13.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to raise the following questions:

1. Is the proposed total base funding (which could grow by four percent annually over the next three fiscal years) reasonable to cover UC and CSU's various operational and existing bond-related costs, as well as long-term capital needs?
2. This proposal shifts a significant amount of control over spending priorities to the universities. Is this level of autonomy appropriate given that the dollars in question are state dollars and the UC and CSU are statewide, public institutions?
3. Are the universities in the best position to determine how much of their base budgets to devote to capital and non-capital costs?
4. To what extent, and in what ways, will the Legislature have a say in the segments' commitment of GF support toward capital projects? What if UC issues its own LRBs for projects, for which it would otherwise currently request state bond financing, thereby avoiding any state oversight?
5. For Hastings, the augmentation is $1.8 million for existing GO bond indebtedness. Hastings is excluded from the overall funding agreement, whereby UC and CSU base budgets could grow four percent a year for three years to, in theory, accommodate future debt service needs. Does this approach treat Hastings fairly, i.e., how will Hastings' capital needs be met?

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

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Item 5: Retirement Costs

Governor's Budget Proposal. The January budget proposes major changes related to funding for UC and CSU retirement costs. For UC, the Administration proposes a $90 million base budget augmentation that "can be used to address costs related to retirement program contributions." For UC and CSU, base budgets would be adjusted one last time for retired annuitant health and dental benefit cost increases of $5.2 million, and retired annuitant dental benefit cost increases of $1.1 million, respectively. The budget then proposes a new policy that UC's and CSU's budgets will no longer be adjusted for changes in retirement costs beyond 2012-13; instead, state-related retirement costs would be funded entirely from within the segments' base budgets which, as previously mentioned, could grow four percent annually between 2013-14 and 2015-16.

For Hastings, the January budget proposes one last base budget adjustment of $49,000 for retired annuitant health and dental cost increases.

Background. There are substantive differences between CSU and UC (including Hastings) from the perspective of retirement benefits.

- ✓ CSU employees are members of the California Public Employees Retirement System (CalPERS), the same retirement system to which most state employees belong. Unlike most other state employees, the state does not collectively bargain with CSU employees (note, the 2010 statewide pension reforms that established reduced pension benefits for new hires effective January 15, 2011, includes new CSU hires as of that date). Funding for the CalPERS system comes from both employer and employee contributions. CSU's employees currently contribute either five or eight percent, depending on classification (most other state employees contribute eight to eleven percent, depending on bargaining unit). Each year, as is the case with other state departments, CSU's employer contributions to CalPERS are charged against its main GF appropriation; the employer contribution is based on a percent of employee salaries and wages that is determined by CalPERS. The budget annually adjusts CSU's main appropriation to reflect any estimated changes in the employer contribution. For example, the budget reduces CSU's main appropriation by $38 million due to a lower employer rate and lower payroll costs in 2011-12; CSU is expected to contribute $404 million to CalPERS in 2012–13.

- ✓ UC (and Hastings) employees are members of the University of California Retirement Plan (UCRP). This retirement plan is separate from CalPERS and under the control of UC; UC not only controls its pension costs but also sets benefits levels for its employees. Prior to 1990, the state adjusted UC's GF appropriation to reflect increases and decreases in the employer's share of retirement contributions for state-funded UC employees. Starting in 1990, however, UC halted both employer and employee contributions because the pension plan had become "super-funded." This funding "holiday" lasted nearly

20 years until the plan's assets had declined considerably and contributions once again became necessary. In April 2010, both UC and its employees resumed contributions to the plan. The state, however, has not provided UC with any additional funding specifically for that purpose. UC projects that annual total state costs would peak at around $450 million GF.

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

Staff Comment. With regard to UC, and the state’s share of the employer contribution to UCRP, the LAO has noted that these pension costs are real obligations that need to be paid, and it is reasonable for the state to cover the retirement costs of UC’s state-funded employees, just as it does for other agencies. One over-arching challenge is that it is not readily clear what the “state share” should be given that UC also has non-state funded employees (such as through federal funds or patient revenues at the academic medical centers). Moreover, it is not clear to what extent the state should be expected to pay for retirement benefits that are defined by UC and not by the state. There are also questions about what legal obligations the state could incur by restarting contributions. Therefore, the LAO has advised that the Legislature proceed with caution and not simply pay whatever bill UC presents; i.e., the state may choose to re-start state contributions to UC under the right conditions. That the Administration does not tie its $90 million augmentation to UCRP contributions is indicative of these issues.

With regard to benefit levels, although the state does not control UC's pension system, actions taken to date by the Regents have largely mirrored recent changes to state employee pension benefits. For example, the Regents have taken action to reduce pension costs in the long term by increasing the minimum retirement age for new employees. In addition, the Regents have approved increases to employee contribution rates that are beginning to bring them in line with state employee contribution rates, which are now generally 8 percent (some of UC's proposed employee contribution increases are still subject to collective bargaining).

With regard to CSU’s retirement costs, by bringing these costs onto CSU’s base budget, the Administration intends for CSU to consider them in its budget and fiscal outlook. From CSU’s perspective, the Administration’s proposal adds costs that have been historically covered by the state budget and, further, are not completely within the employer’s control. For instance, CSU notes that the CalPERS Board sets the employer contribution rate. However, this is not unique to CSU as an employer; this also applies to the state as well as every other public employer who contracts with CalPERS. Employee pension contributions are negotiable; however, as the LAO has reported, there are strict legal protections that limit government’s flexibility to impose increased employee contributions. Rather, for many current employees such contribution increases would be implemented only through negotiations, and in any event, would result in many employers providing comparable offsetting advantages, such as increasing pay or other compensation, to offset the financial effect of the higher pension contributions. This would tend to erode any savings from increased employee pension contributions.

LAO Recommendation. There is sufficient justification on a workload budget basis to provide UC with an augmentation that the university could use to address its pension costs. The LAO recommends, however, that the Legislature only provide funding for the incremental change in 2012-13 in UC's pension costs for state- and tuition-funded employees, which is estimated to be $78 million; this would mean reducing the Governor's request for $90 million GF by $12 million. In addition, the LAO recommends that the Legislature adopt intent language in the budget specifying that in the future funding for UC retirement costs: (1) shall be determined annually by the Legislature, (2) shall be contingent on such factors as the comparability of UC's pension benefits and contributions to those of state employees, and (3) shall not necessarily include funding for tuition-supported employee pension costs or for pension costs incurred prior to 2012-13.

Given the statutory and other constraints that CSU faces, the LAO finds that, overall, the Governor's proposal would place on CSU a level of responsibility for funding pension costs that is out of proportion with its ability to control those costs. For this reason, the LAO recommends that the Legislature reject the Governor's approach and instead adopt intent language in the budget specifying that future budget adjustments shall be provided to CSU to reflect its pension costs.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to raise the following questions:

1. What happens if retirement costs rise by more than four percent annually? If that occurs, wouldn't this proposal require those retirement-related expenditures at the cost of academic programs, since the retirement-related expenditures are a mandatory first call on resources?
2. The Governor's proposed language refers simply to "retirement costs." This appears to not include adjustments for CSU retired annuitant <u>health</u> benefit costs. Will there be additional proposals regarding these CSU-related costs?
3. Due to a host of statutory requirements and legal precedence, the LAO has reported that the only way CSU can reduce its pension costs would be through managing its payroll costs – either by reducing the number of employees or their salaries. Is this an avenue the CSU has pursued or is planning on pursuing? Given these dynamics, is the Administration considering other changes to assist CSU in managing its retirement costs?
4. What percentage of UC's payroll is comprised of state GF-funded employees? How many UC employees are state GF-funded?
5. Instead of $90 million, the LAO recommends providing $78 million, of which $34 million is attributable to state-funded employees. The remaining $44 million is for tuition-funded employees. What is the justification for the full $90 million?
6. Has UC included Hastings' employer's share in the $90 million calculation of needed funding, were it to be provided for the state's share of UCRP costs? If not, why not, as Hastings' also has state-supported payroll similar to the larger university?

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

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Item 6: Accountability and Annual Increases – A New "Funding Agreement"

Governor's Budget Proposal. A central component of the Governor's long-term plan for higher education is a new funding agreement in years 2013-14, 2014-15, and 2015-16, committing four percent annual base budget increases for UC and CSU, contingent upon the passage of the Governor's tax initiative in November 2012 and in exchange for the segments meeting certain performance metrics.

Staff Comment. "Funding agreements," or "compacts" as they have been previously called, are not a new idea or approach. Similar agreements between prior administrations and UC and CSU generally took the form of uncodified agreements between the Governor and the universities. The Legislature was not a party to those earlier agreements. Those prior agreements also largely proved themselves to be unworkable. While the desire for budgetary stability and predictability is understandable, the state budgets on a one-year cycle. In this vein, one Legislature cannot tie the hands of another; therefore, and as in the past, any budget decision made one year about a future year is at best a statement of legislative intent.

At this juncture, more questions than answers are available about this "new" funding agreement. For instance, what performance metrics will be used – graduation rates, time to degree, faculty teaching workload, etc.? It is also unclear how these metrics would be defined much less measured. In short, no specifics are yet available about the Administration's new funding agreement. Staff is aware that negotiations between the Administration and UC and CSU have been ongoing; word of this approach first started to surface as early as fall of last year. Staff also notes that it is understandable that the segments would engage in these negotiations; having some certainty about budgets is a preferred approach. However, it is difficult at best to grasp how the Legislature will be involved in the development of this agreement. It is also unclear whether the Legislature would want to make such out-year funding commitments. To date, the Legislature has had no role in the development of the agreement. It is entirely possible that the Legislature will simply be handed a funding agreement reached between the Administration and UC and CSU.

LAO Recommendation. The Legislature has shown a strong interest in accountability over the past decade. While prior attempts to adopt a framework have failed, the Legislature is currently considering SB 721 (Lowenthal). This bill would establish higher education goals and create a working group of representatives of the Legislature, Administration, segments, and others to develop specific accountability metrics. Other current and recent legislative efforts have focused on similar objectives.

The Governor's proposal provides a good opportunity to move forward with the Legislature's accountability efforts. However, the LAO recommends that accountability metrics be used to help the Legislature in identifying policy and budget priorities, rather than as a mechanism for triggering the preset four percent augmentations for the segments.

The Legislature has spent over a decade pursuing higher education accountability efforts. It has been part of a national dialogue on the topic, and its legislative efforts have taken advantage of lessons learned along the way. At the same time, it has become clear that the most successful accountability systems in other states have had strong engagement and support from both the executive and legislative branches. The Governor's interest in accountability, therefore, provides a good opportunity for the Legislature and Administration to jointly make progress in developing a statewide higher education accountability system. At the same time, accountability remains a difficult and elusive goal, so it would be unrealistic to expect to complete such an effort as part of this year's budget process. Instead, the LAO recommends that these efforts be directed through policy committees and the regular legislative process.

Finally, promising out-year base augmentations to the segments would complicate budgeting in other areas and reduce the Legislature's discretion in allocating resources. For these reasons, the LAO recommends that the Legislature reject the Governor's approach of promising base increases to the segments. Instead, the LAO recommends that the Legislature continue its current practice of making higher education funding decisions as part of each year's budget deliberations.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to raise the Administration the following questions:

1. How does the Administration view the Legislature’s role in the development of the funding agreement?
2. What is the timing of the funding agreement?
3. Are the accountability metrics only proposed if the tax package is approved; i.e., if taxes fail, does the Administration still support implementing an accountability framework?
4. The LAO has raised a concern that the funding agreement would take away key budget tools that the Legislature uses to guide UC and CSU, while plugging in automatic spending increases disconnected from actual costs and the state’s fiscal condition. How does the Administration respond to this?

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

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Item 7: 2012-13 Budgetary Triggers

Governor's Budget Proposal. The January budget relies on revenue from a tax package to be placed before voters in November 2012. In the event voters reject that plan, the January budget proposes a number of automatic reductions ("trigger cuts") to GF appropriations, primarily in the areas of Proposition 98 and the universities, which would take effect January 1, 2013. For UC and CSU, the segments' GF appropriations would be reduced by $200 million each, reductions of 7.8 percent and 9.1 percent, respectively.

Prior Budgetary Triggers. The 2011 Budget Act included $100 million reductions for both UC and CSU to be triggered if estimates of state revenues as of December 2011 were $1 billion or below the forecasted amount. This trigger was pulled effective January 1, 2012.

Staff Comment. Should the voters reject the Governor's tax initiative, the "trigger" reductions for UC and CSU would total $200 million each. All of these reductions would come at the end of the fall semester, making the reductions so disruptive that the segments likely would feel compelled to adopt budgets assuming the reductions will happen. This is largely the approach taken in 2011-12; in January 2012, UC and CSU were cut by $100 million each. The segments generally included these "worst case scenario" cuts in their budget planning so as to avoid dramatic mid-year cuts.

However, taking the same approach in 2012-13 will be even more challenging for the segments. In absorbing potential trigger cuts of this magnitude, staff notes that there are primarily four operational areas where UC and CSU have the requisite flexibility to make fiscal changes: (1) employee salaries and wages; (2) student services; (3) enrollments; and (4) student tuition fees. However, after years of reduced state funding, it is appropriate to question what budgetary levers actually remain for the segments in planning for further reductions. This question is especially crucial in light of the budget proposal to cede autonomy to the segments, including allowing UC or CSU to set their own enrollment targets.

It is also worth noting that of the four operational areas identified above, one serves as a primary driver for the others; i.e., enrollment levels, which are a key driver of costs, as they dictate faculty and staff hiring decisions. However, campuses and departments have only varying degrees of flexibility in making these decisions, depending on tenure rules, collective bargaining, and other factors. There is also a timing consideration. Fall 2012 enrollment decisions have already been made; the window for fall 2013 enrollment decisions is between October 1, 2012 – November 30, 2012. Therefore, the reality is that a January 1, 2013, trigger reduction would necessarily impact Fall 2013 enrollment.

With regard to tuition fees, UC and CSU have the authority to set their own tuition levels. The UC has not yet made a decision on its fall 2012 tuition, while CSU has already approved a 9.1 percent increase for the fall. However, the Governor's budget does not recognize that increase. While there is no strict deadline for approving fall tuition fee levels, many students and their families need to know what costs they face in order to plan for the fall.

LAO Comment. Given that a significant portion of the Governor's revenue assumptions is subject to voter approval in November, it makes sense to include a contingency plan in the event voters reject the tax proposal. However, the Legislature has choices as to how the contingency plans are structured. For example, the Governor places almost all the trigger cuts in K–14 education and higher education. The Legislature could instead allocate the cuts differently among the state's education and non–education programs. For example, the cuts could be targeted to programs most able to respond to a midyear reduction, or they could be spread across more programs to reduce their impact on any one program.

In the alternative, the Legislature could instead take the opposite approach: build a budget that does not rely on the Governor's tax package, with contingency augmentations if the tax package is approved. This might mean, for example, appropriating less funding for higher education or other agencies than the Governor proposes. In the event tax increases are approved in November, the Legislature could direct the resulting revenues to critical one-time investments, such as paying down debt or funding deferred facilities maintenance. In this way, the higher education segments would know at the outset what level of GF support to expect for their core programs, thus helping in their planning for the academic year.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to raise the following questions:

1. Does your budget planning for 2012-13 taken into account the possibility of trigger cuts? If so, how?
2. How do UC and CSU intend to "manage" or "limit" student enrollments in the coming year? Will spring transfer enrollments be curtailed? What is the practical effect of these strategies on students?

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

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Thursday, March 15, 2012
9:30 a.m. or upon adjournment of session
Room 3191, State Capitol

HEARING OUTCOMES
ITEMS 1 AND 2: NO VOTE TAKEN, INFORMATIONAL ITEMS.
ITEMS 3-7: ALL ITEMS HELD OPEN PENDING THE MAY REVISION.

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.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Thursday, March 22, 2012
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

Consultant: Kim Connor

Public Comment

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6110 Department of Education

ISSUE 1. State Special Schools – Governor's Budget Proposal

DESCRIPTION: The Governor proposes an unallocated reduction of **$1.8 million** in Non-98 General Funds to the state operations budget for the State Special Schools in 2012-13. The Governor proposes that, to the extent possible, the $1.8 million in savings be achieved by reducing discretionary deferred maintenance projects. The Governor's proposal is intended to achieve General Fund savings. The Governor's proposal would reduce funding for the three residential state schools located in Freemont and Riverside and does not affect the three state diagnostic centers.

BACKGROUND:

The California Department of Education administers the State Special Schools, which includes a total of six facilities under its jurisdiction -- three residential schools and three diagnostic centers. The residential schools include the Schools for the Deaf in Riverside and Fremont and the School for the Blind in Fremont. The state diagnostic centers are regionally located in Fresno, Fremont, and Los Angeles. These state facilities comprise a total of 960,000 gross square feet on 176 acres of land.

State Special School Enrollments	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
School for the Deaf, Riverside	484	449	430	443	412	424	408	420
School for the Deaf, Fremont	473	490	485	484	414	455	462	465
School for the Blind, Fremont	85	88	85	89	71	79	78	76
TOTAL	**1,042**	**1,027**	**1,000**	**1,016**	**897**	**958**	**948**	**961**

Students attending state schools are served in residential or day programs. The two Schools for the Deaf provide instructional programs to approximately 885 students who are deaf and the California School for the Blind provides instructional programs for approximately 76 students who are blind, visually-impaired, or deaf-blind in 2011-12.

The three diagnostic centers administer assessments to approximately 1,500 students per year and provide training to 31,000 educators annually. Of the 1,500 annual assessments, approximately 250 take place at the three centers; the remaining 1,250 are considered "field" assessments, which take place within local education agencies.

GOVERNOR'S BUDGET SUMMARY:

The Governor's budget proposes total General Fund support of **$81.5 million** for the state's three special schools in 2012-13. Of this amount, **$48.3 million** is provided in Proposition 98 General Fund and **$33.3 million** is provided by Non-98 General Fund. The state schools are also projected to receive $3.9 million in federal transportation funds. The Governor's budget also reflects an estimated **$6.4 million** in reimbursements from local school districts to the state schools. There are currently a total of **1,080 authorized positions** for the special schools and diagnostic centers.

State Special Schools - Summary of State Funding

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Non-Proposition 98 GF (005)	$38,081,000	$34,640,000	$34,334,000	$34,983,000	$34,527,000	$33,259,000
Proposition 98 GF (006)	45,759,000	41,462,000	44,138,000	46,105,000	47,496,000	48,228,000
Student Transportation (008)	2,506,000					
Public Transportation Acct. (008)		4,068,000				
IDEA (Transportation) (161)			3,894,000	3,894,000	3,894,000	3,894,000
Reimbursements	6,073,000	6,210,000	6,390,000	6,375,000	6,385,000	6,411,000
Total Governors Budget	**$92,419,000**	**$86,380,000**	**$88,756,000**	**$91,357,000**	**$92,302,000**	**$91,792,000**
Positions	**1,008.4**	**1,008.4**	**1,008.4**	**1,008.4**	**1,008.4**	**1,008.4**

This table does not reflect funding for the three state diagnostic centers. The Governor's budget proposes **$12.5 million** in Proposition 98 funding for the centers in 2012-13. In addition, the proposed budget estimates an additional $3.9 million in reimbursements from local school districts.

GOVERNOR'S BUDGET REDUCTION PROPOSAL. The Governor proposes to reduce the General Fund (Non-98) budget for the three residential state schools by a total of **$1.8 million** in 2012-13. As reflected in budget bill language, the Governor specifies that this reduction shall, to the extent possible, be achieved by reducing discretionary deferred maintenance projects. As such, the Governor proposes an unallocated reduction in 2012-13.

The Governor does not propose a reduction to the Proposition 98 General Fund portion of the budget for the three state schools. The Governor also does not propose to reduce funding for the three state diagnostic centers, which receive Proposition 98 General Fund appropriations.

Operational Efficiency Reductions in 2011-12. The Department of Education received an "operation efficiency" reduction of **$3.369 million** pursuant to Control Section 3.91 of the 2011-12 budget act. Operation efficiency reductions were applied to all state agency budgets and constitute ongoing cuts. The Department was required to submit an operation efficiency reduction plan to the Department of Finance to implement the reduction. The Department's plan included a **$1.5 million** (4.3 percent) reduction for the state schools in 2011-12.

Other Budget Reductions Since 2007-08. State funding for the State Special Schools was reduced by a total of **$9.2 million** in 2008-09, including $3.8 million in Non-98 General Fund and $5.1 million Proposition 98 General Fund. This one-time reduction was backfilled by $9.2 million in federal special education funds.

LAO RECOMMENDATIONS: The LAO recommends adoption of the Governor's $1.8 million reduction to State Special Schools Non-Proposition 98 funding. Given the reductions that school districts have taken over the past five years, there is a rationale for making comparable reductions to the State Special Schools budget. The LAO would have concerns, however, with the reduction being implemented entirely on the schools' deferred maintenance budget. In the long run, this could result in higher state costs if repairs become more expensive repairs or the facility needs to be replaced.

STAFF COMMENTS:

- **Preliminary Plan for Implementing Governor's Proposed Reductions**. The CDE State Special Schools Division has not developed a final, specific plan for implementing the Governor's $1.8 million unallocated reduction, and development of such a plan will take additional time. However, the State Special Schools Division has identified a general, preliminary plan for implementing the Governor's cuts based on input from each of the three schools. This preliminary plan includes:
    - **$900,000** in savings from postponement of deferred maintenance projects slated for 2012-13.
    - **$900,000** in reductions for student services at each of the three schools, including consolidation of residential dorms; and reduction of summer school programs, counseling services, assessment services, maintenance/groundskeeping/custodial services, and security services.
- **Impact of Combined Cuts on Total Budget for State Schools.** The $1.5 million (4.3 percent) operational efficiency reduction in 2011-12, together with the Governor's proposed $1.8 million reduction in 2012-13, brings total Non-98 General Fund cuts to $3.3 million, or 9.3 percent, for the state schools in 2012-13. When calculated as a part of total Prop 98 and Non-98 General Fund, this $3.3 million reduction translates to a **4.0 percent** reduction for the state schools in 2012-13. In comparison, local education agencies are facing ongoing reductions of 9.2 percent for their basic revenue limit apportionments.

- **Local Educational Agency Payments.** Education Code §59300 provides that the district of residence of the parent or guardian of any pupil attending a state-operated school – excluding day pupils – pay the school of attendance 10 percent of the excess annual cost of education of each pupil attending a state-operated school. The Governor proposes a total of **$6.4 million** in reimbursements from local school districts to the state schools in 2012-13. In addition, the Governor's budget estimates $3.9 million in reimbursements from local school districts to the state diagnostic centers in 2012-13.
-

Local District Reimbursements	**2011-12**	**2012-13**
State Special Schools	$6,400,000	$6,400,0000
State Diagnostic Centers	$3,900,000	$3,900,000
Total,	**$10,300,000**	**$10,300,000**

- **State Funding Split.** The three state schools are funded as state operations items in the annual budget act by both Proposition 98 and Non-98 General Fund sources, as follows:
  - ✓ **Non-Proposition 98 General Fund (6110-005-0001)** which includes all non-instructional activities required for students such as food services staff, nursing staff, residential staff, counselors, and psychologists. It also includes funding for plant operations (repairs, maintenance, custodial, grounds), business services, admissions, outreach, and after-school programs.
  - ✓ **Proposition 98 General Fund (6110-006-0001)** includes all instructional staff and programs (teachers, teacher specialists, and administrative staff overseeing instructional programs).

  The three diagnostic centers are funded entirely through Proposition 98 General Fund, also included in item 6110-006-0001 of the budget act.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee hold this item open pending May Revise. In the interim, staff makes two additional recommendations:

1. Staff recommends that the State Special Schools develop a specific implementation plan for achieving the Governor's $1.8 million reduction and submit that plan to the Subcommittee by April 30, 2012. The plan should identify any savings for "discretionary" deferred maintenance projects, per the Governor's budget language, and if necessary, other savings necessary to achieve the full $1.8 million proposed by the Governor.

2. Staff recommends that CDE explore possible savings options for the State Special Schools that do not affect the instruction and support for students attending the State Special Schools, including:

   - Identification of available federal special education carryover funds that could be used to backfill the Governor's proposed reductions in 2012-13.
   - Assessment of local educational agency reimbursements for pupils attending the State Special Schools and options for increasing those charges.
   - Evaluation of alternative savings for the state diagnostic centers, including an increase in the charges to local educational agencies for providing these state assessments.
   - Review of state laws and policies to explore consolidating state funding for the State Special Schools within Proposition 98 and eliminating Non-98 General Funds.

SUGGESTED QUESTIONS:

1. The Governor's $1.8 million reduction proposal in 2012-13 is intended to have the State Special Schools participate in budget reductions for K-12 education. How do recent and proposed reductions for the State Special Schools compare to recent, ongoing cuts for K-12 local assistance programs?

2. The Governor's proposal requires the proposed $1.8 million reduction in 2012-13 to be taken from discretionary deferred maintenance projects, to the extent possible. What is the

total deferred maintenance budget for the state special schools in 2012-13? What projects could the state schools possibly defer in 2012-13?

3. The three state special schools incurred $1.5 million in funding reductions as a part of an operational efficiency plan pursuant to Control Section 3.91 of the 2011-12 budget act. What was the total reduction assigned to the Department of Education and what was the proportional reduction for the state schools? What process did the Department utilize in allocating cuts to the state schools?

4. How did the state special schools achieve the $1.5 million reduction in 2011-12? How did that reduction affect the deferred maintenance funding for the state schools?

5. Why is funding for the state schools split between Proposition 98 and Non-98 General Fund? Is there a reason that the state schools could not be funded entirely with Proposition 98 funds?

6. How does CDE calculate the "excess costs" for purposes of school district payments for pupils attending state special schools?

ISSUE 2. School Facilities Program - Governor's Budget Proposals

DESCRIPTION: The Governor proposes to shift existing School Facilities Program bond authority for the Overcrowding Relief Grant Program to the New Construction Program and to regulate the allocation of new construction and modernization funds to ensure continued construction of new classrooms and modernization of existing classrooms. Per the Administration, these proposed actions will delay local authority to impose a third level construction fee while continuing construction of new classrooms using bond proceeds, fee revenues, and local funds.

BACKGROUND:

There are three state statewide general obligation bond acts – as approved by state voters – that have remaining funds for K-12 school facilities. In total, **$1.181 billion** remains available for school facilities from these bond acts. The following table displays total funds authorized for each of these three bond act, as wells as amounts expended and amounts remaining as of March 2012.

State Approved Bond Acts	Amount Authorized	Amount Expended (Includes Unfunded Approvals)	Amount Remaining
Prop 1D (2006)	$7,357,500,000	$6,422,200,000	$935,300,000
Prop 55 (2004)	10,022,500,000	9,823,900,000	198,600,000
Prop 47 (2002)	11,400,000,000	11,352,800,000	47,200,000
TOTAL	**$28,780,000,000**	**$27,598,900,000**	**$1,181,100,000**

Proposition 1D.

AB 127 (Nunez and Perata), the Kindergarten-University Public Education Facilities Bond Act of 2006, authorized Proposition 1D a statewide general obligation bond proposal for $10.4 billion. Proposition 1D, approved by the voters in November 2006, provided $7.3 billion for K-12 education facilities and allocated specified amounts from the sale of these bonds for modernization, new construction, charter schools, career technical education facilities, joint use projects for new construction on severely overcrowded schoolsites, and high performance incentive grants to promote energy efficient designs and materials. In addition, portions of the amounts allocated for new construction and modernization were authorized for purposes of funding smaller learning communities and high schools and for seismic retrofit projects.

Overcrowded Relief Grant (ORG) Program.

Proposition 1D established the Overcrowded Relief Grants Program within the School Facility Program and provided $1 billion for school districts with overcrowded school sites to build new permanent facilities. As with other new construction projects, districts are required to match the state's contribution toward the project costs (fifty percent). To be eligible for a relief grant, districts must have at least one overcrowded school (defined as at least 175 percent of the state recommended pupil density). The size of the relief grant is based on the number of pupils in portable classrooms at eligible schools. As a condition of receiving a relief grant, school districts are required to replace portable classrooms with new permanent classrooms, remove portable classrooms from overcrowded schools, and reduce the total number of portable classrooms in the district. (Education Code 17079-17079.30).

GOVERNOR'S BUDGET PROPOSALS: The Governor proposes statutory changes for the state School Facilities Program, as a part of the 2012-13 budget, as follows:

1. **Regulation of Remaining Bond Authority**. Requires the State Allocation Board (SAB), upon enactment of the Budget Act of 2012, to apportion up to **$8.5 million** for new construction projects, and up to **$9 million** for modernization projects, per month at a board meeting. This provision shall not apply to new construction and modernization projects that receive unfunded approval by the board before enactment of the Budget Act of 2012.

2. **Prohibition of Funding for Overcrowding Relief Grants.** Prohibits the State Allocation Board from approving any projects pursuant to the Overcrowding Relief Grant program on or after June 30, 2012.

3. **Shift of Funds for Overcrowded Relief Grants to New Construction**. Transfers **$251.25 million** from Overcrowded Relief Grants to New Construction. More specifically, this proposal adjusts the amounts allocated under Proposition 1D by:

    a. Reducing the amount authorized for Overcrowded Relief Grants from $1.0 billion to $748.75 million.
    b. Increasing the amount authorized for New Construction from $1.9 billion to $2.15 billion.

STAFF COMMENTS:

- **Remaining Bond Funds.** The State Allocation Board has summarized the disposition of Proposition 1D funds – as of March 2012 -- in the table below. A total of **$935.3 million** in Proposition ID funds remain available for school facilities.

	Amount Authorized	Amount Expended (Includes Unfunded Approvals)	Amount Remaining
New Construction	$1,900,000,000	$1,680,000,000	$220,000,000
Modernization	3,300,000,000	2,904,100,000	395,900,000
Career Technical Education	500,000,000	496,700,000	3,300,000
High Performance Schools	100,000,000	39,300,000	60,700,000
Overcrowding Relief Grants	1,000,000,000	745,200,000	254,000,000
Charter Schools	500,000,000	500,000,000	--
Joint Use	57,500,000	56,900,000	600,000
Total	**$7,357,500,000**	**$6,422,200,000**	**$935,300,000**

- **Legislative Authority to Adjust Bond Amounts.** Proposition 1D also authorized the Legislature to adjust the amounts expended for each of the above programs, but prohibited the increase or decrease of the total amount to be expended pursuant to the Proposition. Adjustment of the funding requires legislative enactment of statute which is consistent with, and furthers the purposes of, Proposition 1D by a two-thirds membership vote of each house. In addition, amounts may be adjusted via a voter approved statute. (Education Code §101012).

- **New Construction Funds Will Be Depleted in Near Future.** As of March 2012, $220.0 million remains in new construction bond authority and $395.9 million remains in modernization authority. Based upon a typical processing timeline of applications and the average monthly drawdown on authority, new construction and modernization funds will be depleted by **Fall 2012.** More specifically, new construction funds will be depleted by **April 2012** and modernization funds would be depleted by **October 2012.**

  The Governor's proposal transfers funds and regulates or "meters" new construction allocations by limiting apportionment to no more than **$8.5 million** for new construction projects and **$9 million** for modernization projects, per month, per SAB meeting. Under the Governor's proposal, new construction allocations would continue through 2014.

  - **Governor Intent on Keeping School Facility Bond Program Viable.** According to the Administration, the Governor's proposals are intended to maintain the viability of the school construction program by (1) transferring funds from Overcrowded Relief Grants to new construction to reflect existing demand, and (2) metering the allocation of new construction funds to keep the program going through 2014, and thereby avoiding the trigger of Level III developer fees during this period.

  - **Trigger for Level III Developer Fees When Bond Funds Depleted.** Current statute (Government Code) authorizes three levels of developer fees that may be levied by school districts, as follows:

    ✓ Level I fees are assessed if the district conducts a Justification Study that establishes the connection between the development coming into the district and the assessment of fees to pay for the cost of the facilities needed to house future students.

    ✓ Level II fees are assessed if a district makes a timely application to the State Allocation Board for new construction funding, conducts a School Facility Needs Analysis, and satisfies at least two of the requirements listed in Government Code Section 65995.5(b)(3).

    ✓ Level III fees are assessed when State bond funds are exhausted and schools district may impose a developer's fee up to **100 percent** of the School Facility Program new construction project cost. In order to implement Level III developer fees the State Allocation Board must make a declaration of a "lack of funds" to provide apportionments to school facilities projects.

SAB Input on Governor's Proposals: The New Construction Subcommittee and the SAB provided the following recommendations regarding the Governor's school facilities proposals:

- **Overcrowded Relief Grant Transfer.** Most of the New Construction Subcommittee members and the SAB do not support.
- **Metering of Remaining Bond Authority.** The concept of metering the remaining bond authority through 2014 is supported by the New Construction Subcommittee. However, the SAB does not support.
- **Suspension of Level III Developer Fees**. Both the New Construction Subcommittee and the SAB support suspension of Level III developer fees until December of 2014.

STAFF RECOMMENDATION: Staff recommends that the Subcommittee keep this issue open until May Revise.

SUGGESTED QUESTIONS:

1. What's the State Allocation Board process for triggering Level III developer fees? What specific conditions have to be met? What is the likelihood that Level III developer fees will be triggered in the next year? Have Level III fees been triggered before?

2. Is there consensus between the Administration and the State Allocation Board that implementation of Level III developer fees would negatively impact the state economy? If triggered, how would these high level developer fees be felt in communities across the state?

3. Did the Administration consider legislation to statutorily prohibit Level III developer fees in 2012-13? Would the Administration support this as an alternative to metering?

4. What are the reasons the SAB does not support metering bond allocations? What other options has the SAB considered to preserve the program?

5. How would the SAB assess the district need for Overcrowded Relief Grants? How many districts are eligible for this funding? What impediments may exist for expending these funds?

6. Is the SAB considering another funding cycle for unspent Overcrowded Relief Grant funds in 2012-13? What is the likelihood that eligible districts will have funding requests for additional projects in construction or nearing completion in 2012-13?

7. Did the Administration consider shifting funds remaining from other categories of bond funds?

8. Would some districts benefit more than others as the result of the Governor's proposed transfer of Overcrowded Relief Grant funds to new construction? Who wins and who loses?

6360 Commission on Teacher Credentialing

ISSUE 3: Commission on Teacher Credentialing – Governor's Budget Proposals

DESCRIPTION: The Governor proposes several changes to the Commission on Teacher Credentialing (CTC) budget in 2012-13 in order to address a projected operating deficit of $5 million. Specifically, the Governor proposes the following activities to address the 2012-13 budget shortfall: (1) increase in the teacher credentialing fees from $55 to $70, which restores fees to statutorily authorized levels and increases revenues by $3 million; (2) increase exam fees to generate $500,000 in additional revenues; (3) reduce state operations expenditures by $1.5 million through the elimination of 17 staff positions; and (4) provide an immediate $1.5 million loan in 2011-12 from the Test Development and Administration Account to the Teacher Credentials Fund.

BACKGROUND:

<u>Major Responsibilities.</u>

The Commission on Teacher Credentialing (CTC) is responsible for the following major, state operations activities, which are wholly supported by special funds:

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

In addition, the CTC administers three local assistance programs which are funded with Proposition 98 General Funds and federal reimbursement from the California Department of Education.

<u>Major Activities.</u>

The CTC currently processes **215,000 candidate applications** annually for 200 different credential and waiver documents. In addition, the CTC currently administers – largely through contract – a total of **5 different educator exams** for approximately **103,000 educators** annually. In addition, monitors the assignments of educators and reports the findings to the Legislature.

In addition, the CTC must review and take appropriate action on misconduct cases involving credential holders and applicants resulting from criminal charges, reports of misconduct by local educational agencies, and misconduct disclosed on applications. In 2010-11, the CTC received new reports from all these sources. Upon review, the CTC opened and established jurisdiction for 5,400 cases. During 2010-11, the CTC completed disciplinary review for 4,892 cases.

Lastly, the CTC is responsible for accrediting **261 approved sponsors of educator preparation programs,** including largely public and private institutions of higher education and, local educational agencies in California. (Of this total, there are 23 California State University programs;

8 University of California programs; 55 private college and university programs; 172 local educational agency programs; and 3 other sponsors.)

Special Funds & Fees. The CTC is a "special fund" agency whose state operations are supported by two special funds -- the Test Development and Administration Account (0408) and the Teacher Credentials Fund (0407). Of the CTC's $18.8 million state operations budget in 2011-12, about 76 percent is supported by credential fees, which are a revenue source for the Teacher Credentials Fund; the remaining 24 percent is supported by educator exam fees, which fund the Test Development and Administration Account, as follows:

- **Teacher Credentials Fund (Credential Fees).** The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. The current credential fee is $55, which is set in the annual budget, although statute authorizes a credential fee of up to $70. (See EC §44235.) Current law also requires, as a part of the annual budget review process, the Department of Finance to recommend to the Legislature an appropriate credential fee sufficient to generate revenues necessary to support the operating budget of the Commission plus a prudent reserve of not more than 10 percent.

In 1998-99, the credential fee was reduced in the budget act below statutory levels -- from $70 to $60 -- due to increases in the number of credential applications and resulting surpluses in the Teacher Credentials Fund. At this time, there was increased demand for teachers due to the new K-3 class size reduction program. The $15 loss in fees since 2000-01 equates to an annual loss of approximately $3 million for the CTC. (Every $5 in fees equates to approximately $1 million in revenues.)

In 2000-01, the fee was dropped further to $55 and has remained at this level since then. The volume of credential applications grew substantially from 2000-01. However, as indicated by the chart below, applications began decreasing in 2007-08 as the state economy slowed. In 2011-12, the number of credential applications dropped below 2000-01. The number of credential applications is projected to drop further in 2012-13.

	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13 Est**
Credential Applications Received	215,954	239,501	250,701	235,327	233,164	240,159	254,892	267,637	264,153	246,899	232,208	220,598	213,980
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,561	2,561	2,561	1,287	893	848	823
Total	**223,819**	**247,419**	**255,845**	**238,154**	**235,566**	**242,159**	**257,453**	**270,198**	**266,714**	**248,186**	**233,101**	**221,446**	**214,803**
Credential Processing Staff*	**82.1**	**83.2**	**77.4**	**71.2**	**60.6**	**65.2**	**66.8**	**75.9**	**69.1**	**68.9**	**68.4**	**68.4**	**61.4**
Credential Fees **	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$70**

***Certification Assignment and Waivers Division Staff**
****Individuals applying for a Certification of Clearance and then a first time Credential only pay one fee for the two documents, based on the current credential fee, i.e., $55 credential fee, $27.50 for Certificate of Clearance, $27.50 First Time Credential, then at 5 year renewal pay the full fee of $55.**

- **Test Development and Administration Account (Exam Fees).** The Test Development Administration Account is generated by various fees for exams administered by the CTC such as the California Basic Educational Skills Test (CBEST), the Reading Instruction Competence Assessment (RICA), and the California Subject Examination for Teachers (CSET), the California Teachers of English Learners (CTEL), and the California Preliminary Administrative Credential Examination (CPACE).

The CTC has statutory authority (EC § 44235.1) for reviewing and approving the examination fee structure, as needed, to ensure that the examination program is self-supporting. To determine fees for these testing programs, CTC staff projects the number of exams – based upon the most recent actual figures - and compares these figures with projected examination program costs.

In recent years, the number of examinations have been falling for the exam program overall. The CTC projects continuing declines in the number examinees for the exam program.

The CTC has made a number of adjustments in recent years based upon the demand for the various exams, as indicated by the table below. In 2005-06, the CTC raised fees by $6 for all exams, except the CBEST, in 2005-06. (Prior to this, fees had not been increased since 2001-02.) However, in 2007-08, the CTC reduced fees for most exams.

Summary of Fee Adjustments					
Candidate Fee	**2005-06**	**2007-08**	**2011-12**	**Proposed 2012-13**	**Change**
CBEST					
CBEST – Paper Based Test	--	-$10.00	--	--	-$10.00
CBEST – Computer Based Test	--	--	-$4.00	+$1.00	-$3.00
RICA					
RICA – Written Examination	+$6.00	-$10.00	+$35.00	+$6.00	+$37.00
RICA – Video Performance Assessment	+$6.00	-$10.00	--	+$41.00	+$37.00
CTEL	--		-$65.00	+$22.00	-$43.00
CSET	+$6.00	-$12.00	-$12.00	+$9.00	-$9.00
CPACE (Replaces the SLLA)	--	--	-$102.00	+$44.00	-$58.00

Source: Commission on Teacher Credentialing.

In January 2011, the CTC reviewed and approved changes in the exam fee structure which resulted in fee adjustments (increases and decreases) that went into effect in 2011-12.

At its March 2012 meeting, the CTC reviewed and approved fee increases for all of its major exams to take effect in 2012-13. These fee increases achieve the $500,000 in revenues from the Test Development and Administration Account proposed by the Governor in 2012-13.

Current Condition of Special Funds

The **Teacher Credential Fund** has been experiencing a loss of revenues since 2007-08, which has contributed to a widening gap between annual revenues from credentials and expenditures for credential activities. The CTC estimates a five (5) percent decrease in revenues for the Teacher Credential Fund in 2011-12 and an additional reduction of three (3) percent in 2012-13. The **Test Development and Administration Account** has also experienced declines in revenues in recent years, but has had healthy balances to cover expenditures. Continuing revenue declines for CTC's special funds, with some increased expenditure costs, resulted in a budget shortfall of **$2.3 million** in 2011-12. The CTC estimates a special fund shortfall of **$5 million** in 2012-13.

GOVERNOR'S BUDGET SUMMARY:

The Governor's Budget proposes **$45.4 million** for the total CTC's budget in 2012-13, providing an overall decrease of **$819,000.**

Summary of Expenditures (Dollars in Thousands)	2011-12	2012-13	$ Change	% Change
General Fund, Proposition 98	$26,191	$26,191	$0	0.0
Teacher Credentials Fund	15,022	14,650	-372	-2.4
Test Development & Adm. Account	4,654	4,207	-447	-9.6
Federal Trust Fund	--	--	--	--
Reimbursements	308	308	0	0.0
Total	**$46,175**	**$45,356**	**-$819**	**-1.8**
Full -Time Positions	**157.1**	**141.0**	**-16.1**	**-10.2**
Authorized Positions	**165.4**	**148.4**	**-17.0**	**-10.3**

The Governor proposes **$18.9 million** from the two special funds that support the CTC's state operations in 2012-13, reflecting an overall decrease of **$819,000 from 2010-11**. Specifically, the Governor proposes funding of **$14.7 million** from the Teacher Credentials Fund and **$4.2 million** from the Test Development and Administration Account in 2012-13. The Governor proposes to reduce authorized positions for CTC from 165.4 in 2011-12 to 148.4 in 2012-13, a reduction of 17 positions (10.3 percent).

The Governor proposes to continue **$26.2 million** from the General Fund (Proposition 98) and $.3 in Reimbursement from the Department of Education to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program. The Alternative Certification and Paraprofessional Teacher Training programs are included in the K-12 categorical flexibility program -- authorized through 2014-15 – that allows districts to use these funds for any educational purpose. The CTC does not receive any General Fund support for administration of these programs.

GOVERNOR'S BUDGET PROPOSALS: The Governor proposes the following actions to address a projected operating deficit of $5 million for the CTC in 2012-13:

1. **Budget Year Credentialing Fee Increases.** The Governor proposes to increase teacher credentialing fees in 2012-13 by $15 -- from $55 to $70 – to generate **$3.0 million** in additional revenue for the Teacher Credential Fund. The Governor's proposal continues the existing credential fee structure, which would charge the full $70 fee to all credential renewals and some first time credentials, but would charge a half-fee of $35 for the Certificate of Credential and first time credentials for new teachers.

Background: Consistent with current statute, Governor proposes budget bill language that authorizes the Commission to charge up to $70 for the issuance or renewal of a teaching credential in 2012-13.

The Teacher Credentials Fund has a structural imbalance and operating deficit, due to the lack of fund reserves**.** The Governor's proposed $15 fee increase in 2012-13 and proposed transfer of $1.5 million from the Test Development and Administration Account in 2011-12 address current and budget year cash shortfalls, but do not provide prudent reserves for the fund. Per the Governor's proposal, the Teacher Credentials Fund would end the year with a negative **reserve** in 2012-13. In addition, the Governor's proposed fee increase does not address a projected fund imbalance of $266,000 in 2013-14. (Every $5 increase in the credential fee generates about $1 million in additional revenues.)

The Governor proposes to continue budget bill language that allows the Department of Finance to authorize a fund transfer from the Test Development and Administration Account due to an operating deficit in the Teacher Credentials Fund. The Department of Finance must notify the Joint Legislative Budget Committee of its intent to authorize the fund transfer.

2. **Budget Year Exam Fee Increases.** The Governor proposes to increase testing fees in 2012-13 to generate **$500,000** of additional revenue for the Test Development and Administration Account.

Background: Consistent with its statutory authority, the CTC recently approved fee increases for educator exams to achieve the $500,000 in additional revenues proposed by the Governor in 2012-13.

Candidate Fee	Current Fee 2011-12	Proposed Fee Structure 2012-13
CBEST		
CBEST – Paper Based Test	$41.00	$41.00
CBEST – Computer Based Test	$101.00	$102.00
RICA		
RICA – Written Examination	$165.00 [1/]	$171.00
RICA – Video Performance Assessment	$130.00	$171.00
CTEL	$238.00	$260.00
CSET	$198.00	$207.00
CPACE (Replaces the SLLA)	$383.00 [2/]	$427.00

[1/]The increase in the examination is the result of the transition of this examination to a computer based examination only. The service fee charged to the candidate to administer this on-demand exam is similar to the fee charged for the CBEST computer based examination.
[2/] The Commission did not receive any funds from the SLLA administered by the Educational Testing Services.

The Test Development and Administration Account has very healthy reserves, even with the proposed $2.3 million fund transfer to the Teacher Credentials Fund in 2011-12. Per the Governor's proposals, the Test Development and Administration Account would end the 2012-13 year with a **46 percent reserve**.

3. Budget Year Staff Reductions Other Savings. The Governor proposes to decrease state operations by **$1.5 million** in 2012-13 as a result of: (1) eliminating 13 vacant positions and eliminating 4 existing positions to reflect operational efficiencies generated by streamlining the teacher preparation and credentialing processes and (2) achieving operational savings from reduced information technology costs. **The Governor also proposes budget bill language requiring the CTC work with the State Board of Education to identify ways to streamline the teacher preparation and credentialing process.**

Background: The Governor proposes to eliminate a total of 17 positions within three of CTC's four agency divisions in 2012-13, as described in the table below, for a savings of **$1.0 million.** The Governor does not propose to eliminate any positions within the Division of Professional Practices, which is charged with review, investigation, and discipline of teacher misconduct. The CTC currently has approximately 22.5 vacant positions. The Governor's proposal would eliminate 13 of these vacant positions (retaining 5.5 vacant positions – of these positions 3 positions have been redirected to address the workload in the Division of Professional Practices) and eliminate four (filled) other positions to align reductions with CTC workload.

Division/Position	Total Positions
Administrative Division:	**1.0**
Office Assistant – General	(1.0)
Certification, Assignment & Waivers Division	**7.0**
Associate Governmental Program Analyst	(2.0)
Staff Services Analyst – General	(1.0)
Office Technician Typing	(1.0)
Office Assistant – General	(3.0)
Professional Services Division:	**9.0**
Consultant – Teacher Preparation	(4.0)
Staff Services Analyst – General	(1.0)
Office Assistant – General	(4.0)

The Governor also proposes to capture **$500,000** in savings resulting from information technology contract costs specific to 2011-12 activities that will not continue into 2012-13.

Current Year Fund Transfer. The Governor proposes to provide a **$1.5 million** loan in 2011-12 from the Test Development and Administration Account to the Teacher Credentials Fund to address the CTC's current operations shortfall. The Governor's January budget originally proposed a $2.3 million loan in 2011-12. The Governor's latest budget proposal lowered the loan amount to $1.5 million, in part, due to a reduction in expenditures from an additional $550,000 in salary savings in 2011-12.

Background: As a result of a current operating deficit in the Teacher Credentials Fund, in February 2012, the CTC submitted a request to the Department of Finance (DOF) to transfer **$2.3 million** from the Test Development and Administration Account to the Teacher Credentials Fund in 2011-12 – consistent with the Governor's original budget proposal. The budget act provides authority for fund transfers from the Test Development and Administration Account to the Teacher Credentials Fund when insufficient funds are available – pending approval by the Department of Finance. On March 15, 2012, the DOF notified the Joint Legislative Budget Committee of its intent to approve a fund transfer of **$1.5 million** – consistent with the Governor's latest proposal -- within thirty days.

Special Fund Condition Reflecting the Governor's Budget Proposals. The CTC has prepared a revised Fund Condition Summary that reflects both updated revenue projections and the Governor's 2012-13 budget proposals, which have the effect of increasing fee revenues and reducing expenditures. For the Teacher Credentials Fund, CTC projects a negative fund balance of $235,000 in 2012-13 and $501,000 in 2013-14. For the Test Development and Administration Account, the CTC projects healthy fund balances of $1.9 million in both 2012-13 and 2013-14.

FUND CONDITIONS
(As of March 15, 2012)

TEACHER CREDENTIALS FUND (TCF)

	2010-11 (Actual)	**2011-12 [2/3/] (Estimated)**	**2012-13 [2/3/] (Proposed)**	**2013-14 [2/3/] (Proposed)**
Beginning Balance	$3,380,000	$1,347,000	$31,000	-$235,000
Revenues	12,344,000	11,724,000	14,404,000	14,404,000
TDAA Transfer	0	1,500,000		0
Expenditures/ Appropriation	-14,377,000	-15,090,000	-14,670,000	-14,670,000
Ending Balance	**$1,347,000**	**$31,000**	**-$235,000**	**-$501,000**[1/]
Reserve %	*9.4%*	*0.2%*	*-1.6%*	*-3.4%*

[1/] This assumes the Commission fully expends all resources each fiscal year. Historically, this has not occurred.
[2/] Assumes a 5% decrease in credential revenue from FY 2010-11, based on 2nd quarter data from Certification, Assignment and Waivers Division. FY 2012-13 assumes a 3% decrease in credential revenue from FY 2011-12.
[3/] FY 2011-12 reflects a Credential Fee (Renewals) of $55 and First Time Credential and Certificate of Clearance at $27.50. FY 2012-13 reflects a Credential Fee of $70 and First Time Credential and Certificate of Clearance at $35.

TEST DEVELOPMENT AND ADMINISTRATION ACCOUNT (TDAA)

	2010-11 (Actual)	2011-12 (Estimated)	2012-13 [1/] (Proposed)	2013-141 [1/] (Proposed)
Beginning Balance	$5,270,000	$4,705,000	$2,741,000	$2,739,000
Revenues	4,245,000	4,211,000	4,211,000	4,211,000
TCF Transfer	0	-1,500,000	0	0
Expenditures/ Appropriation	-4,810,000	-4,675,000	-4,213,000	-4,213,000
Ending Balance	**$4,705,000**	**$2,741,000**	**$2,739,000**	**$2,737,000**
Reserve %	*97.8%*	*58.6%*	*65.0%*	*65.0%*

[1/] This reflects an increase of $500,000 in TDAA examination revenues that is proposed in the 2012-13 Governor's Budget.

LAO RECOMMENDATIONS: The LAO recommends that the Subcommittee address the CTC's budget shortfall by adopting Governor's proposals to (1) increase credentialing and tests fees and (2) defund 17 positions. Modify transfer to the Teacher Credentialing Fund (TCF) by an additional $250,000 for the current year. Also recommend (1) making a small, additional transfer from the TDAA to the TCF in 2012-13 and (2) directing CTC to explore additional options for raising revenue from alternative fund sources and achieving greater efficiencies.

STAFF COMMENTS:

- **CTC Guidelines for Budget Development in 2012-13**. On November 3, 2011, the Commission adopted the following principles to guide budget development in 2012-13.

  1. Maintain the core essential functions of the agency with no additional reductions.
  2. Establish a credential fees that ensures the fiscal solvency of the agency, not to exceed $100.
  3. Minimize the fiscal impact to first time teachers.
  4. Assess the viability of charging late fees for expired credential documents and charging teacher preparation programs sponsors for accreditation responsibilities above the traditional accreditation system activities.
  5. Minimize the fiscal impact to new educators, taking required exams, by having the credential fees subsidize partially the examination system expenses.

- **CTC Concerned about Impact of Governor's Proposed Staff Reductions on Core Functions**. The CTC believes the reduction of 17 positions is significant and jeopardizes the Commission's ability to sustain several core functions. According to the Commission, it will have difficulty in maintaining all existing operations or take on any new work. While there has been a decline in credential applications, according to CTC "most" of the agency's statutory workload is not sensitive to volume applications. For example, while the number of students in teacher credentialing programs has declined, the number of programs has remained constant. The CTC is still responsible for accrediting 261 sponsors of educator preparation, and these numbers continue to increase slowly.

- **Implementation Status of Bureau of State Audits (BSA) Recommendations.** On April 7, 2011 the California State Auditor issued a report entitled "Despite Delays in Discipline of Teacher Misconduct, the Division of Professional Practices has not Developed an Adequate Strategy or Implemented Processes That Will Safeguard Against Future Backlogs".

The Division of Professional Practices conducts investigations of misconduct on behalf of the Committee of Credentials – a commission appointed body. The committee meets monthly to review allegations of misconduct and, when appropriate, recommends that the commission discipline credential holders or applicants, including revoking or denying credentials when the committee determines holders or applicants are unfit for the duties authorized by the credential.

Overall, the BSA Audit found that the CTC revealed weaknesses in the educator discipline process and in hiring policies and practices. **Key findings** from the audit include the following:

1. As of the summer of 2009, according to the commission's management, the Division of Professional Practices had accumulated a backlog of 12,600 unprocessed reports of arrest and prosecution (RAP sheets)—almost three times a typical annual workload.

2. The large backlog of unprocessed reports appears to have significantly delayed processing of alleged misconduct by the Division of Professional Practices and potentially allowed educators of questionable character to retain a credential.

3. The Division of Professional Practices has not effectively processed all the reports of arrest and prosecution that it receives. A review of randomly selected reports could not be located within the CTC's database. Further, the division processes reports it no longer needs.

4. To streamline the committee's processing of pending cases, the Division of Professional Practices uses its discretion to close cases or not open cases for which it believes the committee would choose not to recommend disciplinary action against the credential holder. However, the BSA did not believe the committee can lawfully delegate this discretion to the division.

5. The Division of Professional Practices lacks comprehensive written procedures for reviewing reported misconduct and the database it sues for tracking cases of reported misconduct does not always contain complete and accurate information.

6. Familial relationships among commission employees may have a negative impact on employees' perceptions and without a complete set of approved and consistently applied hiring practices, the CTC is vulnerable to allegations of unfair hiring and employment practices.

The BSA Audit made numerous **recommendations** to the CTC including that it develop and formalize comprehensive procedures for reviews of misconduct and for hiring and employment practices to ensure consistency. The Audit also recommended that the CTC provide training and oversight to ensure that case information on its database is complete, accurate, and consistent.

Moreover, the BSA Audit provided specific recommendations for the CTC to revisit its processes for overseeing investigations to adequately address the weaknesses in its processing of reports of misconduct and reduce the time elapsed to perform critical steps in the review process.

The CTC has submitted the 60 day and 6 month reports to the BSA, as well as attended an informational hearing with the JLAC committee to provide an update to members on the progress of addressing the findings from the report. In addition, the CTC has met with the BSA to provide an update on the progress of addressing the findings from the audit. CTC will provide a one-year report, which is due to the BSA on April 6, 2012.

- **Status of Discipline Cases – Focus of BSA Audit.**

The CTC Division of Professional Practices is charged with investigation and discipline of misconduct for credential candidates and holders. The BSA Audit found that the division had a cumulative backlog of approximately 12,600 unprocessed reports in the summer of 2009 – largely Reports of Arrest and Prosecution (RAP) from by the California Department of Justice. According to CTC, this cumulative backlog of RAPs was completely addressed and there is no outstanding backlog of these RAP documents.

With regard to teacher misconduct reports, the CTC reports that all current teacher misconduct reports are in process within statutory guidelines. Currently, the CTC has 3,157 open cases. Of the open cases, staff identified 53 to close. An additional 74 cases involve criminal diversion and the case is being tracked through the criminal diversion process. Of the open cases, 392 are being tracked through the criminal justice system to see if a criminal conviction will result in the mandatory revocation of all credential. (Mandatory revocation offenses include sex offenses, drug offenses and some serious and violent felonies.) For 1,610 of the cases, CTC staff is in the process of collecting information and preparing documentation to submit a case to the Committee of Credentials. (The Committee is determines whether there is probable cause to take a disciplinary action against a license.) Another 668 cases are in some stage of review by the Committee. And 360 cases have completed the proceedings before the Committee and are before the CTC for a final action, or are on appeal, on probation, or on a mental health suspension.

The Governor does not propose any staffing changes to the Division of Professional Practices to assure the CTC can continue to stay current with all discipline cases. Additionally, the CTC took action at its March 2012 meeting to streamline CTC actions on single alcohol offenses. This action will reportedly result in an approximately 28 percent reduction in the Consent Calendar considered by the Committee of Credentials.

New Misconduct Reports from LAUSD. As a part of a new initiative, the Los Angeles Unified School District (LAUSD) filed with the CTC 250 reports of alleged misconduct by teachers, as of March 21, 2012. These cases were sent beginning on February 22, 2012. Based on CTC legal staffs' assessment of 174 cases, approximately 25 percent of the reports filed by LAUSD will be closed for lack of jurisdiction. The Commission also reviewed a sample of 30 cases to determine the nature of the alleged misconduct cases. Of those 30 cases, 50 percent involved physical abuse of a student, another 25 percent involved inappropriate touching, sexually harassing comments, or inappropriate relationship with a student. Nine staff began working overtime in early March to handle the extra workload in the Intake unit. While it is not fully known, the CTC estimates that the LAUSD's search for unreported cases of misconduct may yield a total of 400 or more cases for review by the Commission. CTC has redirected three positions to address the workload and oversight of the division.

- **Credential Processing within Statutory Timeframes.** The CTC eliminated the credentialing backlog in 2007-08 due to substantial efficiencies achieved largely through the conversion of a paper application process to an on-line application process for both credential renewals and some new applications. In addition, past budgets redirected additional staffing resources to address the credentialing backlog. Chapter 133; Statutes of 2007, revised the application processing time from 75 working-days to 50 working-days effective January 1, 2008. CTC has continued to maintain this processing within this time limit. According to CTC, 80 percent are being processed on-line within 10 working days. The other 20 percent of applications are processed within the required 50-working day processing time.

- **Credential Processing Workload Reports –** Provisional language in the annual budget act requires the CTC to submit quarterly reports to the Legislature, the Legislative Analyst's Office and the Department of Finance on the minimum, maximum, and average number of days taken to process the following:

  - ✓ Renewal and university-recommended credentials
  - ✓ Out-of-state and special education credentials
  - ✓ Service credentials and supplemental authorizations
  - ✓ Adult and vocational education certificates and child center permits, and
  - ✓ Percentage of renewals and new applications completed online

  This provisional language was added to the budget in 2004-05 in order to provide updates to the Legislature, the Legislative Analyst's Office, and the Department of Finance on the credential processing time workload. During this time, the credential processing time was at an all-time high of 210 working days to issue a credential. The Commission has been responsive to the request and has provided updates as required.

STAFF RECOMMENDATIONS: Approve the Governor's budget proposals for the CTC with the following modifications:

1. Adopt placeholder budget bill language to provide for the <u>transfer</u> of up to **$235,000** from the Test Development and Administration Account to the Teacher Credentials Fund in 2012-13. Budget bill language will require this transfer, as necessary, to address any 2012-13 shortfall in the Teacher Credentials Fund. This transfer will require approval by the Department of Finance, with notification to the Joint Legislative Budget Committee.
2. Adopt placeholder budget bill language to <u>streamline</u> existing quarterly reports to the Legislature on the status of educator credential applications (and any backlog); and to <u>add</u> periodic reports to the Legislature on the status of educator misconduct reports (and any backlogs).

SUGGESTED QUESTIONS:

1. The latest Fund Condition Summary predicts a shortfall for the Teacher Credentials Fund in 2012-13 and 2013-14, even if all of the Governor's proposals are adopted. What options will the CTC have for addressing this shortfall?

2. To what extent are reserves from the Test Development and Administration Account being viewed as future offsets to operating deficits in the Teacher Credentials Fund?

3. What is the impact of credential fee increases and exam fee increases on candidates?

4. What impact will the elimination of 17 positions ($1.0 million) proposed by the Governor have on the CTC's core functions?

a. Are there core functions that the CTC will no longer be able to provide? If so, can CTC identify other state operations savings to achieve the $1.0 in staff reductions proposed by the Governor?

b. If staff reductions of this level are necessary, will CTC have the flexibility to reallocate positions to meet workload over time?

c. What is your current vacancy rate at the CTC? How do the vacancies align with the proposed 17 position reduction identified in the Governor's Budget?

5. The Governor proposes budget bill language that requires the CTC to work with the State Board of Education to identify ways to streamline the teacher preparation and credentialing process. What's the Administration's intent with this language?

6. How is the Division handling the fitness review of educators addressing the reported new discipline workload sent by LAUSD?

   a. How many of these cases merit further action – beyond an initial review -- by the CTC?
   b. What is the timeframe for review of these cases? Is this a current year or multi-year workload for the Division?
   c. Does CTC expect an increase in misconduct reports from other local educational agencies in the coming year?

7. Are there any outstanding BSA recommendations that have not been implemented to date? If so, what is the status of these issues? Will the Governor's proposed staffing reductions affect the resolution of any of these issues?

8. Per current law, the Commission has authority to set exam fees, but not credential fees. What is the history for this different authority? Has the CTC ever considered a price inflator for credential fees to reflect annual cost increases for the statutory fees?

9. What authority does the CTC have for charging accreditation fees for the 261 teacher preparation programs in California? Do these teacher preparation programs typically pay fees to other accreditation agencies, such as WASC or NCATE?

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Thursday, March 22, 2012
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

Consultant: Kim Connor

OUTCOMES

ISSUE #3 –Page 21

Public Comment

6110 Department of Education

ISSUE 1. State Special Schools – Governor's Budget Proposal

DESCRIPTION: The Governor proposes an unallocated reduction of **$1.8 million** in Non-98 General Funds to the state operations budget for the State Special Schools in 2012-13. The Governor proposes that, to the extent possible, the $1.8 million in savings be achieved by reducing discretionary deferred maintenance projects. The Governor's proposal is intended to achieve General Fund savings. The Governor's proposal would reduce funding for the three residential state schools located in Freemont and Riverside and does not affect the three state diagnostic centers.

BACKGROUND:

The California Department of Education administers the State Special Schools, which includes a total of six facilities under its jurisdiction -- three residential schools and three diagnostic centers. The residential schools include the Schools for the Deaf in Riverside and Fremont and the School for the Blind in Fremont. The state diagnostic centers are regionally located in Fresno, Fremont, and Los Angeles. These state facilities comprise a total of 960,000 gross square feet on 176 acres of land.

State Special School Enrollments	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
School for the Deaf, Riverside	484	449	430	443	412	424	408	420
School for the Deaf, Fremont	473	490	485	484	414	455	462	465
School for the Blind, Fremont	85	88	85	89	71	79	78	76
TOTAL	**1,042**	**1,027**	**1,000**	**1,016**	**897**	**958**	**948**	**961**

Students attending state schools are served in residential or day programs. The two Schools for the Deaf provide instructional programs to approximately 885 students who are deaf and the California School for the Blind provides instructional programs for approximately 76 students who are blind, visually-impaired, or deaf-blind in 2011-12.

The three diagnostic centers administer assessments to approximately 1,500 students per year and provide training to 31,000 educators annually. Of the 1,500 annual assessments, approximately 250 take place at the three centers; the remaining 1,250 are considered "field" assessments, which take place within local education agencies.

GOVERNOR'S BUDGET SUMMARY:

The Governor's budget proposes total General Fund support of **$81.5 million** for the state's three special schools in 2012-13. Of this amount, **$48.3 million** is provided in Proposition 98 General Fund and **$33.3 million** is provided by Non-98 General Fund. The state schools are also projected to receive $3.9 million in federal transportation funds. The Governor's budget also reflects an estimated **$6.4 million** in reimbursements from local school districts to the state schools. There are currently a total of **1,080 authorized positions** for the special schools and diagnostic centers.

State Special Schools - Summary of State Funding

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Non-Proposition 98 GF (005)	$38,081,000	$34,640,000	$34,334,000	$34,983,000	$34,527,000	$33,259,000
Proposition 98 GF (006)	45,759,000	41,462,000	44,138,000	46,105,000	47,496,000	48,228,000
Student Transportation (008)	2,506,000					
Public Transportation Acct. (008)		4,068,000				
IDEA (Transportation) (161)			3,894,000	3,894,000	3,894,000	3,894,000
Reimbursements	6,073,000	6,210,000	6,390,000	6,375,000	6,385,000	6,411,000
Total Governors Budget	**$92,419,000**	**$86,380,000**	**$88,756,000**	**$91,357,000**	**$92,302,000**	**$91,792,000**
Positions	**1,008.4**	**1,008.4**	**1,008.4**	**1,008.4**	**1,008.4**	**1,008.4**

This table does not reflect funding for the three state diagnostic centers. The Governor's budget proposes **$12.5 million** in Proposition 98 funding for the centers in 2012-13. In addition, the proposed budget estimates an additional $3.9 million in reimbursements from local school districts.

GOVERNOR'S BUDGET REDUCTION PROPOSAL. The Governor proposes to reduce the General Fund (Non-98) budget for the three residential state schools by a total of **$1.8 million** in 2012-13. As reflected in budget bill language, the Governor specifies that this reduction shall, to the extent possible, be achieved by reducing discretionary deferred maintenance projects. As such, the Governor proposes an unallocated reduction in 2012-13.

The Governor does not propose a reduction to the Proposition 98 General Fund portion of the budget for the three state schools. The Governor also does not propose to reduce funding for the three state diagnostic centers, which receive Proposition 98 General Fund appropriations.

Operational Efficiency Reductions in 2011-12. The Department of Education received an "operation efficiency" reduction of **$3.369 million** pursuant to Control Section 3.91 of the 2011-12 budget act. Operation efficiency reductions were applied to all state agency budgets and constitute ongoing cuts. The Department was required to submit an operation efficiency reduction plan to the Department of Finance to implement the reduction. The Department's plan included a **$1.5 million** (4.3 percent) reduction for the state schools in 2011-12.

Other Budget Reductions Since 2007-08. State funding for the State Special Schools was reduced by a total of **$9.2 million** in 2008-09, including $3.8 million in Non-98 General Fund and $5.1 million Proposition 98 General Fund. This one-time reduction was backfilled by $9.2 million in federal special education funds.

LAO RECOMMENDATIONS: The LAO recommends adoption of the Governor's $1.8 million reduction to State Special Schools Non-Proposition 98 funding. Given the reductions that school districts have taken over the past five years, there is a rationale for making comparable reductions to the State Special Schools budget. The LAO would have concerns, however, with the reduction being implemented entirely on the schools' deferred maintenance budget. In the long run, this could result in higher state costs if repairs become more expensive repairs or the facility needs to be replaced.

STAFF COMMENTS:

- **Preliminary Plan for Implementing Governor's Proposed Reductions**. The CDE State Special Schools Division has not developed a final, specific plan for implementing the Governor's $1.8 million unallocated reduction, and development of such a plan will take additional time. However, the State Special Schools Division has identified a general, preliminary plan for implementing the Governor's cuts based on input from each of the three schools. This preliminary plan includes:
    - **$900,000** in savings from postponement of deferred maintenance projects slated for 2012-13.
    - **$900,000** in reductions for student services at each of the three schools, including consolidation of residential dorms; and reduction of summer school programs, counseling services, assessment services, maintenance/groundskeeping/custodial services, and security services.
- **Impact of Combined Cuts on Total Budget for State Schools.** The $1.5 million (4.3 percent) operational efficiency reduction in 2011-12, together with the Governor's proposed $1.8 million reduction in 2012-13, brings total Non-98 General Fund cuts to $3.3 million, or 9.3 percent, for the state schools in 2012-13. When calculated as a part of total Prop 98 and Non-98 General Fund, this $3.3 million reduction translates to a **4.0 percent** reduction for the state schools in 2012-13. In comparison, local education agencies are facing ongoing reductions of 9.2 percent for their basic revenue limit apportionments.

- **Local Educational Agency Payments.** Education Code §59300 provides that the district of residence of the parent or guardian of any pupil attending a state-operated school – excluding day pupils – pay the school of attendance 10 percent of the excess annual cost of education of each pupil attending a state-operated school. The Governor proposes a total of **$6.4 million** in reimbursements from local school districts to the state schools in 2012-13. In addition, the Governor's budget estimates $3.9 million in reimbursements from local school districts to the state diagnostic centers in 2012-13.
-

Local District Reimbursements	2011-12	2012-13
State Special Schools	$6,400,000	$6,400,0000
State Diagnostic Centers	$3,900,000	$3,900,000
Total,	**$10,300,000**	**$10,300,000**

- **State Funding Split.** The three state schools are funded as state operations items in the annual budget act by both Proposition 98 and Non-98 General Fund sources, as follows:
  - ✓ **Non-Proposition 98 General Fund (6110-005-0001)** which includes all non-instructional activities required for students such as food services staff, nursing staff, residential staff, counselors, and psychologists. It also includes funding for plant operations (repairs, maintenance, custodial, grounds), business services, admissions, outreach, and after-school programs.
  - ✓ **Proposition 98 General Fund (6110-006-0001)** includes all instructional staff and programs (teachers, teacher specialists, and administrative staff overseeing instructional programs).

  The three diagnostic centers are funded entirely through Proposition 98 General Fund, also included in item 6110-006-0001 of the budget act.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee hold this item open pending May Revise. In the interim, staff makes two additional recommendations:

1. Staff recommends that the State Special Schools develop a specific implementation plan for achieving the Governor's $1.8 million reduction and submit that plan to the Subcommittee by April 30, 2012. The plan should identify any savings for "discretionary" deferred maintenance projects, per the Governor's budget language, and if necessary, other savings necessary to achieve the full $1.8 million proposed by the Governor.

2. Staff recommends that CDE explore possible savings options for the State Special Schools that do not affect the instruction and support for students attending the State Special Schools, including:

   - Identification of available federal special education carryover funds that could be used to backfill the Governor's proposed reductions in 2012-13.
   - Assessment of local educational agency reimbursements for pupils attending the State Special Schools and options for increasing those charges.
   - Evaluation of alternative savings for the state diagnostic centers, including an increase in the charges to local educational agencies for providing these state assessments.
   - Review of state laws and policies to explore consolidating state funding for the State Special Schools within Proposition 98 and eliminating Non-98 General Funds.

SUGGESTED QUESTIONS:

1. The Governor's $1.8 million reduction proposal in 2012-13 is intended to have the State Special Schools participate in budget reductions for K-12 education. How do recent and proposed reductions for the State Special Schools compare to recent, ongoing cuts for K-12 local assistance programs?

2. The Governor's proposal requires the proposed $1.8 million reduction in 2012-13 to be taken from discretionary deferred maintenance projects, to the extent possible. What is the

total deferred maintenance budget for the state special schools in 2012-13? What projects could the state schools possibly defer in 2012-13?

3. The three state special schools incurred $1.5 million in funding reductions as a part of an operational efficiency plan pursuant to Control Section 3.91 of the 2011-12 budget act. What was the total reduction assigned to the Department of Education and what was the proportional reduction for the state schools? What process did the Department utilize in allocating cuts to the state schools?

4. How did the state special schools achieve the $1.5 million reduction in 2011-12? How did that reduction affect the deferred maintenance funding for the state schools?

5. Why is funding for the state schools split between Proposition 98 and Non-98 General Fund? Is there a reason that the state schools could not be funded entirely with Proposition 98 funds?

6. How does CDE calculate the "excess costs" for purposes of school district payments for pupils attending state special schools?

ISSUE 2. School Facilities Program - Governor's Budget Proposals

DESCRIPTION: The Governor proposes to shift existing School Facilities Program bond authority for the Overcrowding Relief Grant Program to the New Construction Program and to regulate the allocation of new construction and modernization funds to ensure continued construction of new classrooms and modernization of existing classrooms. Per the Administration, these proposed actions will delay local authority to impose a third level construction fee while continuing construction of new classrooms using bond proceeds, fee revenues, and local funds.

BACKGROUND:

There are three state statewide general obligation bond acts – as approved by state voters – that have remaining funds for K-12 school facilities. In total, **$1.181 billion** remains available for school facilities from these bond acts. The following table displays total funds authorized for each of these three bond act, as wells as amounts expended and amounts remaining as of March 2012.

State Approved Bond Acts	Amount Authorized	Amount Expended (Includes Unfunded Approvals)	Amount Remaining
Prop 1D (2006)	$7,357,500,000	$6,422,200,000	$935,300,000
Prop 55 (2004)	10,022,500,000	9,823,900,000	198,600,000
Prop 47 (2002)	11,400,000,000	11,352,800,000	47,200,000
TOTAL	**$28,780,000,000**	**$27,598,900,000**	**$1,181,100,000**

Proposition 1D.

AB 127 (Nunez and Perata), the Kindergarten-University Public Education Facilities Bond Act of 2006, authorized Proposition 1D a statewide general obligation bond proposal for $10.4 billion. Proposition 1D, approved by the voters in November 2006, provided $7.3 billion for K-12 education facilities and allocated specified amounts from the sale of these bonds for modernization, new construction, charter schools, career technical education facilities, joint use projects for new construction on severely overcrowded schoolsites, and high performance incentive grants to promote energy efficient designs and materials. In addition, portions of the amounts allocated for new construction and modernization were authorized for purposes of funding smaller learning communities and high schools and for seismic retrofit projects.

Overcrowded Relief Grant (ORG) Program.

Proposition 1D established the Overcrowded Relief Grants Program within the School Facility Program and provided $1 billion for school districts with overcrowded school sites to build new permanent facilities. As with other new construction projects, districts are required to match the state's contribution toward the project costs (fifty percent). To be eligible for a relief grant, districts must have at least one overcrowded school (defined as at least 175 percent of the state recommended pupil density). The size of the relief grant is based on the number of pupils in portable classrooms at eligible schools. As a condition of receiving a relief grant, school districts are required to replace portable classrooms with new permanent classrooms, remove portable classrooms from overcrowded schools, and reduce the total number of portable classrooms in the district. (Education Code 17079-17079.30).

GOVERNOR'S BUDGET PROPOSALS: The Governor proposes statutory changes for the state School Facilities Program, as a part of the 2012-13 budget, as follows:

1. **Regulation of Remaining Bond Authority**. Requires the State Allocation Board (SAB), upon enactment of the Budget Act of 2012, to apportion up to **$8.5 million** for new construction projects, and up to **$9 million** for modernization projects, per month at a board meeting. This provision shall not apply to new construction and modernization projects that receive unfunded approval by the board before enactment of the Budget Act of 2012.

2. **Prohibition of Funding for Overcrowding Relief Grants.** Prohibits the State Allocation Board from approving any projects pursuant to the Overcrowding Relief Grant program on or after June 30, 2012.

3. **Shift of Funds for Overcrowded Relief Grants to New Construction**. Transfers **$251.25 million** from Overcrowded Relief Grants to New Construction. More specifically, this proposal adjusts the amounts allocated under Proposition 1D by:

    a. Reducing the amount authorized for Overcrowded Relief Grants from $1.0 billion to $748.75 million.
    b. Increasing the amount authorized for New Construction from $1.9 billion to $2.15 billion.

STAFF COMMENTS:

- **Remaining Bond Funds.** The State Allocation Board has summarized the disposition of Proposition 1D funds – as of March 2012 -- in the table below. A total of **$935.3 million** in Proposition ID funds remain available for school facilities.

	Amount Authorized	Amount Expended (Includes Unfunded Approvals)	Amount Remaining
New Construction	$1,900,000,000	$1,680,000,000	$220,000,000
Modernization	3,300,000,000	2,904,100,000	395,900,000
Career Technical Education	500,000,000	496,700,000	3,300,000
High Performance Schools	100,000,000	39,300,000	60,700,000
Overcrowding Relief Grants	1,000,000,000	745,200,000	254,000,000
Charter Schools	500,000,000	500,000,000	--
Joint Use	57,500,000	56,900,000	600,000
Total	**$7,357,500,000**	**$6,422,200,000**	**$935,300,000**

- **Legislative Authority to Adjust Bond Amounts.** Proposition 1D also authorized the Legislature to adjust the amounts expended for each of the above programs, but prohibited the increase or decrease of the total amount to be expended pursuant to the Proposition. Adjustment of the funding requires legislative enactment of statute which is consistent with, and furthers the purposes of, Proposition 1D by a two-thirds membership vote of each house. In addition, amounts may be adjusted via a voter approved statute. (Education Code §101012).

- **New Construction Funds Will Be Depleted in Near Future.** As of March 2012, $220.0 million remains in new construction bond authority and $395.9 million remains in modernization authority. Based upon a typical processing timeline of applications and the average monthly drawdown on authority, new construction and modernization funds will be depleted by **Fall 2012.** More specifically, new construction funds will be depleted by **April 2012** and modernization funds would be depleted by **October 2012.**

  The Governor's proposal transfers funds and regulates or "meters" new construction allocations by limiting apportionment to no more than **$8.5 million** for new construction projects and **$9 million** for modernization projects, per month, per SAB meeting. Under the Governor's proposal, new construction allocations would continue through 2014.

  - **Governor Intent on Keeping School Facility Bond Program Viable.** According to the Administration, the Governor's proposals are intended to maintain the viability of the school construction program by (1) transferring funds from Overcrowded Relief Grants to new construction to reflect existing demand, and (2) metering the allocation of new construction funds to keep the program going through 2014, and thereby avoiding the trigger of Level III developer fees during this period.

  - **Trigger for Level III Developer Fees When Bond Funds Depleted.** Current statute (Government Code) authorizes three levels of developer fees that may be levied by school districts, as follows:

    ✓ Level I fees are assessed if the district conducts a Justification Study that establishes the connection between the development coming into the district and the assessment of fees to pay for the cost of the facilities needed to house future students.

    ✓ Level II fees are assessed if a district makes a timely application to the State Allocation Board for new construction funding, conducts a School Facility Needs Analysis, and satisfies at least two of the requirements listed in Government Code Section 65995.5(b)(3).

    ✓ Level III fees are assessed when State bond funds are exhausted and schools district may impose a developer's fee up to **100 percent** of the School Facility Program new construction project cost. In order to implement Level III developer fees the State Allocation Board must make a declaration of a "lack of funds" to provide apportionments to school facilities projects.

SAB Input on Governor's Proposals: The New Construction Subcommittee and the SAB provided the following recommendations regarding the Governor's school facilities proposals:

- **Overcrowded Relief Grant Transfer.** Most of the New Construction Subcommittee members and the SAB do <u>not</u> support.
- **Metering of Remaining Bond Authority.** The concept of metering the remaining bond authority through 2014 is supported by the New Construction Subcommittee. However, the SAB does not support.
- **Suspension of Level III Developer Fees**. Both the New Construction Subcommittee and the SAB support suspension of Level III developer fees until December of 2014.

STAFF RECOMMENDATION: Staff recommends that the Subcommittee keep this issue open until May Revise.

SUGGESTED QUESTIONS:

1. What's the State Allocation Board process for triggering Level III developer fees? What specific conditions have to be met? What is the likelihood that Level III developer fees will be triggered in the next year? Have Level III fees been triggered before?

2. Is there consensus between the Administration and the State Allocation Board that implementation of Level III developer fees would negatively impact the state economy? If triggered, how would these high level developer fees be felt in communities across the state?

3. Did the Administration consider legislation to statutorily prohibit Level III developer fees in 2012-13? Would the Administration support this as an alternative to metering?

4. What are the reasons the SAB does not support metering bond allocations? What other options has the SAB considered to preserve the program?

5. How would the SAB assess the district need for Overcrowded Relief Grants? How many districts are eligible for this funding? What impediments may exist for expending these funds?

6. Is the SAB considering another funding cycle for unspent Overcrowded Relief Grant funds in 2012-13? What is the likelihood that eligible districts will have funding requests for additional projects in construction or nearing completion in 2012-13?

7. Did the Administration consider shifting funds remaining from other categories of bond funds?

8. Would some districts benefit more than others as the result of the Governor's proposed transfer of Overcrowded Relief Grant funds to new construction? Who wins and who loses?

ISSUE 3: Commission on Teacher Credentialing – Governor's Budget Proposals

DESCRIPTION: The Governor proposes several changes to the Commission on Teacher Credentialing (CTC) budget in 2012-13 in order to address a projected operating deficit of $5 million. Specifically, the Governor proposes the following activities to address the 2012-13 budget shortfall: (1) increase in the teacher credentialing fees from $55 to $70, which restores fees to statutorily authorized levels and increases revenues by $3 million; (2) increase exam fees to generate $500,000 in additional revenues; (3) reduce state operations expenditures by $1.5 million through the elimination of 17 staff positions; and (4) provide an immediate $1.5 million loan in 2011-12 from the Test Development and Administration Account to the Teacher Credentials Fund.

BACKGROUND:

Major Responsibilities.

The Commission on Teacher Credentialing (CTC) is responsible for the following major, state operations activities, which are wholly supported by special funds:

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

In addition, the CTC administers three local assistance programs which are funded with Proposition 98 General Funds and federal reimbursement from the California Department of Education.

Major Activities.

The CTC currently processes **215,000 candidate applications** annually for 200 different credential and waiver documents. In addition, the CTC currently administers – largely through contract – a total of **5 different educator exams** for approximately **103,000 educators** annually. In addition, monitors the assignments of educators and reports the findings to the Legislature.

In addition, the CTC must review and take appropriate action on misconduct cases involving credential holders and applicants resulting from criminal charges, reports of misconduct by local educational agencies, and misconduct disclosed on applications. In 2010-11, the CTC received new reports from all these sources. Upon review, the CTC opened and established jurisdiction for 5,400 cases. During 2010-11, the CTC completed disciplinary review for 4,892 cases.

Lastly, the CTC is responsible for accrediting **261 approved sponsors of educator preparation programs,** including largely public and private institutions of higher education and, local educational agencies in California. (Of this total, there are 23 California State University programs;

8 University of California programs; 55 private college and university programs; 172 local educational agency programs; and 3 other sponsors.)

Special Funds & Fees. The CTC is a "special fund" agency whose state operations are supported by two special funds -- the Test Development and Administration Account (0408) and the Teacher Credentials Fund (0407). Of the CTC's $18.8 million state operations budget in 2011-12, about 76 percent is supported by credential fees, which are a revenue source for the Teacher Credentials Fund; the remaining 24 percent is supported by educator exam fees, which fund the Test Development and Administration Account, as follows:

- **Teacher Credentials Fund (Credential Fees).** The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. The current credential fee is $55, which is set in the annual budget, although statute authorizes a credential fee of up to $70. (See EC §44235.) Current law also requires, as a part of the annual budget review process, the Department of Finance to recommend to the Legislature an appropriate credential fee sufficient to generate revenues necessary to support the operating budget of the Commission plus a prudent reserve of not more than 10 percent.

In 1998-99, the credential fee was reduced in the budget act below statutory levels -- from $70 to $60 -- due to increases in the number of credential applications and resulting surpluses in the Teacher Credentials Fund. At this time, there was increased demand for teachers due to the new K-3 class size reduction program. The $15 loss in fees since 2000-01 equates to an annual loss of approximately $3 million for the CTC. (Every $5 in fees equates to approximately $1 million in revenues.)

In 2000-01, the fee was dropped further to $55 and has remained at this level since then. The volume of credential applications grew substantially from 2000-01. However, as indicated by the chart below, applications began decreasing in 2007-08 as the state economy slowed. In 2011-12, the number of credential applications dropped below 2000-01. The number of credential applications is projected to drop further in 2012-13.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 Est
Credential Applications Received	215,954	239,501	250,701	235,327	233,164	240,159	254,892	267,637	264,153	246,899	232,208	220,598	213,980
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,561	2,561	2,561	1,287	893	848	823
Total	**223,819**	**247,419**	**255,845**	**238,154**	**235,566**	**242,159**	**257,453**	**270,198**	**266,714**	**248,186**	**233,101**	**221,446**	**214,803**
Credential Processing Staff*	**82.1**	**83.2**	**77.4**	**71.2**	**60.6**	**65.2**	**66.8**	**75.9**	**69.1**	**68.9**	**68.4**	**68.4**	**61.4**
Credential Fees **	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$70**

***Certification Assignment and Waivers Division Staff**
****Individuals applying for a Certification of Clearance and then a first time Credential only pay one fee for the two documents, based on the current credential fee, i.e., $55 credential fee, $27.50 for Certificate of Clearance, $27.50 First Time Credential, then at 5 year renewal pay the full fee of $55.**

- **Test Development and Administration Account (Exam Fees).** The Test Development Administration Account is generated by various fees for exams administered by the CTC such as the California Basic Educational Skills Test (CBEST), the Reading Instruction Competence Assessment (RICA), and the California Subject Examination for Teachers (CSET), the California Teachers of English Learners (CTEL), and the California Preliminary Administrative Credential Examination (CPACE).

The CTC has statutory authority (EC § 44235.1) for reviewing and approving the examination fee structure, as needed, to ensure that the examination program is self-supporting. To determine fees for these testing programs, CTC staff projects the number of exams – based upon the most recent actual figures - and compares these figures with projected examination program costs.

In recent years, the number of examinations have been falling for the exam program overall. The CTC projects continuing declines in the number examinees for the exam program.

The CTC has made a number of adjustments in recent years based upon the demand for the various exams, as indicated by the table below. In 2005-06, the CTC raised fees by $6 for all exams, except the CBEST, in 2005-06. (Prior to this, fees had not been increased since 2001-02.) However, in 2007-08, the CTC reduced fees for most exams.

Summary of Fee Adjustments					
Candidate Fee	**2005-06**	**2007-08**	**2011-12**	**Proposed 2012-13**	**Change**
CBEST					
CBEST – Paper Based Test	--	-$10.00	--	--	-$10.00
CBEST – Computer Based Test	--	--	-$4.00	+$1.00	-$3.00
RICA					
RICA – Written Examination	+$6.00	-$10.00	+$35.00	+$6.00	+$37.00
RICA – Video Performance Assessment	+$6.00	-$10.00	--	+$41.00	+$37.00
CTEL	--		-$65.00	+$22.00	-$43.00
CSET	+$6.00	-$12.00	-$12.00	+$9.00	-$9.00
CPACE (Replaces the SLLA)	--	--	-$102.00	+$44.00	-$58.00

Source: Commission on Teacher Credentialing.

In January 2011, the CTC reviewed and approved changes in the exam fee structure which resulted in fee adjustments (increases and decreases) that went into effect in 2011-12.

At its March 2012 meeting, the CTC reviewed and approved fee increases for all of its major exams to take effect in 2012-13. These fee increases achieve the $500,000 in revenues from the Test Development and Administration Account proposed by the Governor in 2012-13.

Current Condition of Special Funds

The **Teacher Credential Fund** has been experiencing a loss of revenues since 2007-08, which has contributed to a widening gap between annual revenues from credentials and expenditures for credential activities. The CTC estimates a five (5) percent decrease in revenues for the Teacher Credential Fund in 2011-12 and an additional reduction of three (3) percent in 2012-13. The **Test Development and Administration Account** has also experienced declines in revenues in recent years, but has had healthy balances to cover expenditures. Continuing revenue declines for CTC's special funds, with some increased expenditure costs, resulted in a budget shortfall of **$2.3 million** in 2011-12. The CTC estimates a special fund shortfall of **$5 million** in 2012-13.

GOVERNOR'S BUDGET SUMMARY:

The Governor's Budget proposes **$45.4 million** for the total CTC's budget in 2012-13, providing an overall decrease of **$819,000.**

Summary of Expenditures (Dollars in Thousands)	2011-12	2012-13	$ Change	% Change
General Fund, Proposition 98	$26,191	$26,191	$0	0.0
Teacher Credentials Fund	15,022	14,650	-372	-2.4
Test Development & Adm. Account	4,654	4,207	-447	-9.6
Federal Trust Fund	--	--	--	--
Reimbursements	308	308	0	0.0
Total	**$46,175**	**$45,356**	**-$819**	**-1.8**
Full -Time Positions	**157.1**	**141.0**	**-16.1**	**-10.2**
Authorized Positions	**165.4**	**148.4**	**-17.0**	**-10.3**

The Governor proposes **$18.9 million** from the two special funds that support the CTC's state operations in 2012-13, reflecting an overall decrease of **$819,000 from 2010-11**. Specifically, the Governor proposes funding of **$14.7 million** from the Teacher Credentials Fund and **$4.2 million** from the Test Development and Administration Account in 2012-13. The Governor proposes to reduce authorized positions for CTC from 165.4 in 2011-12 to 148.4 in 2012-13, a reduction of 17 positions (10.3 percent).

The Governor proposes to continue **$26.2 million** from the General Fund (Proposition 98) and $.3 in Reimbursement from the Department of Education to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program. The Alternative Certification and Paraprofessional Teacher Training programs are included in the K-12 categorical flexibility program -- authorized through 2014-15 – that allows districts to use these funds for any educational purpose. The CTC does not receive any General Fund support for administration of these programs.

GOVERNOR'S BUDGET PROPOSALS: The Governor proposes the following actions to address a projected operating deficit of $5 million for the CTC in 2012-13:

1. **Budget Year Credentialing Fee Increases.** The Governor proposes to increase teacher credentialing fees in 2012-13 by $15 -- from $55 to $70 – to generate **$3.0 million** in additional revenue for the Teacher Credential Fund. The Governor's proposal continues the existing credential fee structure, which would charge the full $70 fee to all credential renewals and some first time credentials, but would charge a half-fee of $35 for the Certificate of Credential and first time credentials for new teachers.

Background: Consistent with current statute, Governor proposes budget bill language that authorizes the Commission to charge up to $70 for the issuance or renewal of a teaching credential in 2012-13.

The Teacher Credentials Fund has a structural imbalance and operating deficit, due to the lack of fund reserves**.** The Governor's proposed $15 fee increase in 2012-13 and proposed transfer of $1.5 million from the Test Development and Administration Account in 2011-12 address current and budget year cash shortfalls, but do not provide prudent reserves for the fund. Per the Governor's proposal, the Teacher Credentials Fund would end the year with a negative **reserve** in 2012-13. In addition, the Governor's proposed fee increase does not address a projected fund imbalance of $266,000 in 2013-14. (Every $5 increase in the credential fee generates about $1 million in additional revenues.)

The Governor proposes to continue budget bill language that allows the Department of Finance to authorize a fund transfer from the Test Development and Administration Account due to an operating deficit in the Teacher Credentials Fund. The Department of Finance must notify the Joint Legislative Budget Committee of its intent to authorize the fund transfer.

2. **Budget Year Exam Fee Increases.** The Governor proposes to increase testing fees in 2012-13 to generate **$500,000** of additional revenue for the Test Development and Administration Account.

Background: Consistent with its statutory authority, the CTC recently approved fee increases for educator exams to achieve the $500,000 in additional revenues proposed by the Governor in 2012-13.

Candidate Fee	Current Fee 2011-12	Proposed Fee Structure 2012-13
CBEST		
CBEST – Paper Based Test	$41.00	$41.00
CBEST – Computer Based Test	$101.00	$102.00
RICA		
RICA – Written Examination	$165.00 [1/]	$171.00
RICA – Video Performance Assessment	$130.00	$171.00
CTEL	$238.00	$260.00
CSET	$198.00	$207.00
CPACE (Replaces the SLLA)	$383.00 [2/]	$427.00

[1/]The increase in the examination is the result of the transition of this examination to a computer based examination only. The service fee charged to the candidate to administer this on-demand exam is similar to the fee charged for the CBEST computer based examination.
[2/] The Commission did not receive any funds from the SLLA administered by the Educational Testing Services.

The Test Development and Administration Account has very healthy reserves, even with the proposed $2.3 million fund transfer to the Teacher Credentials Fund in 2011-12. Per the Governor's proposals, the Test Development and Administration Account would end the 2012-13 year with a **46 percent reserve**.

3. **Budget Year Staff Reductions Other Savings.** The Governor proposes to decrease state operations by **$1.5 million** in 2012-13 as a result of: (1) eliminating 13 vacant positions and eliminating 4 existing positions to reflect operational efficiencies generated by streamlining the teacher preparation and credentialing processes and (2) achieving operational savings from reduced information technology costs. **The Governor also proposes budget bill language requiring the CTC work with the State Board of Education to identify ways to streamline the teacher preparation and credentialing process.**

Background: The Governor proposes to eliminate a total of 17 positions within three of CTC's four agency divisions in 2012-13, as described in the table below, for a savings of **$1.0 million.** The Governor does not propose to eliminate any positions within the Division of Professional Practices, which is charged with review, investigation, and discipline of teacher misconduct. The CTC currently has approximately 22.5 vacant positions. The Governor's proposal would eliminate 13 of these vacant positions (retaining 5.5 vacant positions – of these positions 3 positions have been redirected to address the workload in the Division of Professional Practices) and eliminate four (filled) other positions to align reductions with CTC workload.

Division/Position	Total Positions
Administrative Division:	**1.0**
Office Assistant – General	(1.0)
Certification, Assignment & Waivers Division	**7.0**
Associate Governmental Program Analyst	(2.0)
Staff Services Analyst – General	(1.0)
Office Technician Typing	(1.0)
Office Assistant – General	(3.0)
Professional Services Division:	**9.0**
Consultant – Teacher Preparation	(4.0)
Staff Services Analyst – General	(1.0)
Office Assistant – General	(4.0)

The Governor also proposes to capture **$500,000** in savings resulting from information technology contract costs specific to 2011-12 activities that will not continue into 2012-13.

Current Year Fund Transfer. The Governor proposes to provide a **$1.5 million** loan in 2011-12 from the Test Development and Administration Account to the Teacher Credentials Fund to address the CTC's current operations shortfall. The Governor's January budget originally proposed a $2.3 million loan in 2011-12. The Governor's latest budget proposal lowered the loan amount to $1.5 million, in part, due to a reduction in expenditures from an additional $550,000 in salary savings in 2011-12.

Background: As a result of a current operating deficit in the Teacher Credentials Fund, in February 2012, the CTC submitted a request to the Department of Finance (DOF) to transfer **$2.3 million** from the Test Development and Administration Account to the Teacher Credentials Fund in 2011-12 – consistent with the Governor's original budget proposal. The budget act provides authority for fund transfers from the Test Development and Administration Account to the Teacher Credentials Fund when insufficient funds are available – pending approval by the Department of Finance. On March 15, 2012, the DOF notified the Joint Legislative Budget Committee of its intent to approve a fund transfer of **$1.5 million** – consistent with the Governor's latest proposal -- within thirty days.

Special Fund Condition Reflecting the Governor's Budget Proposals. The CTC has prepared a revised Fund Condition Summary that reflects both updated revenue projections and the Governor's 2012-13 budget proposals, which have the effect of increasing fee revenues and reducing expenditures. For the Teacher Credentials Fund, CTC projects a negative fund balance of $235,000 in 2012-13 and $501,000 in 2013-14. For the Test Development and Administration Account, the CTC projects healthy fund balances of $1.9 million in both 2012-13 and 2013-14.

FUND CONDITIONS
(As of March 15, 2012)

TEACHER CREDENTIALS FUND (TCF)

	2010-11 (Actual)	**2011-12 [2/3/] (Estimated)**	**2012-13 [2/3/] (Proposed)**	**2013-14 [2/3/] (Proposed)**
Beginning Balance	$3,380,000	$1,347,000	$31,000	-$235,000
Revenues	12,344,000	11,724,000	14,404,000	14,404,000
TDAA Transfer	0	1,500,000		0
Expenditures/ Appropriation	-14,377,000	-15,090,000	-14,670,000	-14,670,000
Ending Balance	**$1,347,000**	**$31,000**	**-$235,000**	**-$501,000**[1/]
Reserve %	*9.4%*	*0.2%*	*-1.6%*	*-3.4%*

[1/] This assumes the Commission fully expends all resources each fiscal year. Historically, this has not occurred.
[2/] Assumes a 5% decrease in credential revenue from FY 2010-11, based on 2nd quarter data from Certification, Assignment and Waivers Division. FY 2012-13 assumes a 3% decrease in credential revenue from FY 2011-12.
[3/] FY 2011-12 reflects a Credential Fee (Renewals) of $55 and First Time Credential and Certificate of Clearance at $27.50. FY 2012-13 reflects a Credential Fee of $70 and First Time Credential and Certificate of Clearance at $35.

TEST DEVELOPMENT AND ADMINISTRATION ACCOUNT (TDAA)

	2010-11 (Actual)	2011-12 (Estimated)	2012-13 [1/] (Proposed)	2013-141 [1/] (Proposed)
Beginning Balance	$5,270,000	$4,705,000	$2,741,000	$2,739,000
Revenues	4,245,000	4,211,000	4,211,000	4,211,000
TCF Transfer	0	-1,500,000	0	0
Expenditures/ Appropriation	-4,810,000	-4,675,000	-4,213,000	-4,213,000
Ending Balance	**$4,705,000**	**$2,741,000**	**$2,739,000**	**$2,737,000**
Reserve %	*97.8%*	*58.6%*	*65.0%*	*65.0%*

[1/] This reflects an increase of $500,000 in TDAA examination revenues that is proposed in the 2012-13 Governor's Budget.

LAO RECOMMENDATIONS: The LAO recommends that the Subcommittee address the CTC's budget shortfall by adopting Governor's proposals to (1) increase credentialing and tests fees and (2) defund 17 positions. Modify transfer to the Teacher Credentialing Fund (TCF) by an additional $250,000 for the current year. Also recommend (1) making a small, additional transfer from the TDAA to the TCF in 2012-13 and (2) directing CTC to explore additional options for raising revenue from alternative fund sources and achieving greater efficiencies.

STAFF COMMENTS:

- **CTC Guidelines for Budget Development in 2012-13**. On November 3, 2011, the Commission adopted the following principles to guide budget development in 2012-13.

  1. Maintain the core essential functions of the agency with no additional reductions.
  2. Establish a credential fees that ensures the fiscal solvency of the agency, not to exceed $100.
  3. Minimize the fiscal impact to first time teachers.
  4. Assess the viability of charging late fees for expired credential documents and charging teacher preparation programs sponsors for accreditation responsibilities above the traditional accreditation system activities.
  5. Minimize the fiscal impact to new educators, taking required exams, by having the credential fees subsidize partially the examination system expenses.

- **CTC Concerned about Impact of Governor's Proposed Staff Reductions on Core Functions**. The CTC believes the reduction of 17 positions is significant and jeopardizes the Commission's ability to sustain several core functions. According to the Commission, it will have difficulty in maintaining all existing operations or take on any new work. While there has been a decline in credential applications, according to CTC "most" of the agency's statutory workload is not sensitive to volume applications. For example, while the number of students in teacher credentialing programs has declined, the number of programs has remained constant. The CTC is still responsible for accrediting 261 sponsors of educator preparation, and these numbers continue to increase slowly.

- **Implementation Status of Bureau of State Audits (BSA) Recommendations.** On April 7, 2011 the California State Auditor issued a report entitled "Despite Delays in Discipline of Teacher Misconduct, the Division of Professional Practices has not Developed an Adequate Strategy or Implemented Processes That Will Safeguard Against Future Backlogs".

The Division of Professional Practices conducts investigations of misconduct on behalf of the Committee of Credentials – a commission appointed body. The committee meets monthly to review allegations of misconduct and, when appropriate, recommends that the commission discipline credential holders or applicants, including revoking or denying credentials when the committee determines holders or applicants are unfit for the duties authorized by the credential.

Overall, the BSA Audit found that the CTC revealed weaknesses in the educator discipline process and in hiring policies and practices. **Key findings** from the audit include the following:

1. As of the summer of 2009, according to the commission's management, the Division of Professional Practices had accumulated a backlog of 12,600 unprocessed reports of arrest and prosecution (RAP sheets)—almost three times a typical annual workload.

2. The large backlog of unprocessed reports appears to have significantly delayed processing of alleged misconduct by the Division of Professional Practices and potentially allowed educators of questionable character to retain a credential.

3. The Division of Professional Practices has not effectively processed all the reports of arrest and prosecution that it receives. A review of randomly selected reports could not be located within the CTC's database. Further, the division processes reports it no longer needs.

4. To streamline the committee's processing of pending cases, the Division of Professional Practices uses its discretion to close cases or not open cases for which it believes the committee would choose not to recommend disciplinary action against the credential holder. However, the BSA did not believe the committee can lawfully delegate this discretion to the division.

5. The Division of Professional Practices lacks comprehensive written procedures for reviewing reported misconduct and the database it sues for tracking cases of reported misconduct does not always contain complete and accurate information.

6. Familial relationships among commission employees may have a negative impact on employees' perceptions and without a complete set of approved and consistently applied hiring practices, the CTC is vulnerable to allegations of unfair hiring and employment practices.

The BSA Audit made numerous **recommendations** to the CTC including that it develop and formalize comprehensive procedures for reviews of misconduct and for hiring and employment practices to ensure consistency. The Audit also recommended that the CTC provide training and oversight to ensure that case information on its database is complete, accurate, and consistent.

Moreover, the BSA Audit provided specific recommendations for the CTC to revisit its processes for overseeing investigations to adequately address the weaknesses in its processing of reports of misconduct and reduce the time elapsed to perform critical steps in the review process.

The CTC has submitted the 60 day and 6 month reports to the BSA, as well as attended an informational hearing with the JLAC committee to provide an update to members on the progress of addressing the findings from the report. In addition, the CTC has met with the BSA to provide an update on the progress of addressing the findings from the audit. CTC will provide a one-year report, which is due to the BSA on April 6, 2012.

- **Status of Discipline Cases – Focus of BSA Audit.**

The CTC Division of Professional Practices is charged with investigation and discipline of misconduct for credential candidates and holders. The BSA Audit found that the division had a cumulative backlog of approximately 12,600 unprocessed reports in the summer of 2009 – largely Reports of Arrest and Prosecution (RAP) from by the California Department of Justice. According to CTC, this cumulative backlog of RAPs was completely addressed and there is no outstanding backlog of these RAP documents.

With regard to teacher misconduct reports, the CTC reports that all current teacher misconduct reports are in process within statutory guidelines. Currently, the CTC has 3,157 open cases. Of the open cases, staff identified 53 to close. An additional 74 cases involve criminal diversion and the case is being tracked through the criminal diversion process. Of the open cases, 392 are being tracked through the criminal justice system to see if a criminal conviction will result in the mandatory revocation of all credential. (Mandatory revocation offenses include sex offenses, drug offenses and some serious and violent felonies.) For 1,610 of the cases, CTC staff is in the process of collecting information and preparing documentation to submit a case to the Committee of Credentials. (The Committee is determines whether there is probable cause to take a disciplinary action against a license.) Another 668 cases are in some stage of review by the Committee. And 360 cases have completed the proceedings before the Committee and are before the CTC for a final action, or are on appeal, on probation, or on a mental health suspension.

The Governor does not propose any staffing changes to the Division of Professional Practices to assure the CTC can continue to stay current with all discipline cases. Additionally, the CTC took action at its March 2012 meeting to streamline CTC actions on single alcohol offenses. This action will reportedly result in an approximately 28 percent reduction in the Consent Calendar considered by the Committee of Credentials.

New Misconduct Reports from LAUSD. As a part of a new initiative, the Los Angeles Unified School District (LAUSD) filed with the CTC 250 reports of alleged misconduct by teachers, as of March 21, 2012. These cases were sent beginning on February 22, 2012. Based on CTC legal staffs' assessment of 174 cases, approximately 25 percent of the reports filed by LAUSD will be closed for lack of jurisdiction. The Commission also reviewed a sample of 30 cases to determine the nature of the alleged misconduct cases. Of those 30 cases, 50 percent involved physical abuse of a student, another 25 percent involved inappropriate touching, sexually harassing comments, or inappropriate relationship with a student. Nine staff began working overtime in early March to handle the extra workload in the Intake unit. While it is not fully known, the CTC estimates that the LAUSD's search for unreported cases of misconduct may yield a total of 400 or more cases for review by the Commission. CTC has redirected three positions to address the workload and oversight of the division.

- **Credential Processing within Statutory Timeframes.** The CTC eliminated the credentialing backlog in 2007-08 due to substantial efficiencies achieved largely through the conversion of a paper application process to an on-line application process for both credential renewals and some new applications. In addition, past budgets redirected additional staffing resources to address the credentialing backlog. Chapter 133; Statutes of 2007, revised the application processing time from 75 working-days to 50 working-days effective January 1, 2008. CTC has continued to maintain this processing within this time limit. According to CTC, 80 percent are being processed on-line within 10 working days. The other 20 percent of applications are processed within the required 50-working day processing time.

- **Credential Processing Workload Reports –** Provisional language in the annual budget act requires the CTC to submit quarterly reports to the Legislature, the Legislative Analyst's Office and the Department of Finance on the minimum, maximum, and average number of days taken to process the following:
  - ✓ Renewal and university-recommended credentials
  - ✓ Out-of-state and special education credentials
  - ✓ Service credentials and supplemental authorizations
  - ✓ Adult and vocational education certificates and child center permits, and
  - ✓ Percentage of renewals and new applications completed online

  This provisional language was added to the budget in 2004-05 in order to provide updates to the Legislature, the Legislative Analyst's Office, and the Department of Finance on the credential processing time workload. During this time, the credential processing time was at an all-time high of 210 working days to issue a credential. The Commission has been responsive to the request and has provided updates as required.

STAFF RECOMMENDATIONS: Approve the Governor's budget proposals for the CTC with the following modifications**:**

1. Adopt placeholder budget bill language to provide for the transfer of up to ~~$235,000~~ <u>$250,000</u> from the Test Development and Administration Account to the Teacher Credentials Fund in 2012-13. Budget bill language will require this transfer, as necessary, to address any 2012-13 shortfall in the Teacher Credentials Fund. This transfer will require approval by the Department of Finance, with notification to the Joint Legislative Budget Committee.
2. Adopt placeholder budget bill language to streamline existing quarterly reports to the Legislature on the status of educator credential applications (and any backlog); and to add periodic reports to the Legislature on the status of educator misconduct reports (and any backlogs).
3. <u>Adopt placeholder budget bill language to require CTC to report to the Department of Finance by October 1, 2012, on the implementation of budget reductions and the elimination of positions, and its use of administrative flexibility.</u>
4. <u>Amend budget bill language (6360-001-0407 --Provision 8) to add a provision requiring CTC to work with LAO on cost recovery options related to accreditation services for teacher preparation programs.</u> **OUTCOME: Approved Governor's Budget with modifications #1-4 above. (Vote: 3-0)**

SUGGESTED QUESTIONS:

1. The latest Fund Condition Summary predicts a shortfall for the Teacher Credentials Fund in 2012-13 and 2013-14, even if all of the Governor's proposals are adopted. What options will the CTC have for addressing this shortfall?

2. To what extent are reserves from the Test Development and Administration Account being viewed as future offsets to operating deficits in the Teacher Credentials Fund?

3. What is the impact of credential fee increases and exam fee increases on candidates?

4. What impact will the elimination of 17 positions ($1.0 million) proposed by the Governor have on the CTC's core functions?

a. Are there core functions that the CTC will no longer be able to provide? If so, can CTC identify other state operations savings to achieve the $1.0 in staff reductions proposed by the Governor?

b. If staff reductions of this level are necessary, will CTC have the flexibility to reallocate positions to meet workload over time?

c. What is your current vacancy rate at the CTC? How do the vacancies align with the proposed 17 position reduction identified in the Governor's Budget?

5. The Governor proposes budget bill language that requires the CTC to work with the State Board of Education to identify ways to streamline the teacher preparation and credentialing process. What's the Administration's intent with this language?

6. How is the Division handling the fitness review of educators addressing the reported new discipline workload sent by LAUSD?

    a. How many of these cases merit further action – beyond an initial review -- by the CTC?
    b. What is the timeframe for review of these cases? Is this a current year or multi-year workload for the Division?
    c. Does CTC expect an increase in misconduct reports from other local educational agencies in the coming year?

7. Are there any outstanding BSA recommendations that have not been implemented to date? If so, what is the status of these issues? Will the Governor's proposed staffing reductions affect the resolution of any of these issues?

8. Per current law, the Commission has authority to set exam fees, but not credential fees. What is the history for this different authority? Has the CTC ever considered a price inflator for credential fees to reflect annual cost increases for the statutory fees?

9. What authority does the CTC have for charging accreditation fees for the 261 teacher preparation programs in California? Do these teacher preparation programs typically pay fees to other accreditation agencies, such as WASC or NCATE?

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Monday, April 9, 2012
Noon
Room 112, State Capitol

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.

6870 CALIFORNIA COMMUNITY COLLEGES

Background. The CCC are publicly supported local educational agencies that provide educational, vocational, and transfer programs to approximately 1.2 million full-time equivalent students. The CCC system is the largest system of higher education in the world, with 72 districts, 112 campuses, and 71 educational centers. In addition to providing education, training, and services, the CCC contributes to continuous workforce improvement. The CCC also provides remedial instruction for adults across the state.

Figure 1: CCC Resident FTES Enrollment, Core Funding, and Fees

	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Estimated	2012-13 Proposed	Amount Change from 2007-08	% Change from 2007-08
Enrollment	1,182,627	1,260,498	1,258,718	1,230,649	1,181,792	1,158,156	-24,471	-2%
Core Funds								
GF	$4,272.2	$3,975.7	$3,735.3	$3,994.0	$3,276.7	$3,740.2	-$532.	-12%
Fees	281.4	302.7	353.6	316.9	353.9	359.2	77.7	28%
LPT	1,970.8	2,028.8	1,992.6	1959.3	2,107.3	2,101.1	130.3	7%
ARRA			35.0	4.0	0.0		0.0	NA
Lottery	168.7	148.7	163.0	172.8	178.6	178.6	9.9	6%
Total	$6,693.1	$6,455.9	$6,279.6	$6,447.0	$5,916.4	$6,379.0	-314.0	-5%
Fees[1]	$600.00	$600.00	$780.00	$780.00	$1,080.00	$1,380.00	$780.00	130%

[1]Fee totals for a full-time student taking 30 units in an academic year.
Source: Legislative Analyst's Office

THE GOVERNOR'S LONG-TERM PLAN FOR THE CCC

Similar to its plan for UC and CSU, which was discussed at the Subcommittee's March 15 hearing, the Administration's long-term plan for the CCC is rooted in the belief that higher education should be affordable and that student success can be improved. The Administration proposes stable and increasing state funding and fiscal incentives to allow the CCC to better manage its resources. The significant components are:

1. *Affordability*. The plan will curtail tuition fee increases and lessen the pressure for students to take out loans.
2. *Student Success*. The plan will make annual GF augmentations contingent upon the CCC achieving the Administration's priorities or performance targets, including successful basic skills course completion.
3. *Stable Funding Source*. The state will increase its GF contribution annually by a minimum of four percent per year, from 2013-14 through 2015-16, contingent upon the passage of the Governor's tax initiative in November 2012.
4. *Flexibility*. The plan will provide additional flexibility to CCC districts in how they spend their funds, to direct resources based on what is needed locally to achieve student success, by: (a) consolidating categorical programs and providing increased flexibility on the expenditure of those funds; (b) reforming mandates; and (c) repealing the current statutory funding model for apportionments.

Should the Governor's tax initiative be rejected by the voters, the CCC budget would be reduced mid-year as part of an overall $4.8 billion K-14 Proposition 98 reduction, as follows: (1) $218.3 million in apportionment funding would again be deferred (returning the total inter-year deferral to $961 million) and (2) there would be a $292 million programmatic reduction.

6870 CALIFORNIA COMMUNITY COLLEGES

Item 1: 2011-12 Budget Issues

Governor's Budget Proposal. The January budget requests a reduction of $146.9 million in 2011-12 GF apportionment funding to reflect an identical increase in offsetting local property taxes available to CCC districts resulting from the California Supreme Court decision to eliminate redevelopment agencies (RDA). The Administration has requested early action, by March 2012, to ensure the savings can be achieved.

Additional Current Year Emerging Issue. The CCC currently reports an unanticipated current year deficit of $149 million, due to lower than anticipated enrollment fee revenue collections ($107 million) and local property tax receipts ($41 million). This translates to a deficit of 2.75 percent less funding per student.

The CCC indicate that the contributing factors to the fee revenue shortfall are the economy and increased eligibility for Board of Governor's (BOG) Fee Waivers (the BOG Fee Waiver program is discussed further as Agenda Item 6).

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

When systemwide fee revenues or local property tax receipts fall short, the total amount of apportionment funding available to CCC districts that year similarly falls short. Unlike K-12, there is no automatic mechanism to backfill a CCC shortfall. Therefore, the CCC system must contend with lower total funding that year unless the Legislature and Governor decide to provide a GF backfill. Regardless of whether a backfill is provided, the following year's budget assumption of fee or local property tax revenues is adjusted to reflect the underestimate so that the shortfall does not carry forward.

Staff Comment. The initial CCC concerns with the January budget RDA-related property tax proposal centered on: (1) the estimate of the increased property tax revenues and (2) the likelihood that those revenues would materialize in the current year. Since the release of the January budget, staff has gained a better understanding of the Administration's estimates on the RDA-related local property tax revenues. It is a reasonable expectation that there will be increased property tax revenues in the current year (and ongoing) from the elimination of RDAs. There is still uncertainty, however, which explains the CCC concern with this proposal, especially in light of the fact that there is not an automatic GF backfill if these RDA-related property tax revenues fail to materialize in the current year.

With regard to the current year emerging issue, it appears that the current year fee revenue estimate, which was based on an assumption of a 52 percent waiver rate, was too conservative. The current year fee waiver rate is now estimated at 63 percent of credit courses. The Administration does not propose a GF backfill. Staff generally agrees with the Administration that it is premature to act on the current year emerging issue, given that a revenue update will be provided at the time of the May Revision. Further, in past years local property tax revenues have self-corrected and, in some years, self-corrected enough to make-up some or all of a fee revenue shortfall. Absent a backfill, the Chancellor's Office has indicated that any resulting deficit, once revenue numbers are updated as part of the May Revision, would be spread across all districts statewide. To balance budgets, districts would have to reduce costs, such as cancelling summer school or spending from reserves.

Given these two issues, and their interactions, the CCC have a legitimate concern. Should the Legislature: (1) adopt the January budget RDA-related local property tax proposal and (2) not provide a backfill of the emerging current year issue, and then should these revenues not materialize in part or full, the CCC could be looking at up to a $296 million shortfall in the current fiscal year.

Finally, staff notes that absent any action on the part of the Legislature on the January budget proposal, CCC districts will begin receiving RDA revenues through the traditional AB 8 property tax shares. These revenues will be additional for the districts. By allowing CCCs to keep these RDA-related revenues, the emerging current year issue shortfall would be addressed in some amount. However, not adopting the January budget proposal creates a $146.9 million "hole" in the overall budget architecture.

LAO Recommendation. The LAO agrees with the need to adjust the CCC 2012-13 budget with accurate assumptions about fee revenues. The significant increase in the number of fee waivers over the past few years, however, raises questions about the BOG Fee Waiver program. *Note, please see Agenda Item 6 for further LAO recommendations on the BOG Fee Waiver program.*

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

1. Does the Administration or the Chancellor's Office have more updated current year enrollment fee revenue and local property tax projections?
2. Is the RDA-related increased local property tax estimate still $146.9 million?
3. Recent past history indicates that the current year shortfalls attributable to local property tax self-correct. What is the likelihood of that occurring this year?

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

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Item 2: LAO Overview of Major CCC Proposition 98 Budget Changes

Description (Informational Item). The LAO will provide a brief overview of the major changes proposed for CCC Proposition 98 spending in the current and budget years.

Figure 2: Governor's CCC Proposition 98 Budget Proposal (Dollars in Millions)

2011-12 (Enacted)	**$5,414.6**
Trigger cuts	-102.0
Technical adjustments	$11.8
2011-12 (Revised)	**$5,324.4**
Restore one-time actions	$129.0
Pay down prior-year deferrals	218.3
Adjust for revised fee-revenue estimate	97.4
Create CCC mandates block grant	12.5
Adjustment for Financial Aid Administration	14.3
Technical adjustments	-12.2
2012-13 Proposal	**$5,783.6**
Change from 2011-12 Revised Budget	
Amount	$459.2
Percent	8.6%

Source: Legislative Analyst's Office

Figure 2 above summarizes the changes proposed for CCC Proposition 98 spending in the current and budget years, including the $102 million reduction in the 2011-12 funding level as a result of the January 2012 trigger cuts. The January budget proposal for 2012-13 (which assumes voter approval of the Governor's tax initiative in November 2012) would increase Proposition 98 funding for CCC to $5.8 billion, which is $459 million (8.6 percent) over the revised current year level. This net augmentation includes:

- ✓ A technical adjustment of $129 million, which restores base funding to CCC following a prior-year deferral.
- ✓ An increase of $218 million to pay down existing CCC deferrals.
- ✓ A base increase of $97 million to account for lower-than-expected fee revenues in the current year.
- ✓ An increase of $12.5 million to create a proposed CCC mandate block grant.
- ✓ A workload adjustment of $14.3 million for CCC financial aid programs.

Under the January budget proposal, 2012-13 apportionment funding would total $5.3 billion, which reflects an increase of $432 million, or 9 percent, from the revised current-year level. The Governor's budget would increase total funding for categorical programs by $14.3 million. As proposed by the Governor, the CCC would receive 11 percent of total Proposition 98 funding in 2012-13.

Finally, the January budget proposal maintains the current fee increase, effective summer 2012, whereby fees will increase from the current $36 per unit to $46 per unit. The January budget proposes no additional changes to the fee level in 2012-13.

Staff Recommendation. None; this is an informational item.

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Item 3a: Flexibility Proposals – State Mandates

Governor's Budget Proposal. To provide school and CCC districts with new flexibility, the January budget proposes to: (1) eliminate a number of existing K-14 mandates and (2) provide $200 million for a new optional block grant to fund the remaining mandated activities. Of the total block grant funding provided, $22 million is for CCC districts, providing participating districts with an estimated $20 per student. The January budget proposal allows districts to choose either to participate in the block grant or to submit mandate claims through the reimbursement process (districts would be prohibited from doing both.)

Figure 3: Governor's CCC Mandate Proposal

Mandates Suspended in 2012-13; Intent to Eliminate in 2013-14	
Active	**Suspended**
Absentee Ballots	Grand Jury Proceedings
Agency Fee Arrangements	Health Benefits for Survivors of Peace Officers and Firefighters
Mandate Reimbursement Process	Integrated Waste Management
Threats Against Police Officers	Law Enforcement Jurisdiction Agreements
Health Fees/Services	Sexual Assault Response Procedures
Reporting Improper Governmental Activities	Student Records
Mandates in Block Grant	
California State Teachers Retirement System Services Credit	Prevailing Wage
Collective Bargaining	Sex Offenders: Disclosure Requirements
Open Meetings/Brown Act	Enrollment Fee Collection and Waivers
Cal Grant Grade Point Average	Tuition Fee Waivers

Source: Legislative Analyst's Office

With regard to the Health Fees/Services mandate, which only applies to CCC districts that provided health services in fiscal year 1986-87 and required them to maintain that level in 1987-88 and ongoing, the January budget proposes budget trailer bill language to eliminate the mandate and instead allow students the choice (via a vote) on whether they want to have health centers and to what extent.

Background. In 1979 voters passed Proposition 4, which added a requirement to the California Constitution that local governments be reimbursed for new programs or higher levels of service the state imposes on them. Currently, the state has about 50 K-14 education mandates, with each mandate requiring school districts and/or community colleges to perform as many as a dozen specific activities. The 2011-12 budget included $90 million for these claims. The state went seven consecutive years (2003-04 through 2009-10) making only negligible mandate payments. As a result, a backlog of unpaid K-14 claims has developed that now totals an estimated $3.6 billion. The state has a constitutional obligation to pay off this backlog. Moreover, in December 2008, a superior court found the state's practice of deferring education mandate payments unconstitutional and ordered the state to fully fund mandated programs "in the future." While constitutional separation of powers means the court cannot force the Legislature to make appropriations for past mandate costs, its decision increases pressure on the state to pay its mandate obligations.

Staff Comment. Mandate reform is not a new concept, as concerns with the costs of mandates have prompted prior legislative action. Most recently, these actions included suspending about a dozen local education mandates. In addition, the 2010 Budget Act included statutory changes to reduce the costs of several K-12 mandates, requested that the Commission on State Mandates reconsider the collective bargaining mandate, and required the LAO to convene a working group to consider the future of K-14 mandates. However, the depth and breadth of the January budget proposal goes well beyond these prior efforts.

The full Senate Budget and Fiscal Review Committee held a February 16 hearing focused on the K-12 aspects of this proposal. This Subcommittee is currently scheduled to again consider the K-12 proposals at its April 26 hearing.

Staff notes that mandate reform has been of greater controversy on the K-12 level. In fact, the LAO work group on education mandates achieved notable agreement and developed a generally comprehensive CCC mandate reform package. Further, what state mandates are eliminated, suspended, funded through the block grant, or maintained is a policy choice; the Administration has presented its policy choices in this proposal.

LAO Recommendation. The Administration's proposal addresses several mandate problems, but also raises some concerns. Most notably, the proposal still allows districts to file claims. This means that the problems with the current claims system could continue and costs could increase if some districts receive more funding by filing claims than they otherwise would through the grant. The proposal also does not address certain out-year issues. For example, it is unclear how block grant funding might change in the future, and whether new mandates would be included in the block grant. The LAO recommends that the Legislature adopt the proposed block grant approach, but modify the proposal so that districts cannot file mandate reimbursement claims. In addition, the LAO recommends that the Legislature establish a working group to: (1) review the list of K-14 mandates proposed for elimination and (2) address remaining implementation details.

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

1. Is the Administration proposing any further modifications to its K-14 mandate proposal?
2. This proposal captures all existing mandates; however, there are a number of potential mandates in the pipeline. How does the Administration propose to address new mandates?
3. Is this proposal contingent on ballot outcomes, or is it proposed regardless of the outcome of the fall election?

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

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Item 3b: Flexibility Proposals – Categorical Programs

Governor's Budget Proposal. To provide CCC districts with new flexibility, the January budget consolidates nearly all categorical programs and permits CCC districts to use the "flexed" categorical funds for any general operating cost. The "flex" item would total $378.4 million, which is the sum of 2011-12 funding level for the included programs plus a proposed $14 million workload adjustment in 2012-13.

The categorical programs excluded from the "flex" item are: (1) Foster Care Education Program ($5.3 million) and (2) Telecommunications and Technology Services ($15.3 million). The Disabled Students Programs and Services categorical is partially excluded; i.e., $12.6 million of the $69 million in total funding is excluded from the "flex" item.

Background. The state provides two primary types of funding to the CCC system: (1) apportionments, which are intended to fund CCC basic operating costs (such as employee compensation, utilities, and supplies); and (2) categorical programs, which collectively support a wide range of supplemental activities that the state views as critical statewide priorities, including for child care, support services for underprepared students, and financial aid advising, among others. In 2011-12, the CCC received about $5.4 billion in apportionment funding and $397 million in categorical funding.

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

Figure 4: CCC Categorical Flexibility

Programs Currently Included in the "Flex Item" ($113 million)	
Academic Senate	Part-Time Faculty Compensation
Apprenticeship	Part-Time Faculty Health Insurance
Campus child care support	Part-Time Faculty Office Hours
Economic and Workforce Development	Physical Plant and Instructional Support
Equal Employment Opportunity	Transfer Education and Articulation
Matriculation	
Programs That Would Be Added to the "Flex Item" ($298 million)	
Basic skills initiative	Financial Aid Administration
CalWORKs student services	Foster Care Education Program[1]
Career Technical Education Pathways	Fund for Student Success
Extended Opportunity Programs & Services	Nursing Grants

[1]The January budget proposes to partially protect funding for this categorical program.
Source: Legislative Analyst's Office

Staff Comment. The current categorical flex item is in place through 2014-15. This spring the Legislature will receive a report from the CCC Chancellor's Office detailing the degree to which CCC districts have utilized the flex item in the current year. The 2010-11 report indicated that 32 districts exercised the flexibility and a total of $1.1 million was shifted. The Part-Time Faculty Compensation categorical program represented about 87 percent of the funds shifted; Apprenticeship was the second most shifted funds, with a total of $70,000 shifted (seven percent of the funds moved). The two categorical programs receiving the bulk of the transferred dollars were Matriculation and Disabled Students Programs and Services.

The Governor's proposal goes quite a bit farther than the current "flex" item, in that it would flex 90 percent of all of the categorical funds and authorize their expenditure for <u>any</u> purpose. This approach would completely negate current assurances that these dollars will be spent on identified state priorities. Districts could continue to spend the flexed funds on categorical programs, but they would not be required to do so.

Categorical programs do have drawbacks. For instance, the program parameters and requirements are quite prescriptive and do not necessarily allow CCC districts to meet their student and local resource needs. Categoricals are also costly to administer. However, given that the state is only in the third fiscal year of providing categorical flexibility, the Subcommittee may wish to consider the degree to which the current flex item is working as intended before proceeding full throttle to cut all strings to the funding and on a permanent basis as proposed by the Administration.

LAO Recommendation. CCC districts would benefit from more categorical flexibility. However, the Governor's approach could result in local decisions that undermine the Legislature's original intent for these funds. The LAO has identified two alternatives for the Legislature to consider, both of which would enhance local flexibility while still ensuring that categorical funds are spent on support services for students and faculty. The first option is a more limited version of the Governor's flex item, by including statutory language that limits spending to existing categorical program purposes. The second option is to consolidate 15 categorical programs into two block grants, one centered on student success and one on faculty support. This option would exclude six programs, including the three the Governor proposes to protect, because they serve various unrelated and specialized purposes.

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

1. When can the Legislature expect the next report on the current flex item? Is there any advance information available as to district usage levels?
2. What explains the low rate of usage of the current flex item in the 2010-11 year? Is this a function of programs already up and running, or contracts being signed, all of which would limit a district's ability to participate? Or is it because districts do not want this type of flexibility?
3. Is the January budget proposal contingent on ballot outcomes, or is it proposed regardless of the outcome of the fall election?
4. Please explain the approach to exclude only $12.6 million of the $69 million provided in 2011-12 for the Disabled Students Programs and Services.

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

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Item 3c: Flexibility Proposals – Apportionment Funding Methodology and Enrollment

Governor's Budget Proposal. To provide CCC districts with new flexibility, the January budget proposes significant changes to how funding is allocated to CCC districts, by repealing the current statutory funding model for apportionments which is based primarily on student enrollment. In its place, the budget specifies that CCC GF monies in 2012-13 will be allocated to districts on the same proportionate share that districts received in 2011-12. However, the CCC Chancellor's Office may deviate from this new methodology if it develops an alternative that is approved by the Board of Governors and Department of Finance.

Background. For years the amount of general purpose or "apportionment" funding the state provided for each credit FTE student varied considerably by CCC district. This was due to tax base differences that predate Proposition 13 (1978), coupled with complex district allocation formulas. In 2004-05, the Legislature began providing funding toward the goal of "equalizing" district funding within three years. The 2006 Budget Act included the final installment of monies to fully achieve the goal that at least 90 percent of statewide CCC enrollments receive the same level of funding per credit FTE student.

Along with providing funds to equalize districts, Chapter 631 (Statutes of 2006; SB 361) changed the method for allocating apportionment funds to districts to ensure that district funding remained equalized in subsequent years. Chapter 631 replaced the program-based funding system, under which districts did not receive equal funding rates on a per-FTE student basis (instead allocations were influenced by such items as headcount enrollment and total square footage of district facilities). Under Chapter 631, virtually all CCC districts are provided with apportionment funding at the same amount per credit FTE student.

Currently, the annual budget drives statutory formulas and calculations which result in enrollment targets for each of the state's 72 CCC districts. The amount of apportionment funding received by each district depends on the number of students it enrolls, up to (but generally not beyond) that enrollment target. Although not specifically included in the annual budget act, an overall enrollment target for the entire CCC system is calculated by the Department of Finance.

Staff Comment. Chapter 631 was the result of roughly four years of work and was in response to a critical mass of CCC districts expressing discord with the program-based funding model. The January budget eliminates the Chapter 631 FTES model. In its place, funding will go out on a proportionate basis to what districts received in 2011-12 or under a yet-to-be identified alternative methodology.

Given that it took roughly four years to develop and adopt the current FTES model, it is not clear to staff that it is feasible that a new methodology would, or could, be ready by the start of the 2012-13 fiscal year. Effectively this means that 2012-13 funding will go out on a proportionate basis to what districts received in 2011-12. This approach steps backward to the old model of un-equalized funding; i.e., the funding will be allocated in 2012-13 without regard to, for instance, district-level enrollment changes.

The Administration has stated that it would theoretically be an option for the Chancellor's Office to conclude that retention of the current FTES model is the best approach. However, given that the Administration effectively rejected that model in the January budget, it is not clear to staff that this is actually a feasible option.

This is not to say that the current FTES model is without flaws – it creates an incentive to enroll in, as opposed to complete classes, and for students to take any class as opposed to the classes needed to progress to a degree or a certificate. The reality is that there are positives and negatives with any allocation methodology, and it is naive to think that such a significant change can happen quickly and outside the policy arena. Further, the budget provides the Administration with veto power on any alternative methodology and does not provide a role for the Legislature should the Chancellor's Office develop such a methodology.

Finally, the Administration indicates this proposal is similar to its approach with UC's and CSU's budget, in that the intent is to provide CCC districts with maximum flexibility. While the CCC is a higher education system, the CCC has a K-12 governance structure with 72 local districts, each with its own elected board members. In addition, there are separate statutory requirements dictating expenditure levels on faculty salaries and the percentage of full-time versus part-time faculty that restrict budgetary flexibility. It is not readily clear how the UC and CSU model can apply to the CCC reality without major structural and statutory changes that are not part of the January budget proposal.

LAO Recommendation. The LAO recommends that the Legislature reject the proposed trailer bill language to decouple CCC funding from enrollment.

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

1. Will the Administration be proposing additional budget flexibility measures for the CCC system?
2. SB 361 was developed over a four year period. It is unclear there is sufficient time for a new model to be developed in time for implementation in the 2012-13 year. On the K-12 side, the Administration is proposing a similar type of reform, yet the new formula is phased-in over a period of several years. Why the rush to a new allocation formula on the CCC side?

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

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Item 4: 2012-13 Budgetary Triggers

Governor's Budget Proposal. The January budget relies on revenue from a tax package to be placed before voters in November 2012. In the event voters reject that plan, the January budget proposes a number of automatic reductions ("trigger cuts") to GF appropriations, primarily in the areas of Proposition 98 and the universities, which would take effect January 1, 2013.

The midyear trigger cuts would reduce the CCC's Proposition 98 funding level by about $249 million to $5.5 billion. Of that reduction, $218 million would be achieved by abandoning the proposal to buy down CCC's deferral "credit card." This would have no programmatic impact on CCC. The remaining reduction would come in the form of $30 million in yet-to-be determined programmatic cuts (either to apportionments, categorical programs, or a combination of the two). Under this proposal, the 2012-13 Proposition 98 funding level for CCC would technically be $5.5 billion. On a *programmatic basis*, however, community colleges would be cut more deeply. This is because the Governor's proposed trigger actions also include shifting responsibility for the funding of CCC's general obligation bond debt service obligations to Proposition 98. Currently, CCC's annual general obligation bond debt service payments are covered by non-Proposition 98 General Fund monies. Shifting $262 million of payment obligations into Proposition 98 would have the effect of displacing a like amount of CCC programmatic funds. Taken together, CCC's midyear programmatic cuts would total $292 million.

Prior Budgetary Triggers. The 2011 Budget Act included $102 million in reductions for the CCC to be triggered if estimates of state revenues as of December 2011 were below the forecasted amount. This trigger was pulled effective January 1, 2012.

Staff Comment. Should the voters reject the Governor's tax initiative, the "trigger" reductions for the CCC would total $292 million. All of these reductions would come at the end of the fall semester, making the reductions so disruptive that the CCC likely would feel compelled to adopt budgets assuming the reductions will happen. However, taking this approach in 2012-13 will be even more challenging for the CCC. After years of reduced state funding, it is appropriate to question what budgetary levers actually remain for districts in planning for further reductions.

LAO Recommendation. Given that a significant portion of the Governor's revenue assumptions is subject to voter approval in November, it makes sense to include a contingency plan in the event voters reject the tax proposal. However, the Legislature has choices as to how the contingency plans are structured. For example, the Governor places almost all the trigger cuts in K-14 education and higher education. The Legislature could instead allocate the cuts differently among the state's education and non-education programs. For example, the cuts could be targeted to programs most able to respond to a mid-year reduction, or they could be spread across more programs to reduce their impact on any one program. In the alternative, the Legislature could instead take the opposite approach: build a budget that does not rely on the Governor's tax package, with contingency augmentations if the tax package is approved.

Given the potential for mid-year trigger cuts and the high likelihood that districts are building budgets assuming the lower funding level, the Legislature should give districts some tools to help mitigate the effect on education programs. The LAO recommends that these tools be part of the initial budget package and effective beginning July 1. For the CCC, the Legislature should consider: (1) removing additional categorical and mandate requirements (beyond current-law requirements); (2) suspending the requirements on the number of full-time faculty that districts must employ; (3) modifying the 50 percent law (which requires districts to spend at least 50 percent of their general operating budget on compensation for in-classroom faculty) to include expenditures on counselors and librarians or suspending the law for one year; and (4) allowing for a special post-election layoff window.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the following question:

1. Does CCC budget planning for 2012-13 take into account the possibility of trigger cuts? If so, how? If not, how would districts accommodate mid-year trigger cuts in December 2012?

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

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Item 5: Accountability and Annual Increases – A New "Funding Agreement"

Governor's Budget Proposal. A central component of the Governor's long-term plan for higher education is a new funding agreement in years 2013-14, 2014-15, and 2015-16, committing to a minimum four percent annual base budget increase for the CCC, contingent upon the passage of the Governor's tax initiative in November 2012 and in exchange for the CCC meeting certain Administration-identified performance targets.

Staff Comment. As was discussed at the Subcommittee's March 15 hearing, "funding agreements," or "compacts" as they have been previously called, are not a new idea or approach with UC and CSU. However, in the case of the CCC, a funding agreement is a new idea, as agreements between prior administrations and the segments did not include the CCC.

At this juncture, more questions than answers are available about this funding agreement. At the March 15 hearing, the Administration testified that the frameworks are a "work in progress" and that the Administration's intent was for the agreements to be an "intrinsic part of the spring budget process."

LAO Comment. CCC funding is subject to Proposition 98. As a result, GF support for the CCC is intertwined with local property tax revenues received by the districts, since Proposition 98 counts the combination of these two fund sources together. This means that an increase in local property taxes would result in a reduction in the amount of GF needed for a given level of Proposition 98 support. For this reason, simply increasing CCC's GF support by four percent does not ensure any particular level of Proposition 98 resources for CCC, since property tax revenues do not necessarily move in tandem with GF revenues.

The Administration has clarified that it intends for CCC's four percent base increases to be applied to its entire Proposition 98 base (including both GF and local property taxes). However, this raises a new set of concerns. For example, if property taxes were to increase by less than four percent from one year to the next, fulfilling the Governor's promise of a four percent increase in CCC's Proposition 98 funding could cost well more than a four percent increase in CCC's GF appropriation. This is because the GF would have to make up for the inability of property taxes to cover their share of the overall four percent augmentation. Another difficulty arises because CCC and K-12 schools together share total Proposition 98 funding. If the overall Proposition 98 minimum guarantee were not to increase by at least four percent in a given year, meeting the Governor's proposed increase for CCC would require either shifting some of K-12's share to CCC, or appropriating above the minimum guarantee (which would increase overall state costs).

LAO Recommendation. The Legislature has shown a strong interest in accountability over the past decade. While prior attempts to adopt a framework have failed, the Legislature is currently considering SB 721 (Lowenthal). This bill would establish higher education goals and create a working group of representatives of the Legislature, Administration, segments, and others to develop specific accountability metrics. Other current and recent legislative efforts have focused on similar objectives.

The Governor's proposal provides a good opportunity to move forward with the Legislature's accountability efforts. However, the LAO recommends that accountability metrics be used to help the Legislature in identifying policy and budget priorities, rather than as a mechanism for triggering the preset four percent augmentations for the segments. Further, because accountability remains a difficult and elusive goal, it would be unrealistic to expect to complete such an effort as part of this year's budget process. Therefore, the LAO recommends that these efforts be directed through policy committees and the regular legislative process.

Finally, promising out-year base augmentations to the segments would complicate budgeting in other areas and reduce the Legislature's discretion in allocating resources. For these reasons, the LAO recommends that the Legislature reject the Governor's approach of promising base increases to the CCC. Instead, the LAO recommends that the Legislature continue its current practice of making higher education funding decisions as part of each year's budget deliberations.

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

1. Does the Administration have a further update as to the timing of the agreement with the CCC? Is the intent still that the CCC agreement, as well as with UC, CSU, and Hastings, will be an “intrinsic part of the spring budget process?”
2. The LAO has raised several key considerations regarding including the CCC in a funding agreement, due to the fact that CCC funding is subject to Proposition 98. What further response can the Administration provide to address these concerns?
3. The proposed funding agreement would remove key budget tools that the Legislature uses to guide the CCC, while plugging in automatic spending increases disconnected from actual costs and the state’s fiscal condition. How does the Administration respond to this concern?

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

6870 CALIFORNIA COMMUNITY COLLEGES

Item 6: Board of Governor's Fee Waiver Program

Description (Informational Item). The LAO will present to the Subcommittee an informational item regarding the Board of Governor's (BOG) Fee Waiver program.

Background. Generally speaking, the BOG Fee Waiver program waives enrollment fees for CCC students who demonstrate financial need. The cost of the program, which is covered by Proposition 98 GF monies, has grown rapidly in recent years, and waiver costs are projected to total $855 million in the budget year. In recent years, about one-third of students (head count) have received BOG waivers. The Administration projects fee waivers in 2012-13 will represent 70 percent of units taken by students.

Figure 5: CCC BOG Fee Waiver Program Costs

Fiscal Year	Fees Paid	Fees Waived
2003-04	$248,510,000	$168,138,000
2004-05	341,519,000	266,001,000
2005-06	351,125,000	273,789,000
2006-07	325,047,000	244,559,000
2007-08	297,258,000	225,188,000
2008-09	309,000,000	253,996,000
2009-10	360,790,000	369,260,000
2010-11 (Estimated)	323,352,000	410,633,000
2011-12 (Estimated)	361,075,000	614,680,000
2012-13 (Projected)	366,484,000	855,241,000

Under current law and regulation, there are three ways for students to be eligible for a fee waiver: (1) Part A, if students or their parents receive cash assistance from other need-based programs (such as CalWORKs); (2) Part B, if a student's or his/her family adjusted gross income is at or below 150 percent of the federal poverty level; and (3) Part C, if students have any financial need (cost of attendance exceeds their federally determined family contribution by $1 or more). Students can apply for a fee waiver by completing: (1) the Free Application for Federal Student Aid (FAFSA) or (2) for Part A and B waivers, the BOG Fee Waiver application. Verification policies differ by which type of fee waiver is sought. For instance, under Part A, appropriate documentation includes copies of a student's benefits check. Under Part B, Chancellor's Office guidelines give districts flexibility to determine what "documentation" means; acceptable methods include verifying tax records or "self-certification," whereby students are taken at their word about their or their family's income level. All students signing the BOG Fee Waiver application form do so under penalty of perjury.

In fall 2012, an administrative change will take effect for Part C waivers. The minimum standard will be tied to the amount of fees charged to a full-time student taking 24 units in an academic year, which translates to a minimum need threshold of $1,104 (instead of $1). This change is consistent with how the Cal Grant program is structured, which also requires that a student's demonstrated need be at least as much as the maximum amount of the award. The CCC Chancellor's Office estimates that this new policy will affect about 20,000 students, or 1.7 percent of current recipients, resulting in savings in the BOG Fee Waiver program of approximately $12 million in 2012-13.

Other than the financial eligibility requirements discussed above, and unlike other federal and state financial aid programs, the BOG Fee Waiver program imposes few other criteria on students to receive or retain a waiver. For instance, students may receive a waiver regardless of their reason for attending a CCC. Students may also earn failing or otherwise substandard marks for two or more academic years before they are dismissed from the CCC and lose their fee waiver. There is also no limit to the number of years students may receive a fee waiver, nor is there any limit on the number of credit units a student can accumulate.

Chapter 409, Statutes of 2010 (SB 1143; Liu), required the CCC BOG to establish a task force to examine best practices for promoting student completion and adopt a plan for improving student success rates within the CCC. The Student Success Task Force completed its work early this year; the BOG subsequently adopted the Task Force's recommendations. Of the recommendations, one concerns the BOG Fee Waiver program – that satisfactory academic progress toward a declared goal be required of students renewing their BOG Fee Waiver, and that academic and progress standards be established, including a maximum unit cap, as defined by the BOG. As statutory authority is needed to add these conditions to the BOG Fee Waiver program, the Chancellor's Office is pursuing SB 1456 (Lowenthal).

Staff Comment. The BOG fee waiver program continues to be a critical tool for access to the CCC system. The program was designed to make sure that students with financial need did not face a barrier to enrollment. However, a program structure adopted in 1984 when fees were first instituted at $5 per unit can perhaps not be justified under modern conditions without some modifications. The recent administrative changes the Chancellor's Office made are a step in the right direction, as they begin to make the program structure similar to that of other state and federal financial aid programs. The changes proposed by the Student Success Task Force, and contained in SB 1456, are intended in the same construct and merit further consideration.

LAO Recommendation. The LAO recommends that the Legislature enact the statutory changes necessary to add satisfactory academic progress requirements to the BOG Fee Waiver program. The LAO also recommends that the Chancellor's Office count dependent students' income to assess need (current policy only requires campuses to consider only parents' income). Finally, the LAO recommends that the Legislature require students to apply for a waiver using the FAFSA to ensure that they are considered for the full spectrum of federal and state aid.

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

1. The LAO has recommended that the Chancellor's Office count dependent students' income to assess need? Is the Chancellor's Office pursuing this recommendation? If not, why not?
2. How many students will be impacted by the proposed academic and progress standards, including a maximum unit cap? What characteristics describe these students?
3. What is the genesis of the administrative changes to the Part C fee waivers?

Staff Recommendation. None, this is an informational item.

6870 CALIFORNIA COMMUNITY COLLEGES

Item 7: Prioritization of Course Enrollment

Description (Informational Item). The LAO will present to the Subcommittee an informational item regarding prioritization of course enrollment at the CCC.

Background. Current law provides that the primary mission of the CCC is to offer academic and vocational education at the lower division level for both recent high school graduates and those returning to school. Another primary mission is to advance the state's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement. In addition, current law provides that essential and important functions of the CCC include: basic skills instruction, providing English as a second language, adult noncredit instruction, and providing support services that help students to succeed at the postsecondary level. Finally, the CCC is also authorized to provide community service courses and programs, so long as their provision is compatible with an institution's ability to meet its obligations in its primary missions.

In recent years, CCC enrollment has been constrained by two major factors: (1) reductions in course-section offerings as a result of state budget cuts, and (2) strong demand for CCC services, including by adults seeking retraining and other skills at a time of weak state and national economic growth. The CCC system reports that many students, particularly first-time students, have not been able to enroll in the classes they need to progress toward their educational goals. Thus, in effect, CCC enrollments are currently being "rationed." This access problem became even more serious in the current year, given the magnitude of the enacted reductions. The situation in 2012–13 is similar, to the extent that budget reductions dependent on the outcome of the November ballot further reduce available funding to support enrollment slots.

In recent budget acts, the Legislature has declared its intent that the CCC implement workload reductions (a decrease in funded FTES) in courses and programs outside of those needed for students to achieve their basic skills, workforce training, or transfer goals, consistent with the primary missions of the CCC.

Staff Comment. The recent budget reductions have had a real and detrimental impact on the ability of the CCC to maintain its "open access" mission under the state's Master Plan. The budget act and related trailer bills have provided direction and guidance to CCC districts as to the prioritization and focus of these reductions in state support. Nevertheless, questions have been raised as to whether these statements are sufficient. For instance, it is unclear if districts have restricted the enrollment of students in classes for purposes of personal enrichment under the state funded program, in order to prioritize offerings and support to students in programs or courses for transfer, basic skills, or career technical education.

Certainly, there is an intersection between budget and policy that warrants careful deliberation of these issues. The Subcommittee may wish to consider if further guidance via the budget bill or a budget trailer bill is necessary to better ensure that the priority for expenditure of limited state funds is on courses and programs needed for students to achieve their basic skills, workforce training, or transfer goals. These considerations are critically important given the uncertainty in the January budget related to the potential of mid-year trigger cuts.

LAO Recommendation. Given limited resources, it is more important than ever for the state to target funds that best meet the state's highest priorities for CCC services. To accomplish this, the Legislature should: (1) adopt statewide registration priorities that reflect the Master Plan's primary objectives, (2) place a limit on the number of taxpayer-subsidized credit units that students may earn, and (3) restrict the number of times that a student may repeat physical education and other classes at taxpayers' expense.

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

1. The Student Success Task Force recommended the adoption of systemwide enrollment priorities and other strategies for ensuring access for students with a certificate, degree, or career enhancement goal. What is the status of the implementation of these recommendations? In their implementation, how can/will compliance with these priorities by districts be monitored and enforced?
2. What enrollment management strategies for expanding and targeting access on transfer, basic skills, or career technical education have been adopted locally? What proportion of districts have implemented these types of strategies?
3. What proportion of districts have eliminated the use of state funding to offer courses or support students in programs or courses outside of transfer, basic skills, or career technical education?
4. How many districts have adopted policies that restrict the enrollment of students in classes for purposes of personal enrichment under the state funded program?
5. How many districts have implemented policies to ensure that enrollment is prioritized for continuing students who are making satisfactory progress toward their educational goals?
6. What do we know about the types of students who are not being served at campuses, even with the articulation of the Legislature's priorities for these funds?

Staff Recommendation. None, this is an informational item.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Monday, April 9, 2012
Noon
Room 112, State Capitol

HEARING OUTCOMES
ITEMS 2, 6, AND 7: NO VOTE TAKEN, INFORMATIONAL ITEMS.
ITEMS 1 AND 3 THRU 5: ALL ITEMS HELD OPEN PENDING THE MAY REVISION.

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

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick D. Wright

Thursday, April 12, 2012
9:30 a.m. (or upon adjournment of session)
Room 3191

Consultants: Kim Connor and Keely Martin Bosler

Item	**Department**	**Page**
6110	**California Department of Education**	

6110 California Department of Education

Child Care and Early Childhood Education

Background. There are many different programs that invest in child care and early childhood education. Direct child care and early childhood education services are currently funded by every level of government (federal, state, and local), including local school districts and the First 5 County Commissions. These programs have developed through separate efforts to achieve a variety of goals, including but not limited to, providing the child care necessary so that parents can work, and providing an educational environment that helps prepare young children for success in school.

State Funded Programs. Historically, the state has funded the following programs:

- **CalWORKs Child Care (Stages 1, 2 and 3) –** recipients of CalWORKs assistance are eligible for subsidized child care. This care is administered in three stages and recipients are currently entitled to two years after a family is transitioned off cash aid. All CalWORKs providers are paid through a voucher reimbursement system based on regional market rates (RMR).

- **Non-CalWORKs Child Care (General Child Care [Title 5 Centers and Family Child Care Homes], Alternative Payment programs, and Migrant and Severely Handicapped programs) –** low-income families not receiving CalWORKs assistance also are eligible for subsidized child care, though demand typically exceeds funded slots. The General Child Care Program is comprised of centers and homes that directly contract with the State to provide care. The Alternative Payment program providers are paid through vouchers similar to CalWORKs child care programs.

- **State Preschool –** early childhood education programs for three to five-year old children from low-income families. This is the only program that does not require the parents to be working or engaged in some other qualifying activity.

These state-funded programs are primarily administered by the State Department of Education (CDE) with the exception of Stage 1 CalWORKs Child Care, which is administered by the Department of Social Services (DSS). Until the 2011-12 fiscal year, the vast majority of these programs were funded from within the Proposition 98 Guarantee of funding for K-14 education. Currently, all of these programs are supported by non-98 General Fund spending and federal funds, with the exception of part-day/school-year State Preschool which continues to be funded from within Proposition 98.

The portion of the General Child Care Program that was serving three and four-year old children in center-based settings was consolidated with the State Preschool program in 2009 after the passage of Chapter 308, Statutes of 2008 (AB 2759, Jones). Over one-half of the funding for the General Child Care program is now supporting preschool programs and many of them are run by school districts.

In 2011-12, around **$1 billion was allocated for CalWORKs Child Care**, **$933 million for Non-CalWORKs Child Care**, and **$374 million for State Preschool**. These programs were funded with a mix of Proposition 98 General Fund (State Preschool only), Non-Proposition 98 General Fund ($1 billion), and federal funds ($941 million).

Head Start Programs. The federal government invests directly in Head Start programs around the State. These programs serve preschool-age children and their families. Many Head Start programs also provide Early Head Start, which serves infants, toddlers, pregnant women, and their families who have incomes below the federal poverty level.

Head Start programs offer a variety of service models, depending on the needs of the local community. Programs may be based in:

- Centers or schools that children attend for part-day or full-day services;
- Family child care homes; and/or
- Children's own homes, where a staff person visits once a week to provide services to the child and family. Children and families who receive home-based services gather periodically with other enrolled families for a group learning experience facilitated by Head Start staff.

The federal Administration for Children and Families reports that nearly **$860 million** was expended on Head Start in California in 2009 and nearly 98,000 children were served.

California First 5 and County First 5 Commissions. The California Children and Families Program (known as First 5) was created in 1998 upon voter approval of Proposition 10, the California Children and Families First Act. There are 58 county First 5 commissions as well as the State of California and Families Commission (State Commission), which provide early development programs for children through age five. Funding is provided by a Cigarette Tax (50 cents per pack), of which about 80 percent is allocated to the county commissions and 20 percent is allocated to the State Commission. This Act generates about $475 million annually.

The First 5 programs are generally directed by the State and County Commissions. Both the State and County Commissions have made early childhood education a priority for expenditure. According to the latest annual report available from First 5 California from 2009-10, the State Commission has invested in the following efforts:

- **Power of Preschool** - $15.2 million to fund Power of Preschool demonstration projects in certain counties. Power of Preschool provides free, voluntary, high-quality, part-day preschool to assist three- and four-year old children in becoming effective learners with a focus on developing preschool in underserved and high-priority communities.

- **School Readiness** - $51.7 million to counties for the School Readiness Program that strives to improve the ability of families, schools, and communities to prepare children to enter school ready to learn. Services are provided to focus on family functioning, child development, child health, and systems of care with a specific target to children and their families in schools with an Academic Performance Index score in the lowest three deciles.

- **Low Income Investment Fund Constructing Connections** - $600,000 to support Constructing Connections that coordinate and deliver technical assistance, training, knowledge, and facility financing information to support child care facilities development through local lead agencies. The Commission indicates that it leveraged more than $86 million in resources to create and renovate child care facilities and spaces.

There is considerable variation county to county; but, on the whole, County Commissions invested **$265 million** in 2009-10 to improve child development. The County Commissions predominantly invested these funds in Preschool for three and four-year olds and State school readiness programs.

Local School Districts. Local school districts have also made considerable investments in early childhood education. Many elementary schools have preschool programs and child care programs on site. In some cases these programs are those described in earlier sections (State Preschool, Head Start, or First 5 funded programs). However, in some cases these programs are funded directly by school districts using other funds, including local property tax and parent fees. In addition, school districts have flexibility to use some of their major funding streams on early childhood education. The Title I federal funding that is dedicated to improving the academic achievement of disadvantaged students can be used to support early childhood education. In addition, federal special education funding can also be used to support children demonstrating special needs prior to entering school. The State also has a categorical program called California School Age Families Education (CalSAFE) that provided money specifically for child care and other supports for parenting students. This program was added to categorical flexibility in 2008-09 and the funds allocated to districts are no longer restricted to the CalSAFE program. The State also provides local school districts with After School Educational and Safety (Proposition 49) funding of about **$680 million** annually.

Furthermore in 2010, legislation was enacted to create a two-year kindergarten program for all students who turn five between September 1 and December 1. The 2012-13 fiscal year is the first year that this two-year program is required to be offered for students that have a birthday between November 1 and December 1. School districts have had the option to offer this early Transitional Kindergarten program on a pilot basis prior to this year and districts have varied greatly in their implementation of this program. Kindergarten (whether one year or two year) is not compulsory in California.

In summary, local school districts have invested in early childhood education, but there is no easy way to quantify the investments that they have made.

Community College Districts. There is also a small amount of funding allocated to the Community College Districts to support subsidized child care for students. This includes funding for the following programs:

- **CalWORKs** - $9.2 million for subsidized child care for children of CalWORKs recipients. This program is proposed to be part of the Governor's categorical reform and would no longer be restricted for this purpose.

- **CARE (Cooperative Agencies Resources for Education)** - $9.3 million to provide eligible students with supplemental support services designed to assist low-income single parents to succeed in college. Child care is one of many supports funded by this program. This program is proposed to be part of the Governor's categorical reform and would no longer be restricted for this purpose.

- **Child Care Tax Bailout** - $3.3 million for certain districts to provide assistance for child care. This program was included in the categorical flex item adopted in the 2009-10 budget, but CCC's have not made use of this flexibility.

In addition, the Community College Districts have contracted directly with the California Department of Education to develop and deliver critical early childhood education coursework that has improved the quality and professional development of early childhood education providers.

1. Budget Reductions

Background. The State has faced a persistent budget deficit since 2001. These budget deficits have resulted in difficult budget decisions including reductions across most state programs. Child care and early childhood education programs have been reduced by over one-third since 2007-08 and are proposed to contract nearly 50 percent in the budget year. State funding has been reduced by about one-fourth since 2007-08 and would be reduced by 53 percent under the Governor's proposed budget. In other words – over $1 billion of state and federal investment in child care and early childhood education has been cut from the state budget over the past five years, which has resulted in 95,000 fewer subsidized child care slots.

Governor's Budget. The Governor's budget proposes $1.9 billion in funding for child care programs. This includes $1.5 billion in funding for programs administered by CDE and $442 million in funding for Stage 1 child care administered by DSS. This reflects a reduction of $450 million General Fund or approximately 20 percent of the total program when compared to 2011-12. The Department of Finance (DOF) estimates that this will result in 62,000 fewer child care slots in the budget year (this total includes Preschool slots). This is in addition to the 95,000 slots lost over the past five years.

Child Care Reductions. The Governor's budget proposes the following reductions to the state funded child care reductions in 2012-13:

- **Stricter Work Requirements and Reduced Time Limits for CalWORKs Recipients -** $293.6 million in savings in non-Proposition 98 General Fund by reducing time limits on CalWORKs for adults not meeting work participation requirements and applying stricter work participation requirements for all families receiving child care services. Specifically, single parent families with older children would be required to work 30 hours per week. New eligibility criteria would not provide subsidized child care for training and education activities. This change will eliminate services for 109,000 families as of April 2013. This reduction will eliminate about 46,300 child care slots.

- **Reduce Income Eligibility -** $43.9 million in non-Proposition 98 General Fund savings and $24.1 million in Proposition 98 General Fund savings by reducing the income eligibility ceilings from 70 percent of the state median income to 200 percent of the federal poverty level or 62 percent of state median income (SMI). This level equates to a reduction in the income ceiling for a family of three from $42,216 to $37,060. This reduction will eliminate about 8,400 child care slots and 7,300 state preschool slots.

The Administration has indicated that this reduction would make the income eligibility consistent with the federal maximum for receiving TANF-funded services. Furthermore, the Administration proposes to offer a food stamp benefit of $50 to subsidized child care recipients in an effort to improve the State's Work Participation Rate (WPR). Currently, California does not meet federal benchmarks related to the WPR.

- **Reduce Provider Payments.** The Governor has several proposals that would have the effect of reducing the payments to providers of child care and early childhood education services. These reductions include the following:

  - ✓ **Eliminate COLA -** $29.9 million in non-Proposition 98 General Fund savings and $11.7 million in Proposition 98 General Fund savings by eliminating the statutory COLA for capped non-CalWORKs child care programs.

  - ✓ **Reduce Reimbursement Market Rate (RMR) Ceilings and Update Survey Data -** $11.8 million in non-Proposition 98 General Fund savings by reducing the reimbursement rate ceilings for voucher-based programs from the 85th percentile of the private pay market, based on 2005 market survey data, to the 50th percentile based on 2009 survey data. Per the Administration, to preserve parental choice under lower reimbursement ceilings, rates for license-exempt providers will remain comparable to current levels, and these providers will be required to meet certain health and safety standards as a condition of receiving reimbursement. (A corresponding $5.3 million General Fund decrease is made to Stage 1 in the Department of Social Services budget to reflect the lower RMR rate.)

  - ✓ **Reduce State Reimbursement Rate (SRR) for Title 5 Contracts -** $67.8 million in non-Proposition 98 General Fund savings and $34.1 million in Proposition 98 General Fund savings by reducing the standard reimbursement rate for direct-contracted Title 5 centers and homes by 10 percent.

Administration Overstates Savings. The LAO has found that the Administration's savings estimates related to the stricter work requirements and reduced time limits for CalWORKs recipients are overstated by $50 million. The Administration has clarified that the 7,000 children that receive child care services because they are under the care of child protective services or living with an incapacitated caretaker would retain current eligibility. Therefore, instead of the $293.6 million in savings from this proposal, the LAO estimates that there would be only $250 million in savings from these policy changes.

LAO Offers Options. Recognizing the difficult budget situation, the LAO has offered several options for generating child care savings that are different from the Governor's proposal. These options include the following:

Work Requirements.

- **Current Law.** Families are eligible for subsidized child care if they are engaged in work, looking for work, training, or education. The part-day State Preschool Program does not have a work requirement.

- **Governor's Proposal.** The Governor's proposal would limit eligibility to families working at least 30 hours in subsidized or unsubsidized employment (20 hours for parents of young children). Savings: $250 million.

- **LAO Option.** The LAO has offered an alternate way to limit eligibility for budget savings of approximately **$50 million**. Instead of the Governor's strict work requirements, the LAO has suggested that the Legislature could limit education/training to two years. The CDE has indicated that it would need to modify their data collection requirements in order to fully implement this sort of eligibility change. Staff notes that there are numerous variations to limit eligibility that could be explored to achieve savings.

Income Eligibility.

- **Current Law.** Families are eligible for subsidized child care if family income is less than 70 percent of SMI.

- **Governor's Proposal.** Limits eligibility to families making less than 200 percent of federal poverty level (about 62 percent of SMI). Savings: $44 million.

- **LAO Option.** The LAO has offered an alternative for additional budget savings by lowering income ceilings below the Governor's level to 50 percent of SMI for savings of an additional **$100 million**. The LAO reviewed income eligibility in other states and found that only California and ten other states set maximum income eligibility for child care at or above 70 percent of SMI. In contrast over half of all states set income ceilings at or below 62 percent of SMI.

  Furthermore, the LAO points out that 62 percent of SMI is the maximum amount a family can earn to receive TANF-funded (Temporary Assistance for Needy Families) services. This harmonization of the income eligibility of the child care program with federal TANF-funded programs would aid in the implementation of a new WINS Plus (Work Incentive Nutritional Supplement) program the Administration is proposing to implement. WINS Plus is a new $50 a month food stamp benefit that would be made available to families receiving subsidized child care that are not in the CalWORKs program or receiving CalFresh food stamp benefits.

  This new WINS Plus benefit would allow the State to count child care recipients in the calculation of the State's Work Participation Rate (WPR). Currently, the State is likely to fall short of its federal WPR by as much as 20 to 25 percentage points. The LAO has indicated that the implementation of an additional WINS basic benefit provided to current CalFresh families that are not in the CalWORKs program could result in a 10 percentage point improvement in the State's WPR. The implementation of the WINS Plus program could further improve the WPR.

Provider Payments.

- **Current Law.** The maximum state voucher rate for licensed providers is set at the 85th percentile of regional market rates (RMR) based on 2005 data. License-exempt providers get 60 percent of licensed voucher rate. Direct contract Title 5 centers and family child care homes receive a State Reimbursement Rate (SRR) that in some areas of the state is actually lower than the RMR voucher rate.

- **Governor's Proposal.** Reduces licensed rate to 50th percentile of RMR, based on 2009 data. Equates to average reduction of between 12 percent and 14 percent. Maintains current dollar amounts for license exempt providers, which would end up at 73 percent of the newly lowered voucher rates for licensed providers. Reduces the SRR for Title 5 centers and family child care homes by 10 percent from $34.38 to $30.94 for full-day programs and $21.22 to $19.10 for part-day programs. Savings: $17 million related to RMR reductions and $68 million related to SRR reductions.

- **LAO Option.** The LAO has surveyed many other states and has found that the Governor's proposed RMR voucher rates are comparable and in some cases exceed reimbursement rates for providers in other states. The LAO also proposes as an option further lowering license exempt rates to 60 percent of the new lowered voucher rate for licensed providers for savings of about **$20 million**. The LAO goes on to reject the Governor's SRR rate reduction since Title 5 centers have more stringent operations requirements and in some cases are currently provided a lower rate than the RMR for voucher-based centers. Furthermore, current law surrounding Title 5 operations leaves providers with few opportunities to achieve these savings because providers are prohibited from collecting fees from parents and also are required to maintain prescriptive staffing ratios.

Age Limits.

- **Current Law.** A child is eligible to receive state subsidized child care through age 12 (with some exceptions for children with special needs).

- **Governor's Proposal.** The Governor does not have a proposal related to age limits, but last year the Legislature considered and adopted a proposal to prioritize child care slots to children under the age of 11. Ultimately, this proposal was later reversed and other reductions were adopted.

- **LAO Option.** The LAO has offered as an alternative eliminating child care for older school-age children during traditional hours because there are more supervision options available for school-age children. Furthermore, child care for infants and toddlers is generally more costly and more difficult to find. The LAO estimates that prioritizing child care for children under the age of 11 would generate savings of **$65 million**. The LAO indicates that an additional **$50**

million could be saved if child care is prioritized for children under the age of 10. The State is currently required to spend approximately $550 million on the After School Education and Safety (ASES) that was approved by the voters in 2002 (Proposition 49). Furthermore, an additional $130 million in federal funds are provided annually for 21st Century Community Learning Centers. There are also additional resources in some communities provided through non-profit organizations such as the Boys and Girls Club that provide other alternatives for school-age youth.

Parent Fees.

- **Current Law.** Families must pay a child care fee if their income is at or above 40 percent of SMI. Family fees range from $2 to $19 per day and are capped at 10 percent of total family income. These fees partially offset state reimbursement.

- **Governor's Proposal.** The Governor does not have a proposal related to parent fees.

- **LAO Option.** The LAO has offered a menu of options for changing the current parent fee structures that could generate **tens of millions** in savings depending on the ultimate structure. Specifically, the Legislature could (1) reduce the income level at which parents must begin paying a fee; (2) increase the amount of fee required for families at each existing income level; and/or (3) charge fees per child rather than per family. The LAO indicates that cross comparison of California's family fees are difficult with other states because states structure fees in various ways. However, the LAO points out that California's current sliding scale seems generally lower than most other states.

Time Limits.

- **Current Law.** Families can receive subsidized child care as long as they meet income and child age eligibility. There are no maximum time limits for receiving care.

- **Governor's Proposal.** The Governor does not have a proposal related to time limits.

- **LAO Option.** The LAO has provided as an option for the Legislature to consider for achieving budget savings implementing overall time limits for the child care benefit. The LAO estimates that implementing a time limit of six years could ultimately generate approximately **$100 million** in savings. However, the LAO points out that the data collection efforts of CDE would need to be enhanced to fully implement this option. A time limit would enable families on waiting lists to access care quicker since a time limit would free up slots currently used by families that have been receiving subsidized care for many years.

Interactions Between Individual Savings Proposals Exist. It is important to note that all of these proposals have interactive effects and may not result in the full amount of savings if approved with other savings options. Ultimately, the work requirements adopted in the CalWORKs program will have a significant impact on the child care savings level. This is the main reason the child care policies were reviewed with the CalWORKs policies at the March 1 hearing of the Senate Budget and Fiscal Review Committee. There are significant issues that were raised at the March 1 hearing related to the Governor's work requirements in the CalWORKs program and thus the child care program.

First, the Governor's proposal would terminate welfare to work benefits for CalWORKs recipients with young children that were previously given an exemption from participating in welfare to work activities (and therefore requiring child care) because of prior budget actions to eliminate funding for welfare to work services provided by the counties. This would essentially change the rules for these families midstream and would provide for only six months of services (including child care) before the adult portion of their grant and service supports (child care) would be eliminated if they were not fully meeting the federal work requirements.

Second, the Governor's proposal would significantly limit services (child care) to CalWORKs families and other child care families not engaged in unsubsidized work. Currently, California allows CalWORKs families to receive welfare to work services if they are engaged in education or other programs that California has historically invested in that remove barriers to employment. Under the Governor's proposal substance abuse and mental health programs would not count as a work activity and thus would limit access to services like child care. Furthermore, child care is currently extended to 31,000 children whose parents are involved in education or training activities. This policy change would have a significant impact on these families.

Other Options for Making Reductions. Last year the Legislature adopted an across-the-board reduction to child care programs of 11 percent to generate approximately $177 million in savings. The CDE implemented these savings by reducing each Alternative Payment provider (including Stage 3) contract and direct Title V contract by 11 percent. Stages 1 and 2 were not reduced since these programs are currently entitlements. Many in the child care community have indicated that across-the-board is the preferred method for making cuts because it limits disruption to clients currently served and allows local entities to make decisions that are best for their agencies. While the across-the-board reduction option may be the least disruptive option to the child care community, it may not result in targeting child care resources to those that are most in need since most child care providers would likely continue services to the families currently being served and stop intake of new families. While this provides for continuity for the families in the program it has the effect of increasing the waiting lists of qualified families waiting for access to services. However, under most reduction scenarios the waiting list for qualified families will grow.

Staff Comments. There are no cut scenarios in which $450 million in budget savings is achieved in the child care program area that does not have a significant impact on the number of available child care slots. Furthermore, there is some evidence that the reductions made to subsidized slots have further reduced the general availability of child care for unsubsidized consumers in communities where centers have closed. Therefore, all reductions in this area will have an effect on access to care.

The Legislature will need to carefully consider the Governor's proposal and weigh the options the LAO has put forward as it works towards closing the budget gap. The Legislature may also want to consider what role Proposition 98 carryover funds can play in helping to cover the costs of the General Child Care program, which primarily funds the State Preschool Program which remains funded by the Proposition 98 guarantee.

Furthermore, the Legislature will need to coordinate policy decisions made regarding work requirements in the CalWORKs program with work requirements for the child care program. Ultimately the size of the budget gap will be determined at the May Revision when additional information is received about caseloads and revenues projections. This will provide an updated framework for evaluating what options are available for bridging the budget gap with the least disruption possible to direct child care services.

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.
- Direct staff to continue to evaluate options for achieving savings that have the least impact on direct care.

2. State Preschool

Background. The California State Preschool Program provides center-based, early childhood education programs to low-income children, generally ages three and four years. Until recently, all funding for this program came from Proposition 98 funds. However, in 2011-12, most all funding for child care and development programs – except part-day preschool funding -- was shifted to state General Fund. As a result, the 2011-12 budget act provides two separate budget act appropriations and funding sources for the State Preschool Program. The Department of Education administers both of these program appropriations -- as follows -- through direct state contracts with local providers:

- **Part-Day Preschool Program (Proposition 98 Funds).** Item 6110-196-0001 of the Budget Act appropriates **$368 million** in Proposition 98 Funds for part day/part-year preschool services for low-income three and four year olds.

- **General Child Care Program (State General Fund).** Item 61109-194-0001 of the Budget Act appropriates $675 million in state General Fund for the General Child Care program, which provides center based child care services to low-income children from working families ages birth to age 12 years. Following enactment of Chapter 208 in 2008, local providers can utilize these funds -- together with part-day preschool funds -- to provide part-day/part-year preschool programs <u>or</u> full-day/full-year preschool programs for three and four year olds to improve coverage for working families. The Legislative Analyst's Office estimates that roughly **$400 million** of total General Child Care funds (about 60 percent) were being provided for preschool services for three and four year olds.

According to the LAO, data from CDE suggest that in 2011-12, local providers "blended" the **$368 million** in Proposition 98 funds for part-day preschool with about **$400 million** in state General Fund for General Child Care to offer State Preschool Program services to approximately **145,000 low-income preschool age children**. Of these, two-thirds were served in part-day programs and one-third in full-day programs.

State Preschool Program Funding in 2011-12	**Funding Appropriations**	**Funded Slots**
Part Day Preschool (Proposition 98 Funding)	$368 million	100,000
General Child Care – Preschool Expenditures (State General Fund)	$400 million (Estimated)	45,000 (Estimated)
Total	**$768 million**	**145,000**

Governor's Budget Proposals for Part-Day Preschool.

Budgetary Reductions. The Governor proposes to reduce funding for the Proposition 98 portion of the State Preschool Program by **$58 million**, or 16 percent, in 2012-13.

	2010-11	2011-12	2012-13 (Proposed)	Amount Change	Percent Change
Part-Day State Preschool (Proposition 98 Funds)	$397 m	$368 m	$310 m	-$58 m	16%

As outlined by the LAO, these savings would be achieved through two major changes presented below:

1. **Provider Rate Reductions.** The Governor proposes to reduce provider rates by 10 percent, which achieves Proposition 98 savings of **$34 million** in 2012-13. Specifically, the part-day per-child Standard Reimbursement Rate (SRR) would drop from $21.22 to $19.10 and the full-day per child SRR would drop from $34.38 to $30.94.

2. **Family Income Eligibility Criteria Lowered.** The Governor proposes to reduce program eligibility criteria by lowering the amount a family can earn and still participate in the program. Specifically, the maximum monthly income threshold would drop from 70 percent of the State median income (SMI), which equates to $3,518 per month for a family of three, to 200 percent of the federal poverty level, which equates to about 62 percent of SMI, or $3,090 per month. The Governor would achieve **$24 million** in Proposition 98 savings from this change by defunding the estimated number of part-day preschool slots currently associated with children from families that exceed the new eligibility threshold – about 7,300 slots.

In addition, the Governor does <u>not</u> propose to fund a statutory cost-of-living adjustment (COLA) increase for part-day preschool, which would have resulted in additional Proposition 98 costs of **$11.7 million** in 2012-13.

As expressed by the LAO, all of the Governor's proposed reductions and savings proposals for part-day preschool "mirror" the Governor's proposals for other child care programs -- including General Child Care -- discussed earlier in the agenda.

LAO Comments. The LAO offers the following comments on the Governor's preschool proposals from its recent budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012):

- **Governor's Proposed Rate Reduction Problematic.** The LAO is concerned that many preschool providers have few options for absorbing the Governor's proposed 10 percent reduction to the State Reimbursement Rate (SRR), and might close or drop out of the State program as a result. State mandated adult-to-child ratios and instructional day requirements, combined with local bargaining agreements – which frequently are embedded within larger K-12 school district contract agreements -- mean that providers have limited flexibility to generate local savings. Moreover, the state rate for these centers is already somewhat low – in several areas in the State, the SRR currently is lower than the rates charged by the majority of other preschool providers in the county.

- **In 2013-14, Governor Proposes to Revert to Part-Day/Part-Year Preschool Program.** As part of his proposed changes for non-Proposition 98 funded child care, beginning in 2013-14 the Governor would eliminate the existing General Child Care program and shift the associated funding to a child care voucher system to be administered by county welfare departments. This would abolish the blended State Preschool Program and revert the state's direct-funded center-based preschool program to only a Proposition 98 funded part-day/part-year program for about 91,000 children (a reduction of roughly 54,000 compared to how many children were served in the State Preschool Program in 2011-12).

  Preschool providers' ability to serve additional children or offer full-day/full-year services to meet the needs of working families would depend upon how many enrolled families could afford to pay out of pocket or obtain a state-subsidized voucher from the county welfare department. (Under the Governor's proposal, low-income families not receiving CalWORKs cash assistance would have more limited access to these vouchers).

- **Governor's Proposal for 2013-14 Ignores Reality of State's Current Preschool Program.** The Governor's proposal for 2013-14 treats the Proposition 98 preschool budget item and General Child Care budget item as two separate programs – preserving one and eliminating the other. However, in reality these funding sources have been supporting one uniform preschool program. **By redirecting all General Child Care funding into vouchers, the Governor's proposal would reduce the existing State Preschool Program by roughly 40 percent.** Moreover, the dismantling of the blended State Preschool Program would notably limit local providers' ability to provide a full-day/full-year preschool program, which is often the only way children from working low-income families are able to access services.

LAO Recommendations.

1. **Reject Proposal to Reduce Preschool Provider Rates by 10 Percent.** The LAO recommends the Legislature reject the Governor’s January budget proposal to reduce preschool provider rates by 10 percent and save **$34 million** in 2012-13. According to the LAO, this cut would be untenable for many preschool providers. If reductions are needed, the LAO recommends eliminating preschool slots.

2. **Reject Proposal to Lower Family Income Thresholds and Instead Eliminate Slots.** The LAO recommends that the Legislature reject the Governor’s January budget proposal to lower income eligibility thresholds from 70 percent of the state median income (SMI) to 200 percent of the federal poverty level (about 62 percent of SMI) and eliminate associated slots, for savings of **$24 million** in 2012-13. If reductions are needed, the

LAO recommends that the Legislature eliminate preschool slots, as enrollment priority already is reserved for the lowest income applicants. (Providers already are required to select first from the families furthest below the existing ceiling of 70 percent of the SMI.)

3. **Fund Entire State Preschool Program within Proposition 98.** The LAO recommends that the Legislature shift **$400 million** from non-Proposition funded General Child Care program into Proposition 98 to accurately reflect the existing California State Preschool Program beginning in 2012-13. This action will fully reflect the existing State Preschool Program budget and align all funding for the program within Proposition 98.

   As part of this alignment, the LAO recommends a comparable adjustment to the Proposition 98 minimum guarantee to avoid the need for a corresponding reduction to K-12 programs. Specifically, the LAO recommends the Legislature reduce non-Proposition 98 General Fund for General Child Care by $400 million (the amount of General Child Care spent for preschool services in 2011-12) and increase the Proposition 98 funding for preschool by a like amount.

4. **Prioritize Preschool Funding for Four Year Olds No Longer Eligible for Kindergarten During Transition Period**. The LAO recommends that the Legislature adopt the Governor's proposal to prioritize slots in the state preschool program for low-income children affected by the change in the Kindergarten start date during the transition years. (See following issue on Transitional Kindergarten.)

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.

3. Transitional Kindergarten

Background.

Kindergarten Eligibility. Kindergarten is not compulsory in California. Per current law, parents and guardians are not required to enroll children in Kindergarten (EC Section 48200). If parents choose to enroll their children, schools must admit children who are of legal age (EC Section 48000). School districts must admit age eligible children at the beginning of the school year or whenever the student moves into the districts.

In 2011-12, students are eligible for Kindergarten if they turn five years old on or before December 2nd. However, Chapter 705, Statutes of 2010, will raise the Kindergarten entrance age by one month each year over a three year period commencing in 2012-13. More specifically, students will need to be five-years old by November 1st in 2012-13, by October 1st in 2013-14, and by September 1st in 2014-15 in order to be eligible for Kindergarten.

Local Options for Under-Age Children. Current law allows school districts to admit children to Kindergarten who are not age eligible – essentially through a local waiver process. However, the child may only attend and school districts only receive funding for the part of the year the child is five years old. According to the Department of Education, this is a rarely utilized process, and districts that admit these children to kindergarten prior to the time they turn five "jeopardize their apportionments, as auditors may take fiscal sanctions through an audit process." The Department of Education further states that "districts that base early admissions on test results, maturity of the child, or preschool records may risk being challenged by parents/guardians whose children are denied admission."

Kindergarten Continuance. According to the Department of Education, continuance is defined as more than one school year in Kindergarten. Current law requires a child who has completed a year of Kindergarten to be promoted to first grade, unless the parent or guardian and the school district agree that the child may continue Kindergarten for not more than one additional year. (EC 48011) If agreement is reached, parents or guardians must sign the Kindergarten Continuance Form. Per the Department, failure to have signed forms on file may jeopardize audit findings and result in loss of apportionment.

The Department of Education reports that a total of 22,894 Kindergarten students were enrolled in a second year of Kindergarten statewide in 2011-12. This represents about 4.7 percent of the 487,446 Kindergarten students enrolled statewide in 2011-12.

Transitional Kindergarten. Chapter 705 requires local school districts - as a condition of funding – to provide a new Transitional Kindergarten program for students who are no longer eligible for regular (or traditional) Kindergarten beginning in 2012-13. On fully implemented, this new program will offer an additional year of public school for children with birthdays between September 1st and December 2nd of each year.

According to the Department of Education, "Transitional Kindergarten is the first year of a two-year Kindergarten program that uses a modified Kindergarten curriculum that is age and developmentally appropriate." Per the Department, "each elementary or unified school district must offer Transitional Kindergarten classes for all children eligible to attend. A child who completes one year in a Transitional Kindergarten program, shall continue in a Kindergarten program for one additional year."

Unlike other early childhood programs, funding for the Transition Kindergarten program would not be needs-based. For example, funding would not be targeted on the basis of income, as is the case with most other publicly funded child development programs, such as state preschool. Instead, program funding would be provided to serve all children with birthdays that fall within a three month range.

Governor's Budget Proposals:

1. **Eliminate New Transitional Kindergarten Program.** According to the Administration, the Governor believes this is a time for reinvestment and reform of core programs, not for program expansions. As such, the Governor's January 10 budget proposed to eliminate the new, two-year Transitional Kindergarten -- pursuant to Chapter 705 -- in order to save **$223.7 million** in Proposition 98 funding in the budget year.

   The Governor's most recent proposal – reflected in proposed trailer bill language -- would still eliminate the new Transitional Kindergarten program authorized by Chapter 705. However, the latest proposal would expand existing law to authorize full-year funding for children who are not eligible for Kindergarten when they enter school if the district authorizes early admittance with a waiver. Coupled with current law that allows up to one additional year of Kindergarten, the Governor's proposal would not authorize the new Transitional Kindergarten program, but would authorize a full two years of Kindergarten for districts that choose to admit children who are not age-eligible for Kindergarten.

   As a result of these changes, the Department of Finance has revised its savings estimates to reflect (1) savings offsets for school districts with declining enrollment, and (2) additional costs resulting from districts that grant early admission "waivers" to children who do not meet the new age requirements when they enter school. As a result of these factors, the Department of Finance has indicated that their original savings estimates could drop by up to $100 million in 2012-13, which would result in savings **of $123.7 million.**

2. **Extend Preschool to Children No Longer Eligible for Kindergarten.** The Governor proposes additional trailer bill language to increase the eligibility age for the part-day State Preschool program in order to cover four-year old children who are no longer eligible for Kindergarten due to the eligibility age rollback, but who turn five years old by December 2. (Current law limits eligibility for state preschool funding to children who turn three and four years old by December 2.) The Governor's proposal would give eligible five-year olds first priority for part-day State Preschool funding; however, the Governor does not provide additional funding for the program to cover a potential increase in caseload. Alternatively, the Governor proposes a $58 million (16 percent) reduction for part-day state preschool funding in 2012-13, as outlined earlier in the agenda.

LAO Comments. The LAO offers the following comments on the Governor's Transitional Kindergarten (TK) proposal from its recent budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012):

- **Governor Would Not Initiate New TK Program, Saving $224 Million in 2012-13.** The Governor proposes not to initiate the new TK program. Because he would maintain the date change for kindergarten eligibility, this proposal would save an estimated $224 million in 2012-13 from districts enrolling a smaller cohort of kindergarteners—that is, not enrolling children who will turn five after November 1. (The state would need to make a corresponding change to the "declining enrollment" adjustment in the state revenue limit formula to capture these savings in 2012-13.) The Governor's plan redirects these savings to fund other existing K-12 activities. The savings would grow to roughly $675 million annually by 2014-15, when the TK program otherwise would have been fully implemented.

- **Governor Would Make Slight Modification to Existing Waiver Process for Underage Kindergarteners.** As under current law, parents of children born after the cutoff could request a waiver to have their children begin kindergarten early. The Governor is proposing to modify current law, however, so these children could begin kindergarten at the beginning of the school year, rather than waiting to enter in the middle of the year after they turn five. The administration clarifies that as under current law, the waiver option would continue to pertain to early admittance to traditional kindergarten programs, as TK programs would no longer be funded. Districts could choose to admit four-year old children to kindergarten early on a case-by-case basis if they believed it was in the best interest of the child. To the extent many parents request and districts grant these waivers, it would increase the 2012-13 kindergarten cohort, thereby reducing the amount of savings generated by the change in cutoff date**.**

- **Governor's Proposal Not to Initiate New TK Program Is Reasonable for Budgetary Reasons.** Given the major funding and programmatic reductions school districts have experienced in recent years—and the potential for additional reductions if the November election does not result in new state revenue—the LAO agrees with the Governor's assessment that now is not the time to initiate major new programs. Budget reductions and unfunded COLAs mean districts currently are increasing class sizes, shortening the school year, and cutting many activities that have long been part of the school program. The LAO does not believe that offering a 14th year of public education to a limited pool of children—and dedicating resources to develop new curricula and train teachers—at the expense of funding existing K-12 services makes sense.

- **…And for Policy Reasons.** The LAO also has fundamental policy concerns with the design of the TK program. While receiving an additional year of public school likely would benefit many four-year olds born between September and December, the LAO questions why these children are more deserving of this benefit than children born in the other nine months of the year. This preferential treatment is particularly questionable since the eligibility date change will render children born between September and December the oldest of their kindergarten cohorts, arguably an advantage over their peers. Moreover, the TK program would provide an additional year of public school to age-eligible children regardless of need. This includes children from high and middle-income families who already benefit from well-educated parents and high-quality preschool programs. The LAO believes focusing resources on providing preschool services for low-income four-year olds—regardless of their exact birth month—likely would have a greater effect on improving school readiness and reducing the achievement gap.

LAO Recommendations. Overall, the LAO recommends that the Legislature immediately adopt the Governor's proposal to eliminate the new TK program and focus limited state resources on serving four year olds who could most benefit from state subsidized education programs. The LAO also makes recommendations to smooth the transition to the new Kindergarten cutoff dates pursuant to Chapter 705. More specifically, the LAO recommends that the Legislature:

1. Immediately adopt the Governor's January budget proposal to cancel initiation of the new Transitional Kindergarten program, because it is costly and poorly designed. According to the LAO, this would result in a savings of between **$100 million** and **$224 million** in 2012-13. (Savings estimates are affected by declining enrollment adjustments in the state revenue limit formula.)

2. Modify the Governor's waiver proposal to focus on students born close to cutoff dates.

3. Adopt the Governor's proposal to prioritize preschool access for low-income children affected by the Kindergarten date change, but only for the transition years.

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.

4. Child Nutrition

Background. The Department of Education currently administers nearly **$2.4 billion** in state and federal funding for child nutrition programs that reimburse a variety of local agencies – primarily public local education agencies (LEAs) – providing meals to low-income children and youth in our state. Most funding is federal, but state funding was added about twenty-five years ago to supplement federal meal reimbursements.

Child Nutrition Program Funds in 2011-12	Budget Item	Budget Appropriations
State Funds		
State Nutrition Program (Prop 98)	6110-203-0001	$155.2 million
State Nutrition Program (Non-98 GF)	6110-202-0001	10.4 million
State Breakfast Start Up & Summer Programs (Prop 98)	6110-201-0001	1.0 million
Subtotal, State Funds		**$166.6 million**
Federal Funds		
Child Nutrition Program	6110-201-0890	$2,173.2 million
Summer Programs	6110-201-0890	29.0 million
Subtotal, Federal Funds		**$2,202.2 million**
Total, All Funds		**$2,368.8 million**

Funded meals largely include free- and reduced-price breakfast and lunch provided predominantly in LEAs in school settings. However, both the state and federal programs authorize funding for low-income children in non-LEA settings -- including private schools, child care centers and family day care homes.

State Meal Reimbursements for Non-LEA Meals. According to the California Department of Education (CDE) a total of **$199 million** in federal reimbursements and **$9.8 million** in state reimbursements were provided for non-LEA meal providers in 2010-11. This funding provided **62.8 million meals** for low income children and youth. Since Proposition 98 funding is statutorily limited to K-14 education agencies and to child care and development "instructional" programs, the state has historically appropriated state meal reimbursements for non-LEA meal providers with non-98 General Funds.

The 2011–12 budget appropriates **$10.422 million** in non-98 General Funds for state meal reimbursements for non-LEA child nutrition providers. Based on current meal projections, CDE estimates that the state meal rate will remain at **15.62 cents per meal** (each free and reduced-price lunch and breakfast served) in 2011-12. (CDE estimates state meal reimbursement rates for LEA child nutrition providers serving K-12 students – funded with Proposition 98 dollars – at 21.95 cents per meal in 2011-12.)

Meal "sponsors", which pass through state and federal nutrition funding to meal "providers", may retain up to **30 percent** of state meal reimbursements for administrative expenses that generally include administrative salaries, bookkeeping, rent/lease agreements, utilities and equipment rental. (Food preparation is not considered an administrative cost and therefore must be covered by providers with remaining funds.)

Governor's Budget Proposal. The Governor proposes a decrease **of $10.422 million** in non-98 General Fund in 2012-13 to eliminate state supplemental reimbursements for free- and reduced-price breakfast and lunch meals served at private schools, private child care centers, and other entities.

The Governor's proposal would eliminate all non-98 General Fund appropriations for state child nutrition programs administered by the Department of Education. The Governor has recommended the elimination of several other small education programs supported with non-98 General Fund in 2012-13.

The Department of Education has summarized state and federal nutrition funding in 2010-11 (the last full year available) for non-LEA providers in the table below. As illustrated, the Governor's proposal would eliminate state meal reimbursements primarily for private agencies -- schools and child care centers (non-profit and for-profit). Of the **$9.8 million** expended by non-LEA nutrition sponsors in 2010-11, **$8.3 million** (84 percent) was expended by these private agencies.

Non-LEA (Non-98) Child Nutrition Program in 2010-11

School Nutrition Program	**School Programs**	**Meals**	**State (Non-98) Reimbursement**	**Federal Reimbursement**
47 Sponsors	PRIVATE SCHOOLS	2,384,399	$ 372,446	$ 6,120,758
1 Sponsor	PRIVATE SCHOOL W/ CHILD CENTER	2,877	$ 449	$ 5,996
46 Sponsors	PUBLIC INSTITUTIONS (County Probation Institutions, City or County Children's Homes)	6,208,235	$ 969,726	$ 14,299,207
2 Sponsors	CAMPS/RECREATION PROGRAMS	19,640	$ 3,068	$ 47,673
96 Sponsors		**8,615,151**	**$ 1,345,690**	**$ 20,473,634**
Child and Adult Care Food Program	**Child Care Programs**	**Meals**	**State (Non-98) Reimbursement**	**Federal Reimbursement**
446 Sponsors	PRIVATE NON-PROFIT	46,463,555	$ 7,257,621	$ 154,205,552
209 Sponsors	PRIVATE FOR PROFIT	4,000,206	$ 624,833	$ 12,039,882
25 Sponsors	GOVERNMENT (Military and Local Govt Agencies)	3,070,607	$ 479,631	$ 9,337,576
24 Sponsors	PUBLIC HIGHER EDUCATION (Non- Foundation CSU and UC)	511,394	$ 79,880	$ 2,547,682
13 Sponsors	INDIAN TRIBAL	162,507	$ 25,384	$ 399,988
717 Sponsors		**54,208,269**	**$ 8,467,348**	**$ 178,530,680**
813 Sponsors	**TOTAL**	**62,823,420**	**$ 9,813,035**	**$ 199,004,314**

However, the Governor's proposal would also eliminate state meal reimbursements for other public providers that expended a total **$1.5 million** in 2010-11. These public providers cover meals for schools associated with county probation departments, county juvenile halls, and city or county children's homes; and meals for child care centers operated by public higher education institutions (non-foundation based), various military agencies (State Coast Guard, Army, Air Force, Marines), and other local government agencies (Human Services, Employment, etc.).

The Governor's proposal does not affect **$199 million** in federal child nutrition funding currently provided for these non-LEA providers.

According to CDE, the Governor's proposal to eliminate state nutrition funding for non-LEA providers would reduce meal reimbursements for 20,000 nutrition sites and 312,000 children and youth statewide. However, according to CDE, most other states do not provide supplemental state reimbursements on top of their federal meal subsidies, as California does.

LAO Comments: According to the LAO, California receives about $200 million in federal funds each year to provide breakfast and/or lunch to about 312,000 children who do not attend public school districts. The majority of this federal funding goes to family daycare homes (FDHs), but other types of entities, including private schools, child care centers run by public or private parties (other than school districts), and juvenile halls, also receive this funding. The federal per-meal subsidy is $2.79 for lunches and $1.80 for breakfasts. In 2011-12, the state budgeted $10.4 million in non-Proposition 98 General Fund to supplement these federal nutrition subsidies. (The state spends an additional $2.5 million in Proposition 98 funds to subsidize meals in child care programs sponsored by school districts.) The state subsidy provides an additional $0.16 per meal.

Governor Proposes to Eliminate State Funding. The Governor proposes to eliminate the state subsidy for meals in non-school district settings, saving $10.4 million non-Proposition 98 General Fund in 2012-13. The Governor's proposal represents a five percent reduction in the total subsidy for these meals. (Per the LAO, the overall reduction is relatively small because federal funding, which supports the majority of the program, would remain unaffected.)

LAO Recommendations: Overall the LAO recommends that the Legislature adopt a consistent state policy – building upon the Governor's proposal -- and limit state funding for meal subsidies to students attending public K-12 schools. More specifically, the LAO recommends that the Legislature:

(1) Adopt the Governor's proposal to save **$10.4 million** in non-Proposition 98 funds by eliminating state meal funding for programs run by other entities. (The LAO recommends that the small share of these funds supporting meals for K-12 students attending juvenile halls instead be funded as part of the Proposition 98 school nutrition program.)

(2) Eliminating state meal subsidies for child care centers and family day care homes funded through school districts in order to maintain consistency across programs and prioritize limited state resources. This action would save an additional **$2.5 million** in Proposition 98 funds, which could be redirected to offset proposed reductions to the state preschool program or to other K-12 priorities. All entities would continue to be eligible to receive federal support, which provides the bulk of funding for the meal program.

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.

5. Child Care Quality Improvement Plan Activities—Review

Background. The federal Child Care and Development Fund (CCDF) is the main child development block grant provided to states by the federal government for the support of child care services to families who meet certain income and need criteria. The federal government requires that at least 4 percent of the block grant be used for activities to improve the quality of child care. Another portion – not to exceed 5 percent of the block grant amount – is used to pay for costs of administering CCDF. The State is required to submit a plan every two years detailing how the quality improvement funds will be allocated and expended. The most recent plan was submitted to the federal government in May of 2011. This plan covers the period October 1, 2011 through September 30, 2013.

The CDE was required to set forth goals for the next biennium for the expenditure of the quality improvement funds in the plan submitted to the federal government. The CDE set out the following seven goals in this plan:

1. By June 30, 2013, tools will be developed for Early Childhood Education (ECE) coursework and professional development activities to be mapped to the state's *Early Childhood Educator Competencies*. Faculty and professional development educators will know and understand the competencies their students should be able to demonstrate upon successful completion of any given course or training.
2. By 2013, all California community colleges that offer early learning and care programs will incorporate the "core eight" classes and additional courses will reflect the designated lower division *Competencies* in their degree programs.
3. By 2014, all California State University, University of California and at least several of the private higher education institutions that offer early childhood education programs and will have articulation agreements with the community colleges and align their courses to a common and comprehensive course of study across the two-and four-year degree system.
4. By 2015, a clear and accessible system of demonstrating the *Early Childhood Educator Competencies* equivalency for courses will be developed and publicized, including clear criteria and deliverables. This system includes courses taken from out-of-state and foreign institutions and non-Western Associations of Schools and Colleges accredited institutions, as well as competencies developed through professional practice.
5. Existing quality improvement professional development projects will be maintained and expanded to the extent feasible.
6. Ensure that Quality Improvement professional development providers collect data from their service population in a manner consistent with the National Workforce Registry and the Early Child Care Data Collaborative. Develop a process in which data about workforce utilization of Quality Improvement professional development activities is used to inform allocation of resources.
7. AB 212 and First 5 California's CARES Plus, which provide stipends for professional development, will increase early childhood practitioners' educational attainment and retention in the field.

The CDE had provided a high level summary of the allocation of Quality Improvement Activities for 2011-12 (see Attachment A). Some of the contracts are multi-year and others are renewed annually. For the most part, many of these contracts have been renewed annually or biannually with the same contractor since their inception and many of them were started in 1998. Funding for the Resource and Referral Programs dates back to 1976.

The state recently attained a $53 million federal Race to the Top Early Learning Challenge Grant to develop locally based quality rating systems for child care and development programs. This grant will be expended over four years.

Governor's Budget. The Governor's budget proposes the expenditure of $72 million in federal funds for 27 quality improvement projects.

The Governor has proposed to shift all administration and funding for quality improvement to the Department of Social Services beginning in 2013-14. During the budget year the DSS and CDE would work jointly to develop a spending plan.

Major Categories of Quality Improvement Projects. There are several major categories of funding for the quality improvement projects. However, each of these categories is supported by multiple projects and grants. The major categories are as follows:

- Support for the Resource and Referral Network and Agencies.
- Support for the Local Child Care and Development Planning Councils.
- License Enforcement for Child Care Programs (State Support).
- Training and Professional Development for Early Child Care Professionals.
- Grants, stipends, and other financial incentives to encourage professional development and licensure.
- Early Childhood Education Curriculum Development.

Overall Quality Improvement Strategy Unclear. As listed above, the CDE has indicated very specific goals to the federal government for expenditure of quality improvement funds over the next biennium. However, presently it is difficult to make linkages from the individual projects to these goals. Furthermore, some of the goals are merely statements and not actually tangible goals that the department is working towards. Generally, CDE has not developed measurable outcomes and performance metrics for each of the quality improvement contracts. This makes it difficult to determine whether these investments are the most strategic in meeting the specified goals illustrated in the federal plan. Furthermore, independent reviews have not been done for most of the projects.

The LAO finds that many of the 27 quality improvement projects historically funded by CDE might be worthwhile, but have not been rigorously evaluated. Therefore, the LAO recommends that the Legislature provide specific guidelines and priorities for the quality improvement activities that are outcome based. The LAO also recommends regular reports to the Legislature related to the expenditure of the $53 million multi-year federal Race to the Top grant that was recently awarded to the state to develop locally based quality rating systems for child care and early childhood education programs.

Who Benefits From the Projects? It is clear that some investments in quality improvement can and should be for the benefit of the entire early childhood education field, especially state standards and curriculum. However, it is unclear whether other investments in grants, stipends, and free and reduced priced training opportunities are targeted to the development of the network that serves subsidized families. Given limited resources and the State's interest in developing a strong network that serves subsidized families there may be an interest in better targeting these resources to meet specific outcomes.

Who Should Manage Quality Improvement Projects? The Governor has proposed to transfer management of all of the quality improvement projects from CDE to DSS and to work on a joint plan for the upcoming budget year. However, this plan, as currently articulated, does not provide for legislative oversight of the expenditure of these funds. The LAO has recommended that the Legislature continue to take an active role in encouraging and overseeing activities that support a high-quality child care and early childhood education program.

The LAO also finds that a large majority of states administer their federal child care funds through their state social services agencies, and many have well-respected early childhood education systems. As summarized above, the quality improvement projects span several large categories of expenditures. Some of these projects are clearly linked to education and others are not.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Direct staff to work on developing reporting requirements for the Race to the Top Grant.
- Direct staff to work with CDE, DOF and LAO to gather more information on who is benefiting from each quality project.

Quality Improvement Activities for 2011-12

The California Department of Education, Child Development Division (CDE,CDD) supports a variety of Quality Improvement Activities to support and improve the quality of education and care for California's young children. These services are multi-faceted and cover a wide spectrum of activities. Services include multi-lingual assistance for parents as they seek care for their children. It includes training for both new as well as experienced child care providers. The training may be specific trainings or may be financial assistance for completed approved college coursework. The quality improvement activities include the research and development of early learning foundations and curriculum frameworks as well as developmentally appropriate assessments. The quality improvement work supported by the CDE/CDD is provided in a systematic manner that builds from one year to the next with the goal of raising the level of professionalism among California's care providers and improving the quality of care for all of California's young children.

Quality Improvement Activity	2011-12 Funding	Purpose
800-KIDS-793 Phone Line for Parents	$91,000	Provide bilingual phone assistance to parents seeking child care using the caller's zip code, automated or live information specialist.
California Early Childhood Mentor Program	$2,866,295	Mentor early care and education college practicum students, provide resources and expertise to new directors and administrators, and support experienced teachers and directors to serve as mentors to others: http://www.ecementor.org/
California Preschool Instructional Network (CPIN)	$2,600,000	Provide statewide professional development, technical assistance, and support to California's preschool program administrators and teachers to improve the quality of California preschool programs for all children, including children with disabilities and those who are learning English: http://www.cpin.us/
Child Care Initiative Project (CCIP)	$3,027,444	Recruit and train individuals to become licensed family child care providers, and provide retention training conducted by local resource and referral agencies: http://www.rrnetwork.org/programs/child-care-initiative-project.html
Child Care Retention Program: *AB 212*	$10,750,000	Provide funds for child care staff retention activities to retain qualified staffs who work directly with children in state-subsidized, center-based programs.
Child Development Teacher & Supervisor Grant Program	$318,000	Provide assistance through grants administered by the California Student Aid Commission for college course work leading to the attainment of a Child Development Permit at the teacher, master teacher, supervisor, or program director levels. Participants are selected on the basis of their demonstrated financial need and academic achievement, and must commit to working one full year in a licensed child care center for every year they receive a grant.
Child Development Training Consortium	$3,191,200	Provide financial and technical assistance to students to access college-level child development coursework and general education leading to a Child Development Permit: http://www.childdevelopment.org/cs/cdtc/print/htdocs/home.htm
Community College PITC Demonstration Sites	$650,000	Provide institutes and follow-up technical assistance to selected California community colleges to integrate the PITC philosophy and practices into their existing infant/toddler programs and into the infant/toddler courses to serve as demonstration sites.. http://www.wested.org/cs/we/view/pj/249
Desired Results Field Training	$580,000	Provide regional trainings on the Desired Results system to new program directors and newly funded agencies and develop supports, including DRDP© 2010 training materials and activities, training videos, online classes, CD ROMs, and other support materials: http://www.wested.org/desiredresults/training/
Desired Results System for Children and Families	$905,100	Establish and maintain an early childhood assessment system that is aligned with the state's Early Learning Guidelines: http://www.wested.org/desiredresults/training/

Quality Improvement Activity	2011-12 Funding	Purpose
Development of Learning Foundations, Curriculum Frameworks & supporting materials	$964,000	Establish Early Learning Guidelines, curriculum frameworks, and supporting materials to assist the early childhood workforce. http://www.cde.ca.gov/sp/cd/re/#infanttoddlerres http://www.cde.ca.gov/sp/cd/re/#preschoolres
English Language Learners Support	$1,400,000	Provide training to support preschool children whose home language is not English by using the resource guide, *Preschool English Learners: Principles and Practices to Promote Language, Literacy, and Learning,* and its companion DVD *A World Full of Language:* http://www.cpin.us/p/pel/
Evaluation of Quality Improvement Activities	$570,000	Evaluate the impact of various quality improvement (QI) activities and ways to improve the QI professional development system
Faculty Initiative Project (FIP)	$455,000	Integrate essential content and competencies embodied in CDE/CDD publications and materials into early childhood education curriculum in the California Community College (CCC) and California State University (CSU) systems by fostering collaboration and building consensus among faculty members involved in core early childhood education and child development curriculum: http://www.wested.org/facultyinitiative/
Family Child Care at Its Best Project	$910,000	Provide training and quality improvement services to licensed family child care home providers throughout the state, with sessions scheduled mainly during evenings and weekends. http://humanservices.ucdavis.edu/ChildDev/Programs/FamilyChildCare.aspx?unit=CHLDEV
Health and Safety Training	$455,000	Arrange for or provide reimbursement to licensed center-based staff, licensed family child care providers, and license-exempt family child care for costs associated with completing health and safety training, including pediatric cardiopulmonary resuscitation (CPR), pediatric first aid, prevention and control of communicable disease in child care settings, safe handling of food, nutrition, disaster preparedness and mitigation, and other health-and safety-related subjects. Trainers and curriculum content is reviewed and approved by the California Emergency Medical Services Authority.
Inclusion and Behavior Consultation Network	$460,000	Provide consultation, on-site training, and technical assistance to programs and providers serving children with disabilities and special needs, including issue related to mental health and challenging behaviors: http://www.wested.org/cs/cpei/print/docs/cpei/behavior-inclusion.html
License Enforcement for Child Care Programs	$8,000,000	Support state licensing of child care facilities
Local Child Care and Development Planning Councils	$3,319,000	Provide a forum for the identification of local child care priorities and development of policies to meet those needs: http://www.cde.ca.gov/sp/cd/re/lpc.asp
Map to Inclusive Child Care & CSEFEL	$250,000	Facilitate a collaborative effort among key stakeholders in California to expand opportunities for children with disabilities and other special needs in child care and development programs and support integration of the Center on the Social and Emotional Foundations for Early Learning (CSEFEL) pyramid framework into the state's professional development system and to support implementation of CSEFEL: http://www.cainclusivechildcare.org/camap/
Program for Infant/Toddler Care (PITC) Institutes	$970,000	Conduct the Program for Infant/Toddler Care (PITC) Institutes, a comprehensive multi-media training program for trainers of infant/toddler caregivers that is presented in four separate modules, for approximately 60 participants per module: http://www.wested.org/cs/we/view/serv/97
PITC Inclusion of Infants and Toddlers with Disabilities	$840,000	Provide a training-of-trainers institute, a seminar for community colleges, regional technical assistance activities, support to institute graduates, and support of inclusive practices in other PITC activities, including a *Beginning Together* advanced technical assistance institute:http://www.wested.org/cs/we/view/pj/514
PITC Partners for Quality Regional Support Network		Provide training and technical assistance activities at the local level, improve the quality and increase the quantity of child care services for infants and toddlers through the PITC Partners for Quality Regional

Quality Improvement Activity	2011-12 Funding	Purpose
	$3,920,000	Support Network: http://www.wested.org/cs/we/view/pj/249
Resource and Referral Programs	$22,285,541	Support resource and referral (R&R) programs that make referrals to parents for child care services, administer the TrustLine fingerprint screening application process, and carrying out professional development activities for the array of child care provider types: http://www.rrnetwork.org/welcome/for-providers.html
Stipend for Permit	$455,000	Pay the cost of the application fees for student teachers in child care and development programs to obtain a Child Development Permit.
Subsidized TrustLine Applicant Reimbursement	$960,000	Pay the fees associated with the TrustLine fingerprinting process for license-exempt individuals serving families receiving subsidized child care services.
Training and Stipends for School-Age Program Professionals	$693,420	Provide community-based training to staff working in before-and after-school programs and stipends to support endorsed trainers who conduct local training sessions and provide on-site consultation for the enhancement of quality in school-age and after-school programs:http://www.calsac.org/
TOTAL	**$71,886,000**	

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick D. Wright

Thursday, April 12, 2012
9:30 a.m. (or upon adjournment of session)
Room 3191

Consultants: Kim Connor and Keely Martin Bosler

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Education

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.

6110 California Department of Education

Child Care and Early Childhood Education

Background. There are many different programs that invest in child care and early childhood education. Direct child care and early childhood education services are currently funded by every level of government (federal, state, and local), including local school districts and the First 5 County Commissions. These programs have developed through separate efforts to achieve a variety of goals, including but not limited to, providing the child care necessary so that parents can work, and providing an educational environment that helps prepare young children for success in school.

State Funded Programs. Historically, the state has funded the following programs:

- **CalWORKs Child Care (Stages 1, 2 and 3) –** recipients of CalWORKs assistance are eligible for subsidized child care. This care is administered in three stages and recipients are currently entitled to two years after a family is transitioned off cash aid. All CalWORKs providers are paid through a voucher reimbursement system based on regional market rates (RMR).

- **Non-CalWORKs Child Care (General Child Care [Title 5 Centers and Family Child Care Homes], Alternative Payment programs, and Migrant and Severely Handicapped programs) –** low-income families not receiving CalWORKs assistance also are eligible for subsidized child care, though demand typically exceeds funded slots. The General Child Care Program is comprised of centers and homes that directly contract with the State to provide care. The Alternative Payment program providers are paid through vouchers similar to CalWORKs child care programs.

- **State Preschool –** early childhood education programs for three to five-year old children from low-income families. This is the only program that does not require the parents to be working or engaged in some other qualifying activity.

These state-funded programs are primarily administered by the State Department of Education (CDE) with the exception of Stage 1 CalWORKs Child Care, which is administered by the Department of Social Services (DSS). Until the 2011-12 fiscal year, the vast majority of these programs were funded from within the Proposition 98 Guarantee of funding for K-14 education. Currently, all of these programs are supported by non-98 General Fund spending and federal funds, with the exception of part-day/school-year State Preschool which continues to be funded from within Proposition 98.

The portion of the General Child Care Program that was serving three and four-year old children in center-based settings was consolidated with the State Preschool program in 2009 after the passage of Chapter 308, Statutes of 2008 (AB 2759, Jones). Over one-half of the funding for the General Child Care program is now supporting preschool programs and many of them are run by school districts.

In 2011-12, around **$1 billion was allocated for CalWORKs Child Care**, **$933 million for Non-CalWORKs Child Care**, and **$374 million for State Preschool**. These programs were funded with a mix of Proposition 98 General Fund (State Preschool only), Non-Proposition 98 General Fund ($1 billion), and federal funds ($941 million).

Head Start Programs. The federal government invests directly in Head Start programs around the State. These programs serve preschool-age children and their families. Many Head Start programs also provide Early Head Start, which serves infants, toddlers, pregnant women, and their families who have incomes below the federal poverty level.

Head Start programs offer a variety of service models, depending on the needs of the local community. Programs may be based in:

- Centers or schools that children attend for part-day or full-day services;
- Family child care homes; and/or
- Children's own homes, where a staff person visits once a week to provide services to the child and family. Children and families who receive home-based services gather periodically with other enrolled families for a group learning experience facilitated by Head Start staff.

The federal Administration for Children and Families reports that nearly **$860 million** was expended on Head Start in California in 2009 and nearly 98,000 children were served.

California First 5 and County First 5 Commissions. The California Children and Families Program (known as First 5) was created in 1998 upon voter approval of Proposition 10, the California Children and Families First Act. There are 58 county First 5 commissions as well as the State of California and Families Commission (State Commission), which provide early development programs for children through age five. Funding is provided by a Cigarette Tax (50 cents per pack), of which about 80 percent is allocated to the county commissions and 20 percent is allocated to the State Commission. This Act generates about $475 million annually.

The First 5 programs are generally directed by the State and County Commissions. Both the State and County Commissions have made early childhood education a priority for expenditure. According to the latest annual report available from First 5 California from 2009-10, the State Commission has invested in the following efforts:

- **Power of Preschool** - $15.2 million to fund Power of Preschool demonstration projects in certain counties. Power of Preschool provides free, voluntary, high-quality, part-day preschool to assist three- and four-year old children in becoming effective learners with a focus on developing preschool in underserved and high-priority communities.

- **School Readiness** - $51.7 million to counties for the School Readiness Program that strives to improve the ability of families, schools, and communities to prepare children to enter school ready to learn. Services are provided to focus on family functioning, child development, child health, and systems of care with a specific target to children and their families in schools with an Academic Performance Index score in the lowest three deciles.

- **Low Income Investment Fund Constructing Connections** - $600,000 to support Constructing Connections that coordinate and deliver technical assistance, training, knowledge, and facility financing information to support child care facilities development through local lead agencies. The Commission indicates that it leveraged more than $86 million in resources to create and renovate child care facilities and spaces.

There is considerable variation county to county; but, on the whole, County Commissions invested **$265 million** in 2009-10 to improve child development. The County Commissions predominantly invested these funds in Preschool for three and four-year olds and State school readiness programs.

Local School Districts. Local school districts have also made considerable investments in early childhood education. Many elementary schools have preschool programs and child care programs on site. In some cases these programs are those described in earlier sections (State Preschool, Head Start, or First 5 funded programs). However, in some cases these programs are funded directly by school districts using other funds, including local property tax and parent fees. In addition, school districts have flexibility to use some of their major funding streams on early childhood education. The Title I federal funding that is dedicated to improving the academic achievement of disadvantaged students can be used to support early childhood education. In addition, federal special education funding can also be used to support children demonstrating special needs prior to entering school. The State also has a categorical program called California School Age Families Education (CalSAFE) that provided money specifically for child care and other supports for parenting students. This program was added to categorical flexibility in 2008-09 and the funds allocated to districts are no longer restricted to the CalSAFE program. The State also provides local school districts with After School Educational and Safety (Proposition 49) funding of about **$680 million** annually.

Furthermore in 2010, legislation was enacted to create a two-year kindergarten program for all students who turn five between September 1 and December 1. The 2012-13 fiscal year is the first year that this two-year program is required to be offered for students that have a birthday between November 1 and December 1. School districts have had the option to offer this early Transitional Kindergarten program on a pilot basis prior to this year and districts have varied greatly in their implementation of this program. Kindergarten (whether one year or two year) is not compulsory in California.

In summary, local school districts have invested in early childhood education, but there is no easy way to quantify the investments that they have made.

Community College Districts. There is also a small amount of funding allocated to the Community College Districts to support subsidized child care for students. This includes funding for the following programs:

- **CalWORKs** - $9.2 million for subsidized child care for children of CalWORKs recipients. This program is proposed to be part of the Governor’s categorical reform and would no longer be restricted for this purpose.

- **CARE (Cooperative Agencies Resources for Education)** - $9.3 million to provide eligible students with supplemental support services designed to assist low-income single parents to succeed in college. Child care is one of many supports funded by this program. This program is proposed to be part of the Governor's categorical reform and would no longer be restricted for this purpose.

- **Child Care Tax Bailout** - $3.3 million for certain districts to provide assistance for child care. This program was included in the categorical flex item adopted in the 2009-10 budget, but CCC's have not made use of this flexibility.

In addition, the Community College Districts have contracted directly with the California Department of Education to develop and deliver critical early childhood education coursework that has improved the quality and professional development of early childhood education providers.

1. Budget Reductions

Background. The State has faced a persistent budget deficit since 2001. These budget deficits have resulted in difficult budget decisions including reductions across most state programs. Child care and early childhood education programs have been reduced by over one-third since 2007-08 and are proposed to contract nearly 50 percent in the budget year. State funding has been reduced by about one-fourth since 2007-08 and would be reduced by 53 percent under the Governor's proposed budget. In other words – over $1 billion of state and federal investment in child care and early childhood education has been cut from the state budget over the past five years, which has resulted in 95,000 fewer subsidized child care slots.

Governor's Budget. The Governor's budget proposes $1.9 billion in funding for child care programs. This includes $1.5 billion in funding for programs administered by CDE and $442 million in funding for Stage 1 child care administered by DSS. This reflects a reduction of $450 million General Fund or approximately 20 percent of the total program when compared to 2011-12. The Department of Finance (DOF) estimates that this will result in 62,000 fewer child care slots in the budget year (this total includes Preschool slots). This is in addition to the 95,000 slots lost over the past five years.

Child Care Reductions. The Governor's budget proposes the following reductions to the state funded child care reductions in 2012-13:

- **Stricter Work Requirements and Reduced Time Limits for CalWORKs Recipients -** $293.6 million in savings in non-Proposition 98 General Fund by reducing time limits on CalWORKs for adults not meeting work participation requirements and applying stricter work participation requirements for all families receiving child care services. Specifically, single parent families with older children would be required to work 30 hours per week. New eligibility criteria would not provide subsidized child care for training and education activities. This change will eliminate services for 109,000 families as of April 2013. This reduction will eliminate about 46,300 child care slots.

- **Reduce Income Eligibility -** $43.9 million in non-Proposition 98 General Fund savings and $24.1 million in Proposition 98 General Fund savings by reducing the income eligibility ceilings from 70 percent of the state median income to 200 percent of the federal poverty level or 62 percent of state median income (SMI). This level equates to a reduction in the income ceiling for a family of three from $42,216 to $37,060. This reduction will eliminate about 8,400 child care slots and 7,300 state preschool slots.

The Administration has indicated that this reduction would make the income eligibility consistent with the federal maximum for receiving TANF-funded services. Furthermore, the Administration proposes to offer a food stamp benefit of $50 to subsidized child care recipients in an effort to improve the State's Work Participation Rate (WPR). Currently, California does not meet federal benchmarks related to the WPR.

- **Reduce Provider Payments.** The Governor has several proposals that would have the effect of reducing the payments to providers of child care and early childhood education services. These reductions include the following:

  ✓ **Eliminate COLA -** $29.9 million in non-Proposition 98 General Fund savings and $11.7 million in Proposition 98 General Fund savings by eliminating the statutory COLA for capped non-CalWORKs child care programs.

  ✓ **Reduce Reimbursement Market Rate (RMR) Ceilings and Update Survey Data -** $11.8 million in non-Proposition 98 General Fund savings by reducing the reimbursement rate ceilings for voucher-based programs from the 85th percentile of the private pay market, based on 2005 market survey data, to the 50th percentile based on 2009 survey data. Per the Administration, to preserve parental choice under lower reimbursement ceilings, rates for license-exempt providers will remain comparable to current levels, and these providers will be required to meet certain health and safety standards as a condition of receiving reimbursement. (A corresponding $5.3 million General Fund decrease is made to Stage 1 in the Department of Social Services budget to reflect the lower RMR rate.)

  ✓ **Reduce State Reimbursement Rate (SRR) for Title 5 Contracts -** $67.8 million in non-Proposition 98 General Fund savings and $34.1 million in Proposition 98 General Fund savings by reducing the standard reimbursement rate for direct-contracted Title 5 centers and homes by 10 percent.

Administration Overstates Savings. The LAO has found that the Administration's savings estimates related to the stricter work requirements and reduced time limits for CalWORKs recipients are overstated by $50 million. The Administration has clarified that the 7,000 children that receive child care services because they are under the care of child protective services or living with an incapacitated caretaker would retain current eligibility. Therefore, instead of the $293.6 million in savings from this proposal, the LAO estimates that there would be only $250 million in savings from these policy changes.

LAO Offers Options. Recognizing the difficult budget situation, the LAO has offered several options for generating child care savings that are different from the Governor's proposal. These options include the following:

Work Requirements.

- **Current Law.** Families are eligible for subsidized child care if they are engaged in work, looking for work, training, or education. The part-day State Preschool Program does not have a work requirement.

- **Governor's Proposal.** The Governor's proposal would limit eligibility to families working at least 30 hours in subsidized or unsubsidized employment (20 hours for parents of young children). Savings: $250 million.

- **LAO Option.** The LAO has offered an alternate way to limit eligibility for budget savings of approximately **$50 million**. Instead of the Governor's strict work requirements, the LAO has suggested that the Legislature could limit education/training to two years. The CDE has indicated that it would need to modify their data collection requirements in order to fully implement this sort of eligibility change. Staff notes that there are numerous variations to limit eligibility that could be explored to achieve savings.

Income Eligibility.

- **Current Law.** Families are eligible for subsidized child care if family income is less than 70 percent of SMI.

- **Governor's Proposal.** Limits eligibility to families making less than 200 percent of federal poverty level (about 62 percent of SMI). Savings: $44 million.

- **LAO Option.** The LAO has offered an alternative for additional budget savings by lowering income ceilings below the Governor's level to 50 percent of SMI for savings of an additional **$100 million**. The LAO reviewed income eligibility in other states and found that only California and ten other states set maximum income eligibility for child care at or above 70 percent of SMI. In contrast over half of all states set income ceilings at or below 62 percent of SMI.

  Furthermore, the LAO points out that 62 percent of SMI is the maximum amount a family can earn to receive TANF-funded (Temporary Assistance for Needy Families) services. This harmonization of the income eligibility of the child care program with federal TANF-funded programs would aid in the implementation of a new WINS Plus (Work Incentive Nutritional Supplement) program the Administration is proposing to implement. WINS Plus is a new $50 a month food stamp benefit that would be made available to families receiving subsidized child care that are not in the CalWORKs program or receiving CalFresh food stamp benefits.

  This new WINS Plus benefit would allow the State to count child care recipients in the calculation of the State's Work Participation Rate (WPR). Currently, the State is likely to fall short of its federal WPR by as much as 20 to 25 percentage points. The LAO has indicated that the implementation of an additional WINS basic benefit provided to current CalFresh families that are not in the CalWORKs program could result in a 10 percentage point improvement in the State's WPR. The implementation of the WINS Plus program could further improve the WPR.

Provider Payments.

- **Current Law.** The maximum state voucher rate for licensed providers is set at the 85th percentile of regional market rates (RMR) based on 2005 data. License-exempt providers get 60 percent of licensed voucher rate. Direct contract Title 5 centers and family child care homes receive a State Reimbursement Rate (SRR) that in some areas of the state is actually lower than the RMR voucher rate.

- **Governor's Proposal.** Reduces licensed rate to 50th percentile of RMR, based on 2009 data. Equates to average reduction of between 12 percent and 14 percent. Maintains current dollar amounts for license exempt providers, which would end up at 73 percent of the newly lowered voucher rates for licensed providers. Reduces the SRR for Title 5 centers and family child care homes by 10 percent from $34.38 to $30.94 for full-day programs and $21.22 to $19.10 for part-day programs. Savings: $17 million related to RMR reductions and $68 million related to SRR reductions.

- **LAO Option.** The LAO has surveyed many other states and has found that the Governor's proposed RMR voucher rates are comparable and in some cases exceed reimbursement rates for providers in other states. The LAO also proposes as an option further lowering license exempt rates to 60 percent of the new lowered voucher rate for licensed providers for savings of about **$20 million**. The LAO goes on to reject the Governor's SRR rate reduction since Title 5 centers have more stringent operations requirements and in some cases are currently provided a lower rate than the RMR for voucher-based centers. Furthermore, current law surrounding Title 5 operations leaves providers with few opportunities to achieve these savings because providers are prohibited from collecting fees from parents and also are required to maintain prescriptive staffing ratios.

Age Limits.

- **Current Law.** A child is eligible to receive state subsidized child care through age 12 (with some exceptions for children with special needs).

- **Governor's Proposal.** The Governor does not have a proposal related to age limits, but last year the Legislature considered and adopted a proposal to prioritize child care slots to children under the age of 11. Ultimately, this proposal was later reversed and other reductions were adopted.

- **LAO Option.** The LAO has offered as an alternative eliminating child care for older school-age children during traditional hours because there are more supervision options available for school-age children. Furthermore, child care for infants and toddlers is generally more costly and more difficult to find. The LAO estimates that prioritizing child care for children under the age of 11 would generate savings of **$65 million**. The LAO indicates that an additional **$50**

million could be saved if child care is prioritized for children under the age of 10. The State is currently required to spend approximately $550 million on the After School Education and Safety (ASES) that was approved by the voters in 2002 (Proposition 49). Furthermore, an additional $130 million in federal funds are provided annually for 21st Century Community Learning Centers. There are also additional resources in some communities provided through non-profit organizations such as the Boys and Girls Club that provide other alternatives for school-age youth.

Parent Fees.

- **Current Law.** Families must pay a child care fee if their income is at or above 40 percent of SMI. Family fees range from $2 to $19 per day and are capped at 10 percent of total family income. These fees partially offset state reimbursement.

- **Governor's Proposal.** The Governor does not have a proposal related to parent fees.

- **LAO Option.** The LAO has offered a menu of options for changing the current parent fee structures that could generate **tens of millions** in savings depending on the ultimate structure. Specifically, the Legislature could (1) reduce the income level at which parents must begin paying a fee; (2) increase the amount of fee required for families at each existing income level; and/or (3) charge fees per child rather than per family. The LAO indicates that cross comparison of California's family fees are difficult with other states because states structure fees in various ways. However, the LAO points out that California's current sliding scale seems generally lower than most other states.

Time Limits.

- **Current Law.** Families can receive subsidized child care as long as they meet income and child age eligibility. There are no maximum time limits for receiving care.

- **Governor's Proposal.** The Governor does not have a proposal related to time limits.

- **LAO Option.** The LAO has provided as an option for the Legislature to consider for achieving budget savings implementing overall time limits for the child care benefit. The LAO estimates that implementing a time limit of six years could ultimately generate approximately **$100 million** in savings. However, the LAO points out that the data collection efforts of CDE would need to be enhanced to fully implement this option. A time limit would enable families on waiting lists to access care quicker since a time limit would free up slots currently used by families that have been receiving subsidized care for many years.

Interactions Between Individual Savings Proposals Exist. It is important to note that all of these proposals have interactive effects and may not result in the full amount of savings if approved with other savings options. Ultimately, the work requirements adopted in the CalWORKs program will have a significant impact on the child care savings level. This is the main reason the child care policies were reviewed with the CalWORKs policies at the March 1 hearing of the Senate Budget and Fiscal Review Committee. There are significant issues that were raised at the March 1 hearing related to the Governor's work requirements in the CalWORKs program and thus the child care program.

First, the Governor's proposal would terminate welfare to work benefits for CalWORKs recipients with young children that were previously given an exemption from participating in welfare to work activities (and therefore requiring child care) because of prior budget actions to eliminate funding for welfare to work services provided by the counties. This would essentially change the rules for these families midstream and would provide for only six months of services (including child care) before the adult portion of their grant and service supports (child care) would be eliminated if they were not fully meeting the federal work requirements.

Second, the Governor's proposal would significantly limit services (child care) to CalWORKs families and other child care families not engaged in unsubsidized work. Currently, California allows CalWORKs families to receive welfare to work services if they are engaged in education or other programs that California has historically invested in that remove barriers to employment. Under the Governor's proposal substance abuse and mental health programs would not count as a work activity and thus would limit access to services like child care. Furthermore, child care is currently extended to 31,000 children whose parents are involved in education or training activities. This policy change would have a significant impact on these families.

Other Options for Making Reductions. Last year the Legislature adopted an across-the-board reduction to child care programs of 11 percent to generate approximately $177 million in savings. The CDE implemented these savings by reducing each Alternative Payment provider (including Stage 3) contract and direct Title V contract by 11 percent. Stages 1 and 2 were not reduced since these programs are currently entitlements. Many in the child care community have indicated that across-the-board is the preferred method for making cuts because it limits disruption to clients currently served and allows local entities to make decisions that are best for their agencies. While the across-the-board reduction option may be the least disruptive option to the child care community, it may not result in targeting child care resources to those that are most in need since most child care providers would likely continue services to the families currently being served and stop intake of new families. While this provides for continuity for the families in the program it has the effect of increasing the waiting lists of qualified families waiting for access to services. However, under most reduction scenarios the waiting list for qualified families will grow.

Staff Comments. There are no cut scenarios in which $450 million in budget savings is achieved in the child care program area that does not have a significant impact on the number of available child care slots. Furthermore, there is some evidence that the reductions made to subsidized slots have further reduced the general availability of child care for unsubsidized consumers in communities where centers have closed. Therefore, all reductions in this area will have an effect on access to care.

The Legislature will need to carefully consider the Governor's proposal and weigh the options the LAO has put forward as it works towards closing the budget gap. The Legislature may also want to consider what role Proposition 98 carryover funds can play in helping to cover the costs of the General Child Care program, which primarily funds the State Preschool Program which remains funded by the Proposition 98 guarantee.

Furthermore, the Legislature will need to coordinate policy decisions made regarding work requirements in the CalWORKs program with work requirements for the child care program. Ultimately the size of the budget gap will be determined at the May Revision when additional information is received about caseloads and revenues projections. This will provide an updated framework for evaluating what options are available for bridging the budget gap with the least disruption possible to direct child care services.

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.
- Direct staff to continue to evaluate options for achieving savings that have the least impact on direct care.

2. State Preschool

Background. The California State Preschool Program provides center-based, early childhood education programs to low-income children, generally ages three and four years. Until recently, all funding for this program came from Proposition 98 funds. However, in 2011-12, most all funding for child care and development programs – except part-day preschool funding -- was shifted to state General Fund. As a result, the 2011-12 budget act provides two separate budget act appropriations and funding sources for the State Preschool Program. The Department of Education administers both of these program appropriations -- as follows -- through direct state contracts with local providers:

- **Part-Day Preschool Program (Proposition 98 Funds).** Item 6110-196-0001 of the Budget Act appropriates **$368 million** in Proposition 98 Funds for part day/part-year preschool services for low-income three and four year olds.

- **General Child Care Program (State General Fund).** Item 61109-194-0001 of the Budget Act appropriates $675 million in state General Fund for the General Child Care program, which provides center based child care services to low-income children from working families ages birth to age 12 years. Following enactment of Chapter 208 in 2008, local providers can utilize these funds -- together with part-day preschool funds -- to provide part-day/part-year preschool programs or full-day/full-year preschool programs for three and four year olds to improve coverage for working families. The Legislative Analyst's Office estimates that roughly **$400 million** of total General Child Care funds (about 60 percent) were being provided for preschool services for three and four year olds.

According to the LAO, data from CDE suggest that in 2011-12, local providers "blended" the **$368 million** in Proposition 98 funds for part-day preschool with about **$400 million** in state General Fund for General Child Care to offer State Preschool Program services to approximately **145,000 low-income preschool age children**. Of these, two-thirds were served in part-day programs and one-third in full-day programs.

State Preschool Program Funding in 2011-12	**Funding Appropriations**	**Funded Slots**
Part Day Preschool (Proposition 98 Funding)	$368 million	100,000
General Child Care – Preschool Expenditures (State General Fund)	$400 million (Estimated)	45,000 (Estimated)
Total	**$768 million**	**145,000**

Governor's Budget Proposals for Part-Day Preschool.

Budgetary Reductions. The Governor proposes to reduce funding for the Proposition 98 portion of the State Preschool Program by **$58 million**, or 16 percent, in 2012-13.

	2010-11	**2011-12**	**2012-13 (Proposed)**	**Amount Change**	**Percent Change**
Part-Day State Preschool (Proposition 98 Funds)	$397 m	$368 m	$310 m	-$58 m	16%

As outlined by the LAO, these savings would be achieved through two major changes presented below:

1. **Provider Rate Reductions.** The Governor proposes to reduce provider rates by 10 percent, which achieves Proposition 98 savings of **$34 million** in 2012-13. Specifically, the part-day per-child Standard Reimbursement Rate (SRR) would drop from $21.22 to $19.10 and the full-day per child SRR would drop from $34.38 to $30.94.

2. **Family Income Eligibility Criteria Lowered.** The Governor proposes to reduce program eligibility criteria by lowering the amount a family can earn and still participate in the program. Specifically, the maximum monthly income threshold would drop from 70 percent of the State median income (SMI), which equates to $3,518 per month for a family of three, to 200 percent of the federal poverty level, which equates to about 62 percent of SMI, or $3,090 per month. The Governor would achieve **$24 million** in Proposition 98 savings from this change by defunding the estimated number of part-day preschool slots currently associated with children from families that exceed the new eligibility threshold – about 7,300 slots.

In addition, the Governor does <u>not</u> propose to fund a statutory cost-of-living adjustment (COLA) increase for part-day preschool, which would have resulted in additional Proposition 98 costs of **$11.7 million** in 2012-13.

As expressed by the LAO, all of the Governor's proposed reductions and savings proposals for part-day preschool "mirror" the Governor's proposals for other child care programs -- including General Child Care -- discussed earlier in the agenda.

LAO Comments. The LAO offers the following comments on the Governor's preschool proposals from its recent budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012):

- **Governor's Proposed Rate Reduction Problematic.** The LAO is concerned that many preschool providers have few options for absorbing the Governor's proposed 10 percent reduction to the State Reimbursement Rate (SRR), and might close or drop out of the State program as a result. State mandated adult-to-child ratios and instructional day requirements, combined with local bargaining agreements – which frequently are embedded within larger K-12 school district contract agreements -- mean that providers have limited flexibility to generate local savings. Moreover, the state rate for these centers is already somewhat low – in several areas in the State, the SRR currently is lower than the rates charged by the majority of other preschool providers in the county.

- **In 2013-14, Governor Proposes to Revert to Part-Day/Part-Year Preschool Program.** As part of his proposed changes for non-Proposition 98 funded child care, beginning in 2013-14 the Governor would eliminate the existing General Child Care program and shift the associated funding to a child care voucher system to be administered by county welfare departments. This would abolish the blended State Preschool Program and revert the state's direct-funded center-based preschool program to only a Proposition 98 funded part-day/part-year program for about 91,000 children (a reduction of roughly 54,000 compared to how many children were served in the State Preschool Program in 2011-12).

  Preschool providers' ability to serve additional children or offer full-day/full-year services to meet the needs of working families would depend upon how many enrolled families could afford to pay out of pocket or obtain a state-subsidized voucher from the county welfare department. (Under the Governor's proposal, low-income families not receiving CalWORKs cash assistance would have more limited access to these vouchers).

- **Governor's Proposal for 2013-14 Ignores Reality of State's Current Preschool Program.** The Governor's proposal for 2013-14 treats the Proposition 98 preschool budget item and General Child Care budget item as two separate programs – preserving one and eliminating the other. However, in reality these funding sources have been supporting one uniform preschool program. **By redirecting all General Child Care funding into vouchers, the Governor's proposal would reduce the existing State Preschool Program by roughly 40 percent.** Moreover, the dismantling of the blended State Preschool Program would notably limit local providers' ability to provide a full-day/full-year preschool program, which is often the only way children from working low-income families are able to access services.

LAO Recommendations.

1. **Reject Proposal to Reduce Preschool Provider Rates by 10 Percent.** The LAO recommends the Legislature reject the Governor’s January budget proposal to reduce preschool provider rates by 10 percent and save **$34 million** in 2012-13. According to the LAO, this cut would be untenable for many preschool providers. If reductions are needed, the LAO recommends eliminating preschool slots.

2. **Reject Proposal to Lower Family Income Thresholds and Instead Eliminate Slots.** The LAO recommends that the Legislature reject the Governor’s January budget proposal to lower income eligibility thresholds from 70 percent of the state median income (SMI) to 200 percent of the federal poverty level (about 62 percent of SMI) and eliminate associated slots, for savings of **$24 million** in 2012-13. If reductions are needed, the LAO recommends that the Legislature eliminate preschool slots, as enrollment priority

already is reserved for the lowest income applicants. (Providers already are required to select first from the families furthest below the existing ceiling of 70 percent of the SMI.)

3. **Fund Entire State Preschool Program within Proposition 98.** The LAO recommends that the Legislature shift **$400 million** from non-Proposition funded General Child Care program into Proposition 98 to accurately reflect the existing California State Preschool Program beginning in 2012-13. This action will fully reflect the existing State Preschool Program budget and align all funding for the program within Proposition 98.

   As part of this alignment, the LAO recommends a comparable adjustment to the Proposition 98 minimum guarantee to avoid the need for a corresponding reduction to K-12 programs. Specifically, the LAO recommends the Legislature reduce non-Proposition 98 General Fund for General Child Care by $400 million (the amount of General Child Care spent for preschool services in 2011-12) and increase the Proposition 98 funding for preschool by a like amount.

4. **Prioritize Preschool Funding for Four Year Olds No Longer Eligible for Kindergarten During Transition Period**. The LAO recommends that the Legislature adopt the Governor's proposal to prioritize slots in the state preschool program for low-income children affected by the change in the Kindergarten start date during the transition years. (See following issue on Transitional Kindergarten.)

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.

3. Transitional Kindergarten

Background.

Kindergarten Eligibility. Kindergarten is not compulsory in California. Per current law, parents and guardians are not required to enroll children in Kindergarten (EC Section 48200). If parents choose to enroll their children, schools must admit children who are of legal age (EC Section 48000). School districts must admit age eligible children at the beginning of the school year or whenever the student moves into the districts.

In 2011-12, students are eligible for Kindergarten if they turn five years old on or before December 2nd. However, Chapter 705, Statutes of 2010, will raise the Kindergarten entrance age by one month each year over a three year period commencing in 2012-13. More specifically, students will need to be five-years old by November 1st in 2012-13, by October 1st in 2013-14, and by September 1st in 2014-15 in order to be eligible for Kindergarten.

Local Options for Under-Age Children. Current law allows school districts to admit children to Kindergarten who are not age eligible – essentially through a local waiver process. However, the child may only attend and school districts only receive funding for the part of the year the child is five years old. According to the Department of Education, this is a rarely utilized process, and districts that admit these children to kindergarten prior to the time they turn five "jeopardize their apportionments, as auditors may take fiscal sanctions through an audit process." The Department of Education further states that "districts that base early admissions on test results, maturity of the child, or preschool records may risk being challenged by parents/guardians whose children are denied admission."

Kindergarten Continuance. According to the Department of Education, continuance is defined as more than one school year in Kindergarten. Current law requires a child who has completed a year of Kindergarten to be promoted to first grade, unless the parent or guardian and the school district agree that the child may continue Kindergarten for not more than one additional year. (EC 48011) If agreement is reached, parents or guardians must sign the Kindergarten Continuance Form. Per the Department, failure to have signed forms on file may jeopardize audit findings and result in loss of apportionment.

The Department of Education reports that a total of 22,894 Kindergarten students were enrolled in a second year of Kindergarten statewide in 2011-12. This represents about 4.7 percent of the 487,446 Kindergarten students enrolled statewide in 2011-12.

Transitional Kindergarten. Chapter 705 requires local school districts - as a condition of funding – to provide a new Transitional Kindergarten program for students who are no longer eligible for regular (or traditional) Kindergarten beginning in 2012-13. On fully implemented, this new program will offer an additional year of public school for children with birthdays between September 1st and December 2nd of each year.

According to the Department of Education, "Transitional Kindergarten is the first year of a two-year Kindergarten program that uses a modified Kindergarten curriculum that is age and developmentally appropriate." Per the Department, "each elementary or unified school district must offer Transitional Kindergarten classes for all children eligible to attend. A child who completes one year in a Transitional Kindergarten program, shall continue in a Kindergarten program for one additional year."

Unlike other early childhood programs, funding for the Transition Kindergarten program would not be needs-based. For example, funding would not be targeted on the basis of income, as is the case with most other publicly funded child development programs, such as state preschool. Instead, program funding would be provided to serve all children with birthdays that fall within a three month range.

Governor's Budget Proposals:

1. **Eliminate New Transitional Kindergarten Program.** According to the Administration, the Governor believes this is a time for reinvestment and reform of core programs, not for program expansions. As such, the Governor's January 10 budget proposed to eliminate the new, two-year Transitional Kindergarten -- pursuant to Chapter 705 -- in order to save **$223.7 million** in Proposition 98 funding in the budget year.

   The Governor's most recent proposal – reflected in proposed trailer bill language -- would still eliminate the new Transitional Kindergarten program authorized by Chapter 705. However, the latest proposal would expand existing law to authorize full-year funding for children who are not eligible for Kindergarten when they enter school if the district authorizes early admittance with a waiver. Coupled with current law that allows up to one additional year of Kindergarten, the Governor's proposal would not authorize the new Transitional Kindergarten program, but would authorize a full two years of Kindergarten for districts that choose to admit children who are not age-eligible for Kindergarten.

   As a result of these changes, the Department of Finance has revised its savings estimates to reflect (1) savings offsets for school districts with declining enrollment, and (2) additional costs resulting from districts that grant early admission "waivers" to children who do not meet the new age requirements when they enter school. As a result of these factors, the Department of Finance has indicated that their original savings estimates could drop by up to $100 million in 2012-13, which would result in savings **of $123.7 million.**

2. **Extend Preschool to Children No Longer Eligible for Kindergarten.** The Governor proposes additional trailer bill language to increase the eligibility age for the part-day State Preschool program in order to cover four-year old children who are no longer eligible for Kindergarten due to the eligibility age rollback, but who turn five years old by December 2. (Current law limits eligibility for state preschool funding to children who turn three and four years old by December 2.) The Governor's proposal would give eligible five-year olds first priority for part-day State Preschool funding; however, the Governor does not provide additional funding for the program to cover a potential increase in caseload. Alternatively, the Governor proposes a $58 million (16 percent) reduction for part-day state preschool funding in 2012-13, as outlined earlier in the agenda.

LAO Comments. The LAO offers the following comments on the Governor's Transitional Kindergarten (TK) proposal from its recent budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012):

- **Governor Would Not Initiate New TK Program, Saving $224 Million in 2012-13.** The Governor proposes not to initiate the new TK program. Because he would maintain the date change for kindergarten eligibility, this proposal would save an estimated $224 million in 2012-13 from districts enrolling a smaller cohort of kindergarteners—that is, not enrolling children who will turn five after November 1. (The state would need to make a corresponding change to the "declining enrollment" adjustment in the state revenue limit formula to capture these savings in 2012-13.) The Governor's plan redirects these savings to fund other existing K-12 activities. The savings would grow to roughly $675 million annually by 2014-15, when the TK program otherwise would have been fully implemented.

- **Governor Would Make Slight Modification to Existing Waiver Process for Underage Kindergarteners.** As under current law, parents of children born after the cutoff could request a waiver to have their children begin kindergarten early. The Governor is proposing to modify current law, however, so these children could begin kindergarten at the beginning of the school year, rather than waiting to enter in the middle of the year after they turn five. The administration clarifies that as under current law, the waiver option would continue to pertain to early admittance to traditional kindergarten programs, as TK programs would no longer be funded. Districts could choose to admit four-year old children to kindergarten early on a case-by-case basis if they believed it was in the best interest of the child. To the extent many parents request and districts grant these waivers, it would increase the 2012-13 kindergarten cohort, thereby reducing the amount of savings generated by the change in cutoff date.

- **Governor's Proposal Not to Initiate New TK Program Is Reasonable for Budgetary Reasons.** Given the major funding and programmatic reductions school districts have experienced in recent years—and the potential for additional reductions if the November election does not result in new state revenue—the LAO agrees with the Governor's assessment that now is not the time to initiate major new programs. Budget reductions and unfunded COLAs mean districts currently are increasing class sizes, shortening the school year, and cutting many activities that have long been part of the school program. The LAO does not believe that offering a 14th year of public education to a limited pool of children—and dedicating resources to develop new curricula and train teachers—at the expense of funding existing K-12 services makes sense.

- **…And for Policy Reasons.** The LAO also has fundamental policy concerns with the design of the TK program. While receiving an additional year of public school likely would benefit many four-year olds born between September and December, the LAO questions why these children are more deserving of this benefit than children born in the other nine months of the year. This preferential treatment is particularly questionable since the eligibility date change will render children born between September and December the oldest of their kindergarten cohorts, arguably an advantage over their peers. Moreover, the TK program would provide an additional year of public school to age-eligible children regardless of need. This includes children from high and middle-income families who already benefit from well-educated parents and high-quality preschool programs. The LAO believes focusing resources on providing preschool services for low-income four-year olds—regardless of their exact birth month—likely would have a greater effect on improving school readiness and reducing the achievement gap.

LAO Recommendations. Overall, the LAO recommends that the Legislature immediately adopt the Governor's proposal to eliminate the new TK program and focus limited state resources on serving four year olds who could most benefit from state subsidized education programs. The LAO also makes recommendations to smooth the transition to the new Kindergarten cutoff dates pursuant to Chapter 705. More specifically, the LAO recommends that the Legislature:

1. Immediately adopt the Governor's January budget proposal to cancel initiation of the new Transitional Kindergarten program, because it is costly and poorly designed. According to the LAO, this would result in a savings of between **$100 million** and **$224 million** in 2012-13. (Savings estimates are affected by declining enrollment adjustments in the state revenue limit formula.)

2. Modify the Governor's waiver proposal to focus on students born close to cutoff dates.

3. Adopt the Governor's proposal to prioritize preschool access for low-income children affected by the Kindergarten date change, but only for the transition years.

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.

OUTCOME: Rejected Governor's budget proposal to eliminate Transitional Kindergarten program. (Vote: 2-0)

4. Child Nutrition

Background. The Department of Education currently administers nearly **$2.4 billion** in state and federal funding for child nutrition programs that reimburse a variety of local agencies – primarily public local education agencies (LEAs) – providing meals to low-income children and youth in our state. Most funding is federal, but state funding was added about twenty-five years ago to supplement federal meal reimbursements.

Child Nutrition Program Funds in 2011-12	**Budget Item**	**Budget Appropriations**
State Funds		
State Nutrition Program (Prop 98)	6110-203-0001	$155.2 million
State Nutrition Program (Non-98 GF)	6110-202-0001	10.4 million
State Breakfast Start Up & Summer Programs (Prop 98)	6110-201-0001	1.0 million
Subtotal, State Funds		**$166.6 million**
Federal Funds		
Child Nutrition Program	6110-201-0890	$2,173.2 million
Summer Programs	6110-201-0890	29.0 million
Subtotal, Federal Funds		**$2,202.2 million**
Total, All Funds		**$2,368.8 million**

Funded meals largely include free- and reduced-price breakfast and lunch provided predominantly in LEAs in school settings. However, both the state and federal programs authorize funding for low-income children in non-LEA settings -- including private schools, child care centers and family day care homes.

State Meal Reimbursements for Non-LEA Meals. According to the California Department of Education (CDE) a total of **$199 million** in federal reimbursements and **$9.8 million** in state reimbursements were provided for non-LEA meal providers in 2010-11. This funding provided **62.8 million meals** for low income children and youth. Since Proposition 98 funding is statutorily limited to K-14 education agencies and to child care and development "instructional" programs, the state has historically appropriated state meal reimbursements for non-LEA meal providers with non-98 General Funds.

The 2011–12 budget appropriates **$10.422 million** in non-98 General Funds for state meal reimbursements for non-LEA child nutrition providers. Based on current meal projections, CDE estimates that the state meal rate will remain at **15.62 cents per meal** (each free and reduced-price lunch and breakfast served) in 2011-12. (CDE estimates state meal reimbursement rates for LEA child nutrition providers serving K-12 students – funded with Proposition 98 dollars – at 21.95 cents per meal in 2011-12.)

Meal "sponsors", which pass through state and federal nutrition funding to meal "providers", may retain up to **30 percent** of state meal reimbursements for administrative expenses that generally include administrative salaries, bookkeeping, rent/lease agreements, utilities and equipment rental. (Food preparation is not considered an administrative cost and therefore must be covered by providers with remaining funds.)

Governor's Budget Proposal. The Governor proposes a decrease **of $10.422 million** in non-98 General Fund in 2012-13 to eliminate state supplemental reimbursements for free- and reduced-price breakfast and lunch meals served at private schools, private child care centers, and other entities.

The Governor's proposal would eliminate all non-98 General Fund appropriations for state child nutrition programs administered by the Department of Education. The Governor has recommended the elimination of several other small education programs supported with non-98 General Fund in 2012-13.

The Department of Education has summarized state and federal nutrition funding in 2010-11 (the last full year available) for non-LEA providers in the table below. As illustrated, the Governor's proposal would eliminate state meal reimbursements primarily for private agencies -- schools and child care centers (non-profit and for-profit). Of the **$9.8 million** expended by non-LEA nutrition sponsors in 2010-11, **$8.3 million** (84 percent) was expended by these private agencies.

Non-LEA (Non-98) Child Nutrition Program in 2010-11

School Nutrition Program	School Programs	Meals	State (Non-98) Reimbursement	Federal Reimbursement
47 Sponsors	PRIVATE SCHOOLS	2,384,399	$ 372,446	$ 6,120,758
1 Sponsor	PRIVATE SCHOOL W/ CHILD CENTER	2,877	$ 449	$ 5,996
46 Sponsors	PUBLIC INSTITUTIONS (County Probation Institutions, City or County Children's Homes)	6,208,235	$ 969,726	$ 14,299,207
2 Sponsors	CAMPS/RECREATION PROGRAMS	19,640	$ 3,068	$ 47,673
96 Sponsors		**8,615,151**	**$ 1,345,690**	**$ 20,473,634**
Child and Adult Care Food Program	**Child Care Programs**	**Meals**	**State (Non-98) Reimbursement**	**Federal Reimbursement**
446 Sponsors	PRIVATE NON-PROFIT	46,463,555	$ 7,257,621	$ 154,205,552
209 Sponsors	PRIVATE FOR PROFIT	4,000,206	$ 624,833	$ 12,039,882
25 Sponsors	GOVERNMENT (Military and Local Govt Agencies)	3,070,607	$ 479,631	$ 9,337,576
24 Sponsors	PUBLIC HIGHER EDUCATION (Non- Foundation CSU and UC)	511,394	$ 79,880	$ 2,547,682
13 Sponsors	INDIAN TRIBAL	162,507	$ 25,384	$ 399,988
717 Sponsors		**54,208,269**	**$ 8,467,348**	**$ 178,530,680**
813 Sponsors	**TOTAL**	**62,823,420**	**$ 9,813,035**	**$ 199,004,314**

However, the Governor's proposal would also eliminate state meal reimbursements for other public providers that expended a total **$1.5 million** in 2010-11. These public providers cover meals for schools associated with county probation departments, county juvenile halls, and city or county children's homes; and meals for child care centers operated by public higher education institutions (non-foundation based), various military agencies (State Coast Guard, Army, Air Force, Marines), and other local government agencies (Human Services, Employment, etc.).

The Governor's proposal does <u>not</u> affect **$199 million** in federal child nutrition funding currently provided for these non-LEA providers.

According to CDE, the Governor's proposal to eliminate state nutrition funding for non-LEA providers would reduce meal reimbursements for 20,000 nutrition sites and 312,000 children and youth statewide. However, according to CDE, most other states do not provide supplemental state reimbursements on top of their federal meal subsidies, as California does.

LAO Comments: According to the LAO, California receives about $200 million in federal funds each year to provide breakfast and/or lunch to about 312,000 children who do not attend public school districts. The majority of this federal funding goes to family daycare homes (FDHs), but other types of entities, including private schools, child care centers run by public or private parties (other than school districts), and juvenile halls, also receive this funding. The federal per-meal subsidy is $2.79 for lunches and $1.80 for breakfasts. In 2011-12, the state budgeted $10.4 million in non-Proposition 98 General Fund to supplement these federal nutrition subsidies. (The state spends an additional $2.5 million in Proposition 98 funds to subsidize meals in child care programs sponsored by school districts.) The state subsidy provides an additional $0.16 per meal.

Governor Proposes to Eliminate State Funding. The Governor proposes to eliminate the state subsidy for meals in non-school district settings, saving $10.4 million non-Proposition 98 General Fund in 2012-13. The Governor's proposal represents a five percent reduction in the total subsidy for these meals. (Per the LAO, the overall reduction is relatively small because federal funding, which supports the majority of the program, would remain unaffected.)

LAO Recommendations: Overall the LAO recommends that the Legislature adopt a consistent state policy – building upon the Governor's proposal -- and limit state funding for meal subsidies to students attending public K-12 schools. More specifically, the LAO recommends that the Legislature:

(1) Adopt the Governor's proposal to save **$10.4 million** in non-Proposition 98 funds by eliminating state meal funding for programs run by other entities. (The LAO recommends that the small share of these funds supporting meals for K-12 students attending juvenile halls instead be funded as part of the Proposition 98 school nutrition program.)

(2) Eliminating state meal subsidies for child care centers and family day care homes funded through school districts in order to maintain consistency across programs and prioritize

limited state resources. This action would save an additional **$2.5 million** in Proposition 98 funds, which could be redirected to offset proposed reductions to the state preschool program or to other K-12 priorities. All entities would continue to be eligible to receive federal support, which provides the bulk of funding for the meal program.

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.

5. Child Care Quality Improvement Plan Activities—Review

Background. The federal Child Care and Development Fund (CCDF) is the main child development block grant provided to states by the federal government for the support of child care services to families who meet certain income and need criteria. The federal government requires that at least 4 percent of the block grant be used for activities to improve the quality of child care. Another portion – not to exceed 5 percent of the block grant amount – is used to pay for costs of administering CCDF. The State is required to submit a plan every two years detailing how the quality improvement funds will be allocated and expended. The most recent plan was submitted to the federal government in May of 2011. This plan covers the period October 1, 2011 through September 30, 2013.

The CDE was required to set forth goals for the next biennium for the expenditure of the quality improvement funds in the plan submitted to the federal government. The CDE set out the following seven goals in this plan:

1. By June 30, 2013, tools will be developed for Early Childhood Education (ECE) coursework and professional development activities to be mapped to the state's *Early Childhood Educator Competencies*. Faculty and professional development educators will know and understand the competencies their students should be able to demonstrate upon successful completion of any given course or training.
2. By 2013, all California community colleges that offer early learning and care programs will incorporate the "core eight" classes and additional courses will reflect the designated lower division *Competencies* in their degree programs.
3. By 2014, all California State University, University of California and at least several of the private higher education institutions that offer early childhood education programs and will have articulation agreements with the community colleges and align their courses to a common and comprehensive course of study across the two-and four-year degree system.
4. By 2015, a clear and accessible system of demonstrating the *Early Childhood Educator Competencies* equivalency for courses will be developed and publicized, including clear criteria and deliverables. This system includes courses taken from out-of-state and foreign institutions and non-Western Associations of Schools and Colleges accredited institutions, as well as competencies developed through professional practice.
5. Existing quality improvement professional development projects will be maintained and expanded to the extent feasible.
6. Ensure that Quality Improvement professional development providers collect data from their service population in a manner consistent with the National Workforce Registry and the Early Child Care Data Collaborative. Develop a process in which data about workforce utilization of Quality Improvement professional development activities is used to inform allocation of resources.
7. AB 212 and First 5 California's CARES Plus, which provide stipends for professional development, will increase early childhood practitioners' educational attainment and retention in the field.

The CDE had provided a high level summary of the allocation of Quality Improvement Activities for 2011-12 (see Attachment A). Some of the contracts are multi-year and others are renewed annually. For the most part, many of these contracts have been renewed annually or biannually with the same contractor since their inception and many of them were started in 1998. Funding for the Resource and Referral Programs dates back to 1976.

The state recently attained a $53 million federal Race to the Top Early Learning Challenge Grant to develop locally based quality rating systems for child care and development programs. This grant will be expended over four years.

Governor's Budget. The Governor's budget proposes the expenditure of $72 million in federal funds for 27 quality improvement projects.

The Governor has proposed to shift all administration and funding for quality improvement to the Department of Social Services beginning in 2013-14. During the budget year the DSS and CDE would work jointly to develop a spending plan.

Major Categories of Quality Improvement Projects. There are several major categories of funding for the quality improvement projects. However, each of these categories is supported by multiple projects and grants. The major categories are as follows:

- Support for the Resource and Referral Network and Agencies.
- Support for the Local Child Care and Development Planning Councils.
- License Enforcement for Child Care Programs (State Support).
- Training and Professional Development for Early Child Care Professionals.
- Grants, stipends, and other financial incentives to encourage professional development and licensure.
- Early Childhood Education Curriculum Development.

Overall Quality Improvement Strategy Unclear. As listed above, the CDE has indicated very specific goals to the federal government for expenditure of quality improvement funds over the next biennium. However, presently it is difficult to make linkages from the individual projects to these goals. Furthermore, some of the goals are merely statements and not actually tangible goals that the department is working towards. Generally, CDE has not developed measurable outcomes and performance metrics for each of the quality improvement contracts. This makes it difficult to determine whether these investments are the most strategic in meeting the specified goals illustrated in the federal plan. Furthermore, independent reviews have not been done for most of the projects.

The LAO finds that many of the 27 quality improvement projects historically funded by CDE might be worthwhile, but have not been rigorously evaluated. Therefore, the LAO recommends that the Legislature provide specific guidelines and priorities for the quality improvement activities that are outcome based. The LAO also recommends regular reports to the Legislature related to the expenditure of the $53 million multi-year federal Race to the Top grant that was recently awarded to the state to develop locally based quality rating systems for child care and early childhood education programs.

Who Benefits From the Projects? It is clear that some investments in quality improvement can and should be for the benefit of the entire early childhood education field, especially state standards and curriculum. However, it is unclear whether other investments in grants, stipends, and free and reduced priced training opportunities are targeted to the development of the network that serves subsidized families. Given limited resources and the State's interest in developing a strong network that serves subsidized families there may be an interest in better targeting these resources to meet specific outcomes.

Who Should Manage Quality Improvement Projects? The Governor has proposed to transfer management of all of the quality improvement projects from CDE to DSS and to work on a joint plan for the upcoming budget year. However, this plan, as currently articulated, does not provide for legislative oversight of the expenditure of these funds. The LAO has recommended that the Legislature continue to take an active role in encouraging and overseeing activities that support a high-quality child care and early childhood education program.

The LAO also finds that a large majority of states administer their federal child care funds through their state social services agencies, and many have well-respected early childhood education systems. As summarized above, the quality improvement projects span several large categories of expenditures. Some of these projects are clearly linked to education and others are not.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Direct staff to work on developing reporting requirements for the Race to the Top Grant.
- Direct staff to work with CDE, DOF and LAO to gather more information on who is benefiting from each quality project.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Thursday, April 19, 2012
9:30 a.m. or upon adjournment of floor session
Room 3191, State Capitol

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.

7980 CALIFORNIA STUDENT AID COMMISSION

Department Overview. Established in 1955, the California Student Aid Commission (CSAC) is the state's principal provider of state-authorized intersegmental financial aid programs that provide grants and other specialized financial aid to help undergraduate and graduate students pay postsecondary educational expenses. CSAC's primary programmatic responsibilities include administration of the Cal Grant program, the Chafee Grant program, and several targeted state scholarship and loan assumption programs. CSAC also administers the California Student Opportunity and Access Program and the Cash for College program, both of which are financial aid awareness and outreach programs.

CSAC is composed of 15 members: 11 members are appointed by the Governor and confirmed by the Senate; two members are appointed by the Senate Rules Committee, and two members are appointed by the Speaker of the Assembly. Members serve four-year terms except the two student members, appointed by the Governor, who serve two-year terms.

2012-13 CSAC Budget Overview. The January budget accounts for an additional $83.6 million GF in 2011-12, and $181.2 million GF in 2012-13, to fully fund Cal Grant programmatic costs. The cost increases are driven largely by tuition fee increases at UC and CSU. In addition, at least $50 million of the $181 million year-to-year workload adjustment increase is attributable to Chapter 7, Statutes of 2011 (SB 70), savings that were one-time in nature.

Figure 1 – CSAC Historical Budget Detail for Personnel and Expenditures

	PERSONNEL YEARS				EXPENDITURES (dollars in thousands)		
	2010-11 Actual	**2011-12 Estimated**	**2012-13 Proposed**		**2010-11 Actual**	**2011-12 Estimated**	**2012-13 Proposed**
Financial Aid Grant Program	94.4	105.2	109.7		$1,398,130	$1,574,078	$1,364,472
California Loan Program	6	-	-		548,138	-	-
Administration	28.4	30.2	28.5		2,952	3,158	3,199
Distributed Administration	-28.4	-30.2	-28.5		(2,952)	(3,158)	(3,199)
TOTAL, POSITIONS & EXPENDITURES (All Programs)	**100.4**	**105.2**	**109.7**		**$1,946,268**	**$1,574,078**	**$1,364,472**[1]

[1]Of CSAC's total 2012-13 funding, $567.9 million is GF. However, this funding level is offset by the proposed shift of $736.4 million of Cal Grant costs from the GF to federal Temporary Assistance for Needy Families Program funds. The remainder of CSAC's 2012-13 funding is a mix of the Student Loan Operating Fund, the Federal Trust Fund, and Reimbursements.

7980 CALIFORNIA STUDENT AID COMMISSION

Item 1: State Operations – Implementation of 2011 Legislation

Governor's Budget Proposal. The January budget requests increased GF expenditure authority to comply with two recent statutory changes, as follows:

1. **AB 131 Dream Act (Chapter 604; Statutes of 2011 – AB 131)**

   Summary. The January budget requests $746,000 GF, of which $262,000 is ongoing, and four positions, three of which are ongoing and one of which is one-year limited-term, to comply with the requirements of Chapter 604, Statutes of 2011 (AB 131), related to eligibility for the Cal Grant program.

   Background. Existing law exempts specified California nonresidents from paying nonresident tuition at UC, CSU, and the CCC if they meet all of the following: (1) attended a California high schools for three or more years; (2) graduated from California high schools or attained an equivalent degree; (3) registered for or are attending an accredited California higher education institution not before fall of the 2001-02 academic year, and (4) filed an affidavit, if an alien without lawful immigration status, stating that the student has filed an application to legalize their immigration status or will file such an application as soon as they are eligible to do so. Effective January 1, 2013, Chapter 604 enables these students to be eligible for all state-administered financial aid programs, including the Cal Grant program.

   The activities necessary to implement Chapter 604, as supported by the resources in this request, include establishing procedures and developing forms to enable the newly eligible students to apply for, and participate in, the Cal Grant program while attending a Cal Grant eligible institution. The new application forms and award processing must be ready by January 2013 in order for these students to be considered for a 2013-14 Cal Grant award.

   The $484,000 in one-time funding in 2012-13 is for consulting services to backfill the five state programmer positions temporarily redirected to implementation of Chapter 7. This redirection of existing staff was necessary, as implementation of the solution began in November 2011 in order to meet the January 2013 deadline. However, continuing this redirection without a backfill in 2012-13 is not sustainable due to the other workload demands of CSAC's existing information technology systems.

2. **Cal Grant C – Occupational or Technical Training Priority (Chapter 627, Statutes of 2011 – SB 451)**

   Summary. The January budget requests $46,000 GF and one half-time position on an ongoing basis to comply with the requirements of Chapter 627, Statutes of 2011 (SB 451), related to prioritization of awards in the Cal Grant C program.

   Background. The Cal Grant C Program provides funding for financially eligible lower income students preparing for occupational or technical training. The authorized number of new awards is 7,761. For new and renewal recipients, the current tuition and fee award is up to $2,592 and the allowance for training-related costs is $576. Chapter 627 established priority in selecting Cal Grant C recipients to eligible students pursuing occupational or technical training in areas with high employment and high growth potential.

The activities necessary to implement Chapter 627, as supported by the resources in this request, and beginning in 2012, center on the need to modify the Cal Grant C selection process to give priority to students pursuing occupational or technical training in areas with high need, high growth, and/or high wages. These activities include the development and regular review and update of areas of occupational or technical training to provide priority in granting awards. In addition, beginning in the 2014-15 academic year, Chapter 627 requires CSAC to examine the graduation rates and job placement data of eligible programs to give priority to students seeking to enroll in programs that rate high in those areas.

Staff Comment. Staff notes no concern with the programmatic specifics of these two requests, as they are consistent with the legislation that was enacted last year. With regard to the requested budget resources, staff notes that they are consistent with the information contained in the Appropriations Committees analyses of the bills last year.

Staff Recommendation. Approve the budget requests.

Vote:

7980 CALIFORNIA STUDENT AID COMMISSION

Item 2: Adoption of SB 70 (2011) Institutional Reporting Regulations

Item Description (Informational). The CSAC will present to the Subcommittee the timing of its plans to comply with Chapter 7, Statutes of 2011 (SB 70).

Background. Chapter 7, Statutes of 2011 (SB 70), which was enacted in March 2011 as a budget trailer bill, established tighter eligibility criteria for Cal Grant renewals. In addition, Chapter 7 required beginning in 2012, and as a condition of its voluntary participation in the Cal Grant Program, each participating institution to report to CSAC certain information about its undergraduate programs. This data includes: (1) enrollment, persistence, and graduation data for all students, including aggregate information on Cal Grant recipients and (2) the job placement rate and salary and wage information for each program that is either (a) designed or advertised to lead to a particular type of job or (b) advertised or promoted with any claim regarding job placement.

To implement these reporting requirements, CSAC is required to pursue a formal rule-making process through the Office of Administrative Law. This process takes an estimated six months to complete. CSAC staff indicates that the required first step is for the Commission to vote to authorize staff to proceed with the regulatory process. However, at this juncture, a full year after enactment of the statutory requirement, this item has not been brought before the Commission for its action. The next regularly scheduled Commission meeting is April 26-27, 2012.

Staff Comment. CSAC points to several competing demands that have prevented its ability to begin the Chapter 7 regulatory process, including workload related to the California Dream Act (ABs 130 and 131; Chapters 93 and 604, respectively, Statutes of 2011), other Chapter 7-related workload such as switching Cal Grant B eligible students to Cal Grant A (discussed as Agenda Item 3), and the need to process Cal Grant awards in a timely fashion. While staff generally agrees CSAC has competing workload demands, staff notes that the Commission held a two-day hearing in February 2012 to "*examine the impact of 'Wild West' online degrees on Cal Grants*." Further, during a January 2012 teleconference meeting to discuss, among others, the status of the current Institutional Participation Agreements (IPAs) which expire on June 30, 2012, the Commission heard concerns from participating institutions that absent any detail on the Chapter 7 reporting requirements, the institutions would have no other choice but to sign the IPA to remain in the program with uncertainty about what reporting specifics they might be agreeing to.

Subcommittee Questions. Based on the above information, the Subcommittee may wish to ask the following question:

1. What is the Commission's current plan to ensure that the information is collected beginning in 2012, as required by statute?

Staff Recommendation. None; this is an informational item.

7980 CALIFORNIA STUDENT AID COMMISSION

Item 3: Trailer Bill Language – Cal Grant B to Cal Grant A "Switches"

Governor's Budget Proposal. The January budget proposes budget trailer bill language to correct an unintended consequence of Chapter 7, Statutes of 2011 (SB 70), which established tighter eligibility criteria for Cal Grant renewals.

Background. Prior to the enactment of Chapter 7, which was a 2011 Budget Act trailer bill, Cal Grant recipients had to meet certain financial eligibility criteria only when they first applied for a Cal Grant (and not when they renewed the grant in subsequent years). Cal Grant recipients applying for renewals now must meet several of those requirements. Applying these requirements to renewals disqualify an estimated 16,000 recipients who would otherwise be eligible for awards, reducing 2011-12 Cal Grant expenditures by about $100 million. To mitigate the impact on students, CSAC is required to use the higher of the limits in place at the time of a student's initial award and those in place at the time of renewal. Since the adoption of Chapter 7, a significant unintended consequence has arisen.

As shown in Figure 5 below, Cal Grant A and B awards have different income ceilings. They also have different academic requirements; i.e., students must attain a high school GPA of 3.0 for an A award and 2.0 for a B award.

Figure 5: 2011–12 Cal Grant Renewal Income Ceilings for Dependent Students

Family Size	Cal Grant Award Type	
	A	B
Six or more	$92,700	$50,900
Five	85,900	47,200
Four	80,200	42,200
Three	73,800	37,900
Two	72,100	33,600

Source: Legislative Analyst's Office

Some students are co-eligible; i.e., they qualify for both types of awards. For these students, CSAC selects the award that would give each student the greatest benefit over four years depending on the student's choice of institution. Students at UC and private institutions benefit more from Cal Grant A's four years of tuition coverage, for example, while students at CSU benefit more from Cal Grant B's four years of access awards plus three years of tuition coverage.

Under Chapter 7, a co-eligible student who is assigned a Cal Grant B may become ineligible for a renewal award due to increased family income, even if that student remains well within the eligibility range for Cal Grant A. This is because current CSAC policy does not permit students to switch to a different award type once they have received a grant payment. As a result, this year, more than 5,000 students who initially qualified for both an A and B award and received a B award lost their Cal Grant entitlement awards, even though many of them continue to meet the eligibility requirements for Cal Grant A. This is an unintended consequence of the new Chapter 7 requirement resulting from a technical issue that was not evident when the Legislature approved the new policy.

LAO Recommendation. The Legislature should adopt statute to ensure that co-eligible students can switch from Cal Grant B to Cal Grant A if they meet all eligibility requirements for Cal Grant A awards.

Staff Comment. CSAC has administratively revised its policy in the 2011-12 academic year to correct this unintended consequence of Chapter 7. This is crucial, given that students in the current academic year were caught in this unfortunate situation. CSAC reports that an estimated 5,100 of the roughly 10,000 withdrawn Cal Grant B awards have been reinstated as Cal Grant A awards in 2011-12. This effectively increased Cal Grant expenditures by about $29.7 million based on current-year tuition levels, an erosion of the roughly $100 million in total savings attributed to Chapter 7 in 2011-12. CSAC has not yet finalized its 2012-13 estimate of this modification. This updated information will be included in the May Revision.

Staff agrees that a permanent change to statute is warranted, to make clear the Legislature's intent and remove any uncertainty as to the budgetary actions taken in 2011 to modify eligibility for Cal Grant renewal awards. Adopting the proposed statutory clarifications also avoids the potential that someone might conclude that a Cal Grant A to Cal Grant B "switch" is also permissible. Under this scenario, a student could initially qualify for a Cal Grant A (because income was too high for a Cal Grant B) and receive payment for tuition coverage in year one. If, due to a drop in income, that student then converted to a Cal Grant B, this could result in that student receiving tuition coverage for four years plus four years of access awards – more than either a Cal Grant A and B awardee typically receives.

Staff Recommendation: Approve the proposed budget trailer bill language.

Vote:

7980 CALIFORNIA STUDENT AID COMMISSION

Item 4: CSAC Program Administration – Proposed Budget Trailer Bill Language

Governor's Budget Proposal. The January budget requests proposed budget trailer bill language to require that CSAC obtain written approval from the Department of Finance before implementing changes in policy or practice that would have a fiscal effect of $500,000 or more on any program administered by CSAC.

Background. The Administration indicates that this statutory change is necessary to provide greater clarity to CSAC program administration, particularly with regard to the potential budgetary impacts of commission actions. In support of this statutory change, the Administration points to a number of recent situations where the commission was considering a change in policy or practice that could result in significant new costs that were not included in the state budget, including:

- ✓ Decision to expand access to CCC transfer entitlement awards and thereby create an estimated $70 million in new unbudgeted GF costs for the Cal Grant program. *This issue is discussed further in Agenda Item 7.*
- ✓ Administrative actions to modify Cal Grant eligibility for renewing students, resulting in an estimated $29.7 million erosion of the total $100 million in 2011-12 savings. *This issue is discussed further in Agenda Item 3.*

Staff Comment. CSAC is unique in that it administers an entitlement program; therefore, its actions can drive new Cal Grant program costs in the state budget that neither the Legislature nor the Administration has considered or approved. This dynamic is illustrated in the above examples and raises the question of whether the appropriate budgetary "checks and balances" are in place. The Administration's proposed solution is the adoption of a statutory restriction with a cap of $500,000 and no role for the Legislature. Staff notes that this approach could be improved upon.

The Cal Grant program is strongly supported by the Legislature because it provides a crucial lifeline for hundreds of thousands of California students who could not otherwise afford to attend or complete college. Therefore, in establishing an appropriate budgetary check, the Subcommittee may instead wish to consider an approach that does not penalize or otherwise hamstring CSAC, but rather ensures: (1) proper alignment with the budget process and (2) legislative consideration of the issue(s). For instance, a budget control section could instead be used. Generally speaking, budget control sections are used to provide additional authorizations or place additional restrictions on one or more of the itemized appropriations contained in the budget. A budget control section would also allow for notification to the Joint Legislative Budget Committee, consistent with ensuring legislative consideration which is not addressed in the Administration's proposal. Finally, staff notes that a cap of $500,000 is overly restrictive for a program with a total appropriation of $1.5 billion.

Staff Recommendation. Adopt placeholder budget control section language to institute an appropriate budgetary check on administration of the Cal Grant program.

Vote:

7980 CALIFORNIA STUDENT AID COMMISSION

Item 5: Fund Transfers – Temporary Assistance for Needy Families and Student Loan Operating Fund

Governor's Budget Proposal. The January budget proposes two fund transfers, with no programmatic effect on financial aid programs, as follows:

1. Shift $736.4 million of Cal Grant Program costs from the GF to federal Temporary Assistance for Needy Families (TANF) Program funds available due to proposed reductions in the CalWORKs program.
2. Offset $30 million GF due to surplus funds from the Student Loan Operating Fund (SLOF), which receives proceeds from the federal guaranteed student loan program.

Background. Historically speaking, the Cal Grant program has been funded primarily with GF support. In recent fiscal years, the Administration has proposed fund transfers, with no programmatic effect on financial aid programs. The Governor's January budget again proposes this approach.

With regard to the TANF funds, these funds are available for administration of the Cal Grant program because of reductions the Governor is proposing separately to the CalWORKs program. This approach has been proposed in the past but not adopted by the Legislature. According to the Administration, this shift is an allowable use of TANF funds because support for low-income, unmarried students age 25 or younger could prevent and reduce out-of-wedlock pregnancies, which is one purpose of TANF. The Administration notes that New York funded a tuition assistance program with TANF dollars, which was reported to and approved by the federal Administration for Children and Families. Note, these CalWORKs-related budget proposals are pending consideration before Subcommittee No. 3.

With regard to the SLOF transfer, the SLOF receives proceeds from the federal guaranteed student loan program. In 2010, the federal government transferred management of this program from CSAC to ECMC, a national loan servicing organization. ECMC has agreed to contribute SLOF support to offset Cal Grant costs for several years, but the number and amount of transfers are unspecified. The 2011 Budget Act scored $62 million in surplus SLOF funds, thereby effectively "freeing up" a like amount of GF for other purposes. The ECMC Board is scheduled to meet on May 17, at which time it will update the SLOF figure available for 2012-13.

LAO Recommendation. The SLOF receives proceeds from the federal guaranteed student loan program to offset GF Cal Grant costs. The amount of the offset is determined each May by ECMC, the organization administering the loan program. For the current year, ECMC provided $62.25 million in proceeds. The Administration's 2012-13 estimate is $30 million. The Administration's estimate is conservative. The current-year contribution of $62 million provides a more reasonable estimate and would increase projected savings by $32 million. The Legislature can adjust this number during the May Revision process after ECMC determines the amount available for this offset.

Staff Comment. Both of these fund transfers have no programmatic impact on the Cal Grant program. However, with regard to the TANF shift, any action by this Subcommittee would be conforming to the action(s) of Subcommittee No. 3. With regard to the SLOF offset, the final figure of available funds will not be known until shortly after the release of the May Revision. Therefore, the Subcommittee may wish to hold this aspect of the transfer proposals open, pending ECMC Board action and receipt of updated information from the Administration.

Staff Recommendation. (1) Conform to the action(s) of Subcommittee No. 3 regarding the CalWORKs program and available TANF funds and (2) hold open the SLOF offset, pending receipt of updated information from the Administration at the time of May Revision.

Vote:

7980 CALIFORNIA STUDENT AID COMMISSION

Item 6: Phase Out of Loan Assumption Programs

Governor's Budget Proposal. The January budget proposes to phase out existing loan assumption programs for savings of $7 million in 2012-13. The proposed phase out would: (1) authorize no new program participants; (2) continue payments for students who have already received at least one payment and who complete additional years of qualifying employment; and (3) authorize no payments for participants who have been approved for the program but have not yet received their first payment.

Background. CSAC operates several loan assumption programs that were developed in response to workforce shortages in certain occupations and work settings (for example, teachers in low-performing public schools and nurses in state prisons). Under these programs, the state agrees to make loan payments on behalf of eligible students who borrow federal loans and work in specified occupations and settings after graduation. Payments are made for three or four years, as students complete years of qualifying employment. Teachers and college faculty can receive from $6,000 to $19,000 and nurses can receive from $20,000 to $25,000 in total loan payments, depending on a participant's subject area, position, and work setting.

The annual budget act specifies the number of new loan assumption agreements (or "warrants") that CSAC may issue to current students. The 2011-12 Budget Act authorized 7,400 new warrants and includes $40 million for payments on warrants issued in previous years.

LAO Comment. Legitimate concerns have been raised regarding the cost-effectiveness of the state's loan assumption programs. In particular, it is unclear whether these incentives lead to behavioral change or simply reward participants for what they would have otherwise done. The LAO's recent evaluation of the State Nursing Assumption Program of Loans for Education found that direct compensation (such as signing bonuses and other incentives) can be a more effective employee recruitment and retention tool than promises of future loan payments. Additionally, the targeted workforce shortages have largely abated in the current economy (though some shortages may return once the economy recovers).

However, it is possible that some current participants entered a lower-paying occupation, assumed more debt, accepted a lower-paying or more difficult job, or otherwise changed their behavior from what they may have done absent the promise of loan repayment. The LAO is concerned about the prospect of canceling payments these students have already earned by completing a portion of their qualifying employment obligation.

LAO Recommendation. The Legislature should adopt the Governor's proposal to eliminate the loan assumption programs, but with one modification. The LAO recommends honoring existing agreements for all students who have begun their qualifying employment prior to enactment of statutory changes. This would reduce estimated GF savings by about $7 million in 2012-13 and delay the phase-out of loan assumption programs by one year.

Staff Recommendation. Staff recommends that this request be held open, pending the May Revision.

7980 CALIFORNIA STUDENT AID COMMISSION

Item 7: Cal Grant Program Savings – Governor's Proposals

Governor's Budget Proposal. The January budget proposes several changes to the Cal Grant program, for total savings of roughly $261.3 million if all proposals are adopted, as follows:

- $52.9 million by reducing the award amount for new and continuing students attending private for-profit colleges and universities to $4,000, a 59 percent reduction in the award level. This change affects approximately 5,400 new and 6,600 renewing Cal Grant A and B recipients, for a total of 12,000 recipients.
- $111.2 million by reducing the award amount for new and continuing students attending independent, non-profit schools to the current CSU award amount of $5,472, a 43 percent reduction in the award level. This change affects approximately 10,500 new and 20,100 renewing Cal Grant A and B recipients, for a total of 30,600 recipients.
- $97.2 million by raising the minimum grade point average requirement for new applicants; the Cal Grant A Award GPA increases from 3.0 to 3.25, Cal Grant B Award GPA increases from 2.0 to 2.75, and CCC Transfer Award GPA increases from 2.4 to 2.75. This change affects approximately 24,700 students, of which 46 percent are at CCC, 34 percent are at CSU, eight percent are at non-profit independent colleges and universities, seven percent are at private for-profit colleges, and five percent are at UC.

The January budget also proposes budget trailer bill language to avoid two Cal Grant program expansions, as follows:

1. Reverses the recent CSAC decision to expand access to community college transfer entitlement awards. Currently students must begin university studies in the academic year immediately following community college enrollment to qualify for the transfer award. The CSAC decision would allow an interruption in studies prior to transferring. By reversing this decision, and requiring transfer students to be enrolled in a CCC in the year prior to transfer, the Administration estimates it will avoid $70 million in new GF costs for the Cal Grant program.
2. Halts the planned increase in allowable student loan default rates at Cal Grant eligible institutions. The default limit is currently 24.6 percent but is scheduled to increase to 30 percent for 2012-13. The January budget would retain the current limit, which prevents institutions with higher rates (primarily private for-profit colleges) from participating in the Cal Grant program.

Background. The Cal Grant program is the primary financial aid program run directly by the state. The Cal Grant program was modified in 2000 to become an entitlement award, thereby guaranteeing Cal Grants to students who graduate from high school in 2000-01, or beyond, and meet financial, academic, and general program eligibility requirements. Administered by CSAC, Cal Grant programs include:

- ✓ *Cal Grant A** high school entitlement award provides tuition fee funding for the equivalent of four full-time years at qualifying postsecondary institutions to eligible lower and middle income high school graduates who have at least a 3.0 grade point average (GPA) on a four-point scale and apply within one year of graduation.

- ✓ *Cal Grant B** high school entitlement award provides funds to eligible low-income high school graduates who have at least a 2.0 GPA on a four-point scale and apply within one year of graduation. The award provides up to $1,551 for book and living expenses for the first year and each year following for up to four years (or equivalent of four full-time years). After the first year, the award also provides tuition fee funding at qualifying postsecondary institutions.

- ✓ *Community College Transfer Award* provides a Cal Grant A or B to eligible high school graduates who have a community college GPA of at least 2.4 on a four-point scale and transfer to a qualifying baccalaureate degree granting college or university.

- ✓ *Cal Grant Competitive Award Program* provides 22,500 Cal Grant A and B awards available to applicants who meet financial, academic, and general program eligibility requirements. Half of these awards are reserved for students enrolled at a community college and who met the September 2 application deadline.

- ✓ *Cal Grant C Program* provides funding for financially eligible lower income students preparing for occupational or technical training. The authorized number of new awards is 7,761. For new and renewal recipients, the current tuition and fee award is up to $2,592 and the allowance for training-related costs is $576.

*The current maximum award for Cal Grants A and B are equal to the mandatory systemwide tuition fees at the UC ($12,192) and CSU ($5,472). With regard to private for-profit and independent non-profit institutions, the maximum award has been $9,708 since 2000, with the exception of two years (2004-2006), where the awards levels were reduced by 14 percent, to a total of $8,322.

Figure 2: Cal Grant Program Award and Funding Levels (dollars in thousands)

	2009-10	**2010-11**	**2011-12**	**2012-13**
Entitlement Awards				
Number	171,526	188,698	199,436	168,116
Amount	$911,366	$1,188,319	$1,369,143	$1,167,471
Competitive Awards				
Number	38,599	38,871	36,766	35,909
Amount	$119,166	$128,237	$127,887	$124,694
Cal Grant C				
Number	8,473	8,587	7,848	7,848
Amount	$9,835	$11,167	$9,002	$9,702
Totals	**$1,040,367**	**$1,327,723**	**$1,506,032**	**$1,301,867**

Figure 3 – Cal Grant Recipients and Funding Amount by Segment, 2011-12 Estimates (Dollars in Millions)

	Recipients		Funding	
Post-Secondary Segment	**Number**	**Percent**	**Amount**	**Percent**
CSU	75,524	31%	$382	25%
CCC	72,248	30%	$87	6%
UC	55,759	23%	$680	45%
Private Non-profit Institutions	26,854	11%	$246	16%
Private For-profit Institutions	14,664	6%	$112	7%
Totals	**244,049**	**100%**	**$1,506**	**100%**

Source: Legislative Analyst's Office

As part of the 2011 Budget Act, the Legislature adopted two significant changes to the Cal Grant program:

(1) Tighter Eligibility Criteria for Renewals. Previously, Cal Grant recipients had to meet certain financial eligibility criteria only when they first applied for a Cal Grant (and not when they renewed the grant in subsequent years). Cal Grant recipients applying for renewals now must meet several of those requirements. Applying these requirements to renewals disqualified an estimated 16,000 recipients who would otherwise be eligible for awards, reducing Cal Grant expenditures by about $100 million in 2011-12. To mitigate the impact on students, CSAC is required to use the higher of the limits in place at the time of a student's initial award and those in place at the time of renewal.

(2) New Restrictions on Student Loan Default Rates. A second change removes some postsecondary education institutions from eligibility to participate in Cal Grant programs. Specifically, institutions may not participate if a high proportion of their former students default on federal student loans. For 2011-12, the threshold is set at 24.6 percent of an institution's students defaulting within three years of loan repayment, as defined and calculated by the federal government. For subsequent years, the ceiling increases to 30 percent. These ceilings apply only to institutions with 40 percent or more of undergraduates borrowing federal student loans. For 2011-12, about 76 institutions are affected, and most of these are career and technical colleges. There is a limited exception for continuing students at institutions that become ineligible; these students may qualify for renewal awards reduced by 20 percent.

LAO Recommendation. The Legislature should consider a more nuanced approach to setting Cal Grant award amounts for students at different types of institutions. This would involve reestablishing a rational policy basis for award amounts and recognizing differences within each sector. For example, awards could reflect a student's qualifications and choice of academic program (such as baccalaureate or associate degree). However, significantly more work is needed to examine the effects of various changes on total state costs and overall access to postsecondary education. Rather than adopting the Governor's proposal in its current form, the Legislature should explore alternative approaches as part of its budget deliberations.

The Administration's GPA proposal has some merit, but it goes too far. It would result in eliminating one third of entitlement awards and would have a disproportionate impact on students with the greatest financial need. The Legislature should make more modest changes to GPA requirements. The LAO has recommended an alternative GPA proposal, discussed as Agenda Item 8.

Finally, avoiding new costs makes sense in the current budget environment. The LAO recommends that the Legislature approve the Governor's proposals to halt the removal of the CCC transfer time limit and the raising of the default limit. In the future, when the state fiscal condition has improved, the Legislature could consider whether to prioritize these two program expansions.

Staff Comment. The Administration cites dramatic increases in Cal Grant costs since adoption of the entitlement programs in 2001 as the reasoning for its proposed changes in the program. It is correct that overall expenditures for the Cal Grant program have increased in recent years. As high school graduation levels have been relatively flat, these increased expenditures can be primarily explained by two factors that have increased the number of students eligible for financial aid: (1) tuition fee increases at public universities and (2) decreased family incomes due to economic conditions and the state's high unemployment rate.

As noted earlier in this agenda, the Cal Grant program is strongly supported by the Legislature because it provides a crucial lifeline for hundreds of thousands of California students who could not otherwise afford to attend or complete college. The January budget proposes $261.3 million GF in savings in the Cal Grant program, and avoids new costs of approximately $70 million GF by limiting program expansions. Should the Legislature choose not to adopt all or part of the savings proposals, or the limitations on program expansions, the charge will then be to find additional savings elsewhere in either the Cal Grant program or in other GF-funded state programs. Last year the Legislature considered, but did not adopt, reform proposals to limit all new Cal Grant Competitive awards to the CCC and limit the time allowed on academic probation while still receiving a Cal Grant. Other LAO-identified savings proposals are discussed in Agenda Item 8. None of these alternatives, or the proposals contained in the January budget, present easy choices for the Legislature.

Finally, staff notes that the deadline for financial aid applications is March 2. High School Entitlement recipients are notified as early as the beginning of February. Transfer Entitlement recipients and Competitive recipients are notified in April-May. Renewal award recipients are notified in June. The Cal Grant award letter states the award is dependent upon the final budget, which is not finalized until the summer. In prior years, such as in 2010 when the budget was not finalized until October, many postsecondary institutions covered tuition and even advanced access awards from other funds. This was done because there was a good expectation that the funds would eventually come through. This year the dynamic is different – given the depth and breadth of the proposed budget reductions, including those impacting renewing students at private for-profit and independent non-profit institutions, as well as the GPA changes impacting new applicants – it is possible that many students could be awarded provisional grants only to have them canceled.

Subcommittee Questions. Based on the above information, the Subcommittee may wish to ask the following questions:

1. Beyond controlling costs, what other rationale(s) can the Administration provide for its savings proposals?

2. What explains the disparity in the reduction of the award levels for private institutions, where the maximum award for for-profits is reduced by 59 percent while the maximum award for independent non-profits is reduced by 43 percent?
3. Has the Administration modeled the potential state budgetary impacts of the proposals to reduce award levels for students attending private institutions; i.e., if these students instead opt to attend public institutions, won't the state's costs increase?
4. The current program structure is need-based with some merit requirements. The Administration's proposals to modify GPA levels increase the emphasis on merit, targeting aid on those financially needy students with higher grades. What is the rationale for this change in approach?
5. The proposed CCC transfer entitlement award trailer bill language would require students to be enrolled within a year of leaving a CCC. Given CSU's recent announcement about potentially closing spring enrollment to all but SB 1440-eligible transfer students, is the Administration concerned that its language is too restrictive? Is the Administration considering any modifications to ensure that a student not lose eligibility if they fail to gain admission through no fault of their own, perhaps by modifying the existing deferral process which allows students to defer their grants for one year?
6. The January budget does not recognize the CSU fee increase effective for the fall 2013 term. Separately, the budget includes controlling language that accounts for any tuition fee increase at CSU. This translates to an estimated $28 million deficiency in the Cal Grant program. Does the Administration plan to address this inconsistency?

Staff Recommendation. Staff recommends that these requests be held open, pending the May Revision.

7980 CALIFORNIA STUDENT AID COMMISSION

Item 8: Cal Grant Program Savings – LAO Alternatives

Description (Informational Item). The LAO will provide a brief overview of the alternative Cal Grant program savings proposals it has identified. In proposing these alternatives, the LAO has reported that preserving the state's comprehensive system of student financial aid, including Cal Grants, university grants, and CCC fee waivers, is key to maintaining the affordability of higher education in California. Some aspects of these programs, however, could be improved. In addition, certain smaller financial aid programs do not necessarily improve affordability for students.

Figure 4 -- LAO-Identified Alternative Cal Grant Program Savings Proposals

Eliminate Non-Need-Based Tuition Waivers. Savings of $30 million (assumes one-half of current recipients would qualify for state need-based financial aid programs).	State law requires all three public higher education segments to waive fees for survivors and dependents of deceased and disabled veterans and deceased public safety workers. Federal assistance programs provide education benefits to these same populations. Some of these federal programs reduce awards by the amount of other governmental assistance, including fee waivers, that a student is eligible to receive. As a result, by providing fee waivers to these students the state is using state and institutional funds for costs the federal government would otherwise pay. In addition, California's tuition waiver programs are available to students who are not financially needy. Because they provide benefits to non-needy students or duplicate existing benefits, these programs do not improve affordability of higher education. These mandatory waivers account for more than $60 million in forgone tuition revenue at public colleges and universities.
Limit New Competitive Cal Grant Awards to Stipends Only. Savings of $30 million ongoing.	CCC students receive three-quarters of new competitive Cal Grant awards but only one-third of new funding. Students at UC, CSU, nonprofit colleges and universities, and private career schools receive one-quarter of awards (about 4,000) with the majority of funding. This is largely because CCC students do not receive fee coverage as part of their grant awards. Instead, they qualify for campus-based fee waivers, and receive a $1,551 annual stipend to cover expenses other than fees. Restricting all new competitive awards to this amount would not affect the three-quarters of new recipients who are CCC students. Other students would have the option to attend a community college with fee waivers and stipends, or seek additional financial aid at other institutions.
Adjust Cal Grant Financial Eligibility Criteria. Savings would depend on the particular income or EFC level selected.	For 2012-13, a dependent student from a family of four may qualify for a new Cal Grant A or C award with a family income up to $80,100. (The threshold is lower for Cal Grant B awards.) This is approximately the median income for a family of four in California. The Legislature could adjust financial eligibility criteria to reduce the number of students who qualify for Cal Grants. For example, it could set maximum income levels at a lower amount, such as 80 percent of median family income, or a multiple of the federal poverty guideline (such as 250 percent). Alternatively, it could eliminate income and asset ceilings and use only the Expected Family Contribution (EFC), calculated through the federal aid formulas. The EFC reflects family resources (income and assets) as well as costs (including the number of family members attending college.) Cal Grant eligibility could be based on a maximum EFC, ensuring that funds are

	targeted to the students with the fewest financial resources.
Increase Minimum GPA for Cal Grant Eligibility. Savings would depend on the particular GPA level selected.	Under the Cal Grant High School Entitlement program, students must attain a high school grade point average (GPA) of 3.0 to qualify for Cal Grant A awards, which provide full fee coverage for four years. Students may qualify for Cal Grant B awards, which provide stipends of $1,551 each year and full fee coverage after the first year, with a 2.0 GPA. Students with a GPA of 2.0 have extremely low rates of persistence and success in college. Estimates show fewer than 20 percent of CSU students who earned high school GPAs of 2.0 or less graduate from college. The LAO recommends raising the minimum GPA for Cal Grant B awards to 2.5. The LAO also recommends raising the minimum GPA for Cal Grant Transfer Entitlement awards, currently 2.4, to 2.5. These actions would reduce the number of Cal Grants by about 17,000 and save $21 million. The Legislature could phase in changes over a period of time to allow students an opportunity to improve their grades.
Reduce Maximum Awards. Savings would depend on the percentage reduction in the award level selected.	As an alternative to eliminating some awards entirely or disproportionately reducing others, the Legislature could reduce all awards by a specified amount. This would be less likely to result in reduced college access. A 10 percent reduction in the tuition portion of award amounts (preserving access awards at $1,551) would provide more than $100 million in savings.
Reduce Amount of Tuition Revenue Redirected to Campus Aid Programs.	In recent years, UC and CSU have redirected one-third of new revenues from tuition increases to augment campus aid programs. The universities provide more than $1.5 billion in campus aid to undergraduates—far more than their students receive in Cal Grants. Each segment sets its own policies for awarding campus aid, reflecting different priorities at UC and CSU. Because they divert a portion of tuition revenue to aid programs, the segments must set tuition levels higher than they otherwise would in order to achieve a given revenue target. This higher tuition, in turn, raises Cal Grant costs. Diverting somewhat less of the revenue to aid would permit lower tuition and reduce the impact on Cal Grants. The segments could adjust the redirection of fees while preserving the structure of financial aid programs, requiring modest increases in all student contributions or targeting reductions to those with the least financial need.
Establishing a Limit on Awards for Lower-Division Studies.	Currently a student can use all four years of Cal Grant eligibility at a CCC, leaving none for the junior and senior years at a university. Restricting utilization to the first two years at a CCC could create an incentive for students to complete their lower-division studies and move on to a senior institution. While this change could increase costs in the short term, it could also reduce state spending on students who are taking excess course units and improve program completion rates and time to degree.

Staff Recommendation. None; this is an informational item.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Thursday, April 19, 2012
9:30 a.m. or upon adjournment of floor session
Room 3191, State Capitol

OUTCOMES

Item	Department	Page
7980	**CALIFORNIA STUDENT AID COMMISSION**	
	State Operations/Administration	
Item 1	State Operations: Implementation of 2011 Legislation	Page 3
	Approved by a vote of 2-1, with Senator Gaines voting no.	
Item 2	Adoption of SB 70 (2011) Institutional Reporting Regulations	Page 5
	None; informational item.	
Item 3	Trailer Bill Language: Cal Grant B to Cal Grant A "Switches"	Page 6
	Approved by a vote of 3-0.	
Item 4	CSAC Program Administration: Proposed Budget Trailer Bill Language	Page 8
	Approved by a vote of 3-0.	
	Financial Aid Program Savings Proposals	
Item 5	Fund Transfers: Temporary Assistance for Needy Families and Student Loan Operating Fund	Page 9
	Item held open pending May Revision.	
Item 6	Phase Out of Loan Assumption Programs	Page 11
	Item held open pending May Revision.	
Item 7	Cal Grant Program Savings: Governor's Proposals	Page 12
	Item held open pending May Revision.	
Item 8	Cal Grant Program Savings: LAO Alternatives	Page 17
	None; informational item.	
	Public Comment	

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Thursday, April 26, 2012
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

Consultant: Kim Connor

Public Comment

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

ISSUE 1. Governor's Proposal for Special Education - Mental Health Related Services

DESCRIPTION: The Governor proposes to increase Proposition 98 funding for the special education program by a total of **$98.6 million** in 2012-13 to maintain current funding levels for educationally related mental health services. The Governor's proposal is intended to backfill the loss of $98.6 million in one-time Proposition 63 funds available for educationally related mental health services in 2011-12. By providing an additional $98.6 million in Proposition 98 funding in 2012-13, the Governor's proposal provides a total of **$420.4 million** in local assistance funding for mental health related services in 2012-13, which maintains funding at levels available in the current year.

BACKGROUND:

Federal special education law – currently the Individuals with Disabilities Education Act (IDEA) -- requires that school districts provide students with disabilities the accommodations necessary for them to benefit from their education. This entitlement covers a range of services, including, mental health services, if determined educationally necessary by a student's Individualized Education Program (IEP).

School districts were responsible for mental health related services for students with disabilities from the mid-1970s -- following the passage of the federal special education laws – until 1984. In 1984, California required county mental health agencies to provide mental health services to special education students instead of school districts. These responsibilities, referred to as AB 3632 services after the authorizing legislation, were determined to be a state reimbursable mandate for counties.

As part of the 2010–11 budget act, then–Governor Schwarzenegger vetoed state funding for the AB 3632 program and declared the state mandate suspended, leading to uncertainty as to which entity—schools or counties—was responsible for ensuring that students receive services in 2010–11. To help address uncertainty from the veto and ensure students continued to receive services in 2010–11, the March 2011 education trailer bill provided $81 million in one–time Proposition 98 funds to school districts. This funding was provided on top of $76 million in federal special education funds that was made available to county mental health agencies for providing mental health related services in 2010-11.

As proposed by Governor Brown, the 2011-12 budget package repeals the AB 3632 mandate and permanently shifts responsibility for special education–related mental health services from county mental health agencies back to schools.

Mental Health Related Services Shift – Transition Budget in 2011-12. The 2011-12 budget (1) eliminated the state AB 3632 mandate program, which required counties to provide mental health services to student with disabilities, and (2) shifted responsibility for providing educationally related mental health services – including out-of-state residential services – as required by federal law for students with disabilities.

As a part of this shift, the final budget package appropriated a total **of $423.6 million** for educationally related mental health services in 2011-12, including the following new and existing funds directed for this purpose:

- **$218.8 million** in new Proposition 98 funds allocated to Special Education Local Planning Areas (SELPAs) for educationally related mental health services. Funds are allocated to SELPAS using an equal per pupil formula.
- **$3 million** in new Proposition 98 funds available to the CDE to administer an extraordinary cost pool associated with educationally related mental health services for necessary small special education SELPAs. Funding is provided to CDE – in collaboration with the Department of Finance (DOF) and Legislative Analyst's Office – and subject to final approval of DOF.
- **$31 million** in existing Proposition 98 funds redirected to SELPAs for provision of educationally related mental health services. Funds are allocated to SELPAs on a one-time basis using an equal per pupil formula.
- **$69 million** in existing federal special education funds allocated to SELPAs for educationally related mental health services. Funds are allocated on a one-time basis using a formula that reflects weighted student mental health service counts. It is the intent of the Legislature that in 2012-13 these funds be allocated to SELPAs on an equal per pupil formula.
- **$98.6 million** in Proposition 63 funds allocated to counties via a formula developed by the state Department of Mental Health and local counties (County Mental Health Directors Association), pursuant to Chapter 5, Statutes of 2011. Counties shall use funds exclusively for educationally related mental health services within a pupil's individualized education program (IEP) during the 2011-12 fiscal year. Unused funding will be reallocated to other counties. In order to access funds, LEAs may develop a memorandum of understanding or enter into a contract with its county mental health agency to address the interagency service responsibility for the provision and transition of mental health services identified on a pupil's IEP during 2011-12.
- $**2 million** in one-time federal special education carryover funds appropriated to the Office of Administrative Hearings on a one-time basis for mental health service dispute resolution services in 2011-12. CDE shall submit documentation to the Department of Finance (DOF) justifying the increased mental health services caseload and obtain written approval from DOF prior to spending these funds.
- **$800,000** in one-time federal special education funds appropriated to the Department of Education to provide oversight and technical assistance for LEAs as the responsibility for overseeing education related mental health services transitions from counties and to SELPAs. The department shall use these funds to assist SELPAS:
  - Minimize disruptions and maintain quality services for pupils through the transition period and in future years;
  - Develop internal capacity for overseeing, contracting for, and providing quality educationally related mental health services;

- Identifying best practices and effective models for service delivery;
- Identifying options for controlling costs and accessing Medi-Cal and other local, state, and federal funds; and
- Strengthening linkages between mental health and education services**.**

The department shall also identify options for improving accountability for effective services and positive pupil outcomes. As a part of this effort, the department shall:

- Establish working groups to generate recommendations regarding best practices, accountability systems, and other matters, and
- Hold public meetings with stakeholders to solicit input and share results.

- **$443,000** in existing ongoing federal special education funds and 3.0 positions at the Department of Education redirected for increased department monitoring associated with educationally related mental health services.

As outlined above, the $423.6 million appropriated in 2011-12 includes **$420.4 million** in local assistance funds and **$3.243 million** in state operations funds to support the program shift.

GOVERNOR'S BUDGET PROPOSAL FOR 2012-13.

Governor's January Adjustments- Local Assistance:

1. **Local Assistance Funding.** The Governor proposes to increase Proposition 98 funding for the special education program by a total of **$98.6 million** in 2012-13 to maintain current funding levels for educationally related mental health services. The Governor proposes to allocate funding pursuant to pupil average daily attendance (ADA), consistent with current allocation methodologies. The Governor's proposal is intended to backfill the loss of $98.6 million in one-time Proposition 63 funds available for educationally related mental health services in 2011-12. (The Governor proposes to "rebench" the Proposition 98 minimum funding guarantee to reflect this funding backfill.) By providing an additional $98.6 million in Proposition 98 funding in 2012-13, the Governor's proposal provides a total of **$420.4 million** in local assistance funding for mental health related services in 2012-13, which maintains funding at levels available in the current year.

2. **Federal Funding Allocations.** The Governor also proposes to adjust the allocation methodology for **$69 million** in federal special education funds beginning in 2012-13. More specifically, the Governor proposes to allocate these federal funds on a per pupil (ADA) basis and to discontinue the current, limited-term formula based on service counts – reflecting 2010-11 special education data -- that was put in place during the initial transition of mental health related services back to schools. The Governor's proposal is consistent with budget bill language in the 2011-12 budget that states intent to allocate the $69 million in federal funds on an equal, per pupil basis (ADA) in 2012-13.

DOF April Letter Requests – State Operations Adjustments:

3. **Federal Funds for Mental Health Services Compliance and Monitoring of Out-of-State Residential Facilities (Issue 645).** It is requested that Item 6110-001-0890 be increased by **$1,226,000** in federal Individuals with Disabilities Education Act (IDEA) funds **and 3.0 limited-term positions be provided for three years**, and that Item 6110-001-0001 be amended, to provide an adequate level of oversight and monitoring related to the transition of mental health services from counties to schools.

   With the passage of Chapter 43, Statutes of 2011 (AB 114), the responsibility for providing mental health services to special education students shifted from counties to schools and has created a significant increase in workload for the SDE. **The SDE has already redirected 5.0 positions, which were funded in the current year with $800,000 in one-time federal IDEA carryover funds, to assist local educational agencies (LEAs) and to provide technical assistance to the field. The proposed funding will continue to support these positions in providing oversight, monitoring, technical assistance, and fiscal and programmatic data collection to ensure a proper transition in the provision of mental health services.** In addition, this request will fund 3.0 new limited-term positions that will monitor residential placements made by LEAs in out-of-state facilities to ensure they meet basic health and safety standards.

4. **Funding for Increased Non-Public Schools and Agencies Certification Workload (Issue 644).** It is requested that Item 6110-001-0001 be amended by increasing reimbursements by **$190,000** for projected increases in workload relating to the number of non-public schools and agencies (NPS/As) seeking certification to provide individualized education program-based mental health services.

   With the passage of Chapter 43, Statutes of 2011 (AB 114), the responsibility for providing mental health services to special education students shifted from counties to schools. The SDE anticipates an increase in NPS/A certification applications it receives due to the ability of local educational agencies to contract with independent agencies for mental health services.

LAO COMMENTS: The LAO does not have a formal recommendation on the Governor's special education proposals. However, the LAO has offered a few issues for the Subcommittee to consider in evaluating the Governor's proposals:

- **Level of New State Funding.** The Governor's proposal to add **$98.6 million** in new Proposition 98 is tied to last year's funding, which is based on historical, AB 3632 spending data. It is unclear how much mental health services actually will cost education under the new model. However, it should be noted that California does not fund special education based on reimbursing actual costs in any case, so that is not a requirement now. It is possible the amount proposed by the Governor could be too much under the new model– given new efficiencies – but special education might be an appropriate place to spend funds.

- **Restrictions & Use of New Funds.** Should the Legislature restrict the additional $98.6 million in Proposition 98 funds just for mental health services or allow SELPAs to use it for any special education purpose based on local population and needs? For the most part, the state does not build firewalls around particular components of special education for particular disabilities, so this is a departure from current practice. Different areas of the state may have different populations with different needs, and what kinds of incentives are created when there is funding restricted for just one type of student or set of services? Restricting funds may also conflict with the intent of the census-based funding model contained in AB 602. During the 3632 transition, however, there has been uniform preference from the field to have these funds "protected" and reserved for this purpose at least for the short term as the dust settles. But given about $320 million of the funding provided to schools to support mental health related services is "restricted" in the current year and proposed to continue to be in 2012-13, the Legislature could think about making the additional $99 million now shifting to schools more flexible within special education. Or the Legislature could add statutory language – beyond what was already provided in AB 114 -- clarifying that if these new funds are restricted, they are restricted for just the short term.

- **Allocation of Federal Funds**. Based on variance in historical allocations and overall state policy for special education funding, Governor's proposal to allocate the **$69 million** based on ADA makes sense. Also, the Legislature stated intent in the 2011-12 budget act to change the formula to an ADA basis in 2012-13.

STAFF COMMENTS.

- **Proposed Federal Fund Allocation Consistent with State and Federal Law.** The Governor's proposed allocation adjustment for the **$69 million** in federal funds is consistent with the state's traditional special education allocation methodology, which utilizes general education pupil counts – as measured by ADA -- not special education pupil counts or placements. Special education funding reforms – enacted by AB 602 in the late 1990's -- moved our state away from funding based upon placement settings or type of disability in order to address historical inequities in funding levels among SELPAs and to eliminate incentives for more restrictive (and costly) placements, which also complies with the least restrictive environment provisions of federal law.

  The Governor's allocation adjustment is also consistent with budget bill language in the 2011-12 budget act, which states that the $69 million federal funds are allocated on a **one-time basis** using a formula that reflects student mental health service counts. The language further states that it is the intent of the Legislature that in 2012-13 these funds be allocated to SELPAs **on an equal, per pupil (ADA) formula**.

- **Costs of Providing Mental Health Related Services Unclear.** More information is needed to assess the true costs of shifting mental health related services to schools, and therefore to fully evaluate the additional $98.6 million proposed by the Governor to cover the costs to education. As evidence, state and federal appropriations for the AB 3632 program prior to the program shift ranged from **$119 million** to **$347 million** annually between 1998-99 and

2009-10 according to the LAO. In the following chart, the LAO summarizes the irregular pattern of funding for the AB 3632 program prior to 2010-11 when most non-education state funding stopped and the status of the state mandate program was in question. In summary, there are two major categories of expenditures -- mental health services and residential care.

AB 3632 Costs Over Time

(In Millions)

	Mental Health Services			Residential Care		
	Federal Special Education	DMH Categorical	Mandate Claims[a]	DSS	County Funds[a]	Totals
1998-99	—	$12	$50	$23	$34	**$119**
1999-00	—	12	68	24	35	**139**
2000-01	—	12	78	25	37	**152**
2001-02	—	12	119	31	46	**208**
2002-03	—	—	146	38	57	**241**
2003-04	—	—	57	39	58	**154**
2004-05	$69	—	68	37	55	**229**
2005-06	69	—	72	38	57	**236**
2006-07	69	52	61	43	65	**290**
2007-08	69	52	83	48	72	**324**
2008-09	69	104	46	51	77	**347**
2009-10	69	—	94	59	89[b]	**311**

[a] Some counties are claiming mandate reimbursements for some of their local share of residential care costs, so some costs may be double-counted in these two columns.
[b] Additional mandate claims being submitted for 2009-10.
DMH = Department of Mental Health and DSS = Department of Social Services.

It is important to point out that the costs of the AB 3632 program may not necessarily be the same for education. For example, some SELPAs are reporting savings from providing mental services directly or contracting directly for services, rather than going through the counties. Additionally, now that schools are fully responsible for mental health services, early intervention could reduce the need for long-term, more intensive and costly services to students in the future. On the other end of the spectrum, some SELPAs may be facing additional costs for providing services. Finally, it is likely that the annual costs for education will change over the transition period, i.e., need for training and service start-up might be needed on the front end but diminish over time.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee hold the Governor's mental health budget proposals open until May Revise.

SUGGESTED QUESTIONS:

1. **DOF:** What assumptions does the Administration make about the additional costs of shifting mental health related services back to schools?
2. **CDE:** What is the Department doing to monitor the provision of mental health related services by LEAs and to assure positive outcomes for children and youth with disabilities during the transition?
3. **CDE:** Based on your survey data, how would the Department summarize service delivery by LEAs during the transition to date?

ISSUE 2.   Legislative Analyst's Report on Charter School Funding

DESCRIPTION: The LAO published a report entitled on charter school funding in January 2012 entitled ***Comparing Funding for Charter Schools and Their School District Peers.*** The LAO will present to the Subcommittee major findings and recommendations from that report. The LAO will also provide some general information on charter schools and funding in California, as background for the evaluating the Governor's charter school budget proposals on the Subcommittee hearing agenda today.

GENERAL BACKGROUND:

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

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

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

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

According to CDE, there are currently about **1,007 charter schools** and **8 all-charter districts** operating in California. As reflected by the following table, charter schools have been growing by about 100 schools annually over the last couple of years. Nearly **399,000 pupils** now attend charter schools, which equates to about **6 percent** of the public school pupil population statewide.

	2009-10		2010-11		2011-12	
	Number	**Funded ADA****	**Number**	**Funded ADA****	**Numbers**	**Funded ADA****
Charter Schools	818	298,034	913	343,107	1,007	391,725
Charter Districts*	8	6,949	8	6,992	8	7,062
TOTAL, Charters	**826**	**304,983**	**921**	**350,099**	**1,015**	**398,787**

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

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

- Approximately **85 percent are start-up schools**, and the remainder are conversions of pre-existing public schools.
- Approximately **77 percent are classroom–based or site-based**, and the remainder are either partially or exclusively non-classroom based (independent study).
- Approximately **71 percent are directly funded** (i.e., have a separate account in the county treasury), and the remaining 29 percent are locally funded (i.e., are included in the budget of the chartering authority).

HIGHLIGHTS FROM LAO REPORT: The **Executive Summary** from the LAO report -- ***Comparing Funding for Charter Schools and Their School District Peers*** – is reprinted below:

Executive Summary

"The 1992 legislation that authorized charter schools in California created a funding model intended to provide charter schools with the same per–pupil operational funding as received by other schools in the same school district. The state subsequently modified this policy in 1998, enacting legislation specifying that "charter school operational funding shall be equal to the total funding that would be available to a similar school district serving a similar pupil population." This policy remains in place. To assess the extent to which this policy is being met, we analyzed per–pupil Proposition 98 operational funding for charter schools and their school district peers. Due to data limitations, we focused our analysis primarily on direct–funded charter schools. (These schools receive funding directly from the state whereas locally funded charter schools have some of their funding allocations embedded within their local school district's allotment.)

Total General Purpose Per–Pupil Funding Is Somewhat Less for Charter Schools. In 2010–11, charter schools received, on average, $395 per pupil (or 7 percent) less in total general purpose funding than their school district peers. This difference is relatively small because the largest single source of funding—base general purpose funding—is comparable for both groups. Charter schools, however, receive less in–lieu (or "flexible") categorical funding. The $395 per–pupil funding gap is attributable to school districts receiving $150 more for programs in the Charter School Categorical Block Grant (CSBG) and $245 more for other in–lieu categorical programs. With the 2011–12 midyear elimination of the Home–to–School (HTS) transportation program, the per–pupil funding gap for programs in the CSBG decreased from $150 to $56—lowering the total funding gap to $301 per pupil.

Funding Gap Increases as a Result of Changes in K–3 Class Size Reduction (CSR) and Mandate Rules. The funding gap between charter schools and their school district peers grows if one accounts for recent changes in K–3 CSR and mandate rules. Regarding K–3 CSR, in 2008–09, the state barred any new schools or additional classrooms from participating in the program. Because of the relatively rapid growth of new charter schools, only 49 percent of total K–3 charter school students participated in the program in 2010–11 whereas approximately 95 percent of school district K–3 students participated. This resulted in an additional funding gap of $721 per pupil for new charter schools. Regarding education mandates, the Commission on State Mandates (CSM) made a determination in 2006–07 to disallow charter schools from receiving mandate reimbursement, and the Controller subsequently stopped reimbursing charter schools in 2009–10. While claiming school districts receive on average $46 per pupil to complete certain mandated activities that also apply to charter schools, charter schools receive no associated funding.

Three Recommendations if Existing K–12 Funding Structure Retained. We recommend the Legislature equalize the funding rates of charter schools and their school district peers as well as provide more flexibility for both groups of schools. The Legislature could achieve these objectives either by making changes within the existing K–12 finance system or fundamentally restructuring the existing system. If the existing K–12 funding structure were retained, we recommend the Legislature:

- **Equalize In–Lieu Categorical Funding Rates**. We recommend providing charter schools with the average statewide amount received by school districts for all in–lieu categorical programs—$837 per pupil (a $301 increase from the existing rate of $536 per pupil). Completely closing this funding gap in 2012–13 for the roughly 440,000 charter students projected statewide would cost **$133 million**. Given the state's current fiscal condition, the Legislature could close the funding gap over a multiyear period.

- **Maximize Flexibility for Charter Schools and School Districts**. We recommend making K–3 CSR flexible for both charter schools and school districts by including these funds in their base general purpose allocations and providing the same associated per–pupil funding rate to new charter schools. If new charter schools were provided the statewide average K–3 CSR funding rate, this would cost the state **$16 million** in 2012–13. Similarly, we recommend placing all remaining career technical education programs (agricultural vocational education, Partnership Academies, and apprentice programs) into base general purpose allocations.

- **Provide Charter Schools In–Lieu Mandate Funding.** We recommend the state provide $23 per charter pupil to fund the 17 mandated activities that apply to charter schools. This would cost the state **$10 million** in 2012–13. We recommend the state provide this amount as a supplement to the CSBG. (This funding rate equates to roughly half the amount provided to school districts that file mandate claims, on the rationale that charter schools will incur lower costs as a result of not needing to participate in the state's formal mandate process.)

Two Recommendations if Legislature Pursues More Fundamental Restructuring. Though the above changes would eliminate existing funding disparities between charter schools and school districts, the Legislature could pursue more fundamental restructuring of the K–12 finance system. If a new system were designed to replace the existing one, we recommend the Legislature:

- **Apply the Same Basic Funding Model to Charter Schools and School Districts**. For both charter schools and school districts, we recommend funding a base general purpose allocation—one that is rationale, simple, and transparent—along with a few block grants linked with student needs, and then equalizing associated per–pupil rates over time. Alternatively, the Legislature could consider the Governor's proposal to create a weighted student formula, which also would provide additional funding for disadvantaged students and equalize per–pupil rates over time.

- **Allow Charter Schools Access to Certain Mandate–Related Funding.** In addition to categorical restructuring, the Legislature could consider fundamental changes to the existing mandate reimbursement system. If this course of action were pursued, we recommend applying the new system to both charter schools and school districts. While we think the Governor's discretionary mandate block grant proposal is a reasonable starting point, we recommend allowing both charter schools and school districts access to the associated funding."

STAFF COMMENTS & RECOMMENDATIONS: This is an informational item. However, the LAO's findings and recommendations on charter schools may be useful for the Subcommittee in considering Proposition 98 decisions at May Revise. While the remaining Subcommittee agenda today covers a number of individual charter school issues proposed by the Governor, <u>staff notes</u> that two of the Governor's major finance proposals – weighted pupil formula and mandate block grants – include charter schools in substantial, new ways. While not the only option recommended by the LAO, these major proposals would address the charter school funding disparities outlined in the LAO report.

SUGGESTED QUESTIONS:

1. DOF: What are the benefits for charter schools of the Governor's proposals to implement school finance reforms through a weighted pupil formula and education mandate reforms – through his mandate block grant? How do these benefits compare to the benefits from the Governor's other charter school budget proposals that will be discussed in the agenda today?
2. LAO: What is the impact of funding disparities identified by your report on charter schools and students?
3. LAO: How can charter school funding disparities be addressed within the current fiscal environment? What timing would the LAO recommend?
4. CDE: What do we know about the performance outcomes of charter schools compared to other public schools?

ISSUE 3. Education Funding for Non-Classroom Based Charter Schools

DESCRIPTION: The Governor proposes trailer bill language to eliminate the current law funding determination process for non-classroom-based instruction and instead provide full funding for all non-classroom based charter schools.

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

According to the California Department of Education (CDE), most charter schools receive full funding -- 100 percent of pupil average daily attendance (ADA). However, through a "determination" process administered by CDE and the State Board of Education, a limited number of charter schools statewide receive less than full funding based due to exclusions of their non-classroom based ADA.

Most student ADA for non-classroom based charter schools is funded. As indicated in the table below, an estimated 105,367 student ADA (97 percent) for non-classroom based charter schools is being funded in 2011-12; only 3,329 student ADA (3 percent) is not being funded.

	2009-10	**2010-11**	**2011-12**
Non-Classroom Based Charter Schools – Funded & Non-Funded ADA	Student ADA	Student ADA	Student ADA
Reported ADA	**96,119**	**107,107**	**108,696**
Funded ADA	**93,633**	**104,326**	**105,367**
ADA Not Funded	**2,486**	**2,781**	**3,329**
Number of non-classroom based schools	***191***	***213***	***203***
Schools funded at 100 percent	***178***	***200***	***192***
Schools funded at less than 100 percent	***13***	***13***	***11***

Per CDE, a total of 203 charter schools were operating under funding "determinations", which are granted for more than one year. Of these 203 charter schools, only 11 schools receive less than full funding, as indicated in the table above.

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

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

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

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes trailer bill language to remove the funding determination process for non-classroom-based instruction for charter schools. According to the Administration, this change will reduce workload for staff at the California Department of Education, State Board of Education, charter schools and charter authorizers. In addition, the Administration believes this change will equalize funding disparities between charter schools that offer non-classroom-based instruction and school districts that offer independent study instruction.

LAO COMMENTS & RECOMMENDATIONS: The LAO recommends that the Legislature reject the Governor's proposal to eliminate the funding determination process and provide full funding to all non-classroom-based charter schools.

Per the LAO, removing the state's fiscal oversight process would allow non-classroom-based schools to reduce spending on instruction-related activities and still receive full funding. Also would provide schools that have lower cost structures with funding augmentations in 2012-13 without a clear rationale. For these schools, state costs would increase by about $20 million.

STAFF RECOMMENDATION: Staff supports the LAO's recommendations, but recommends that the Subcommittee hold this issue open until May Revise.

SUGGESTED QUESTIONS:

1. DOF: What are the problems with the current determination process that the Administration is trying to address or streamline?
2. DOF: Does the Administration have any concerns about the loss of oversight with elimination of the determination process? Has the Administration considered other ways to streamline the determination process that don't include total elimination of the process?
3. DOF: The Administration believes the Governor's proposal will equalize funding disparities between charter schools that offer non-classroom-based instruction and school districts that offer independent study instruction. Can the Administration provide more detail about this comparison?
4. DOF: What are the costs of providing full funding to about eleven charter schools not receiving full funding, per the Governor's proposal?
5. CDE: What is the audit process for non-classroom based charter schools approved for funding? How often are these charter schools audited?
6. CDE: What are the Department's greatest concerns about the elimination of the determination process for non-classroom based charter schools? Can the Department suggest other alternatives to streamline the current process?

ISSUE 4. Charter School Facilities Grant Program

DESCRIPTION: The Governor proposes trailer bill language to make non-classroom-based instruction eligible for the Charter Schools Facilities Grant program. The Governor also proposes to establish an apportionment schedule for the program that would provide earlier payments to charter schools.

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

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

The charter schools are funded at $750 per unit of classroom-based average daily attendance, or up to 75 percent of its annual facilities rent and lease costs for the school, whichever is lower.

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

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

Funds for this program increased substantially with the transfer of funds from the phase out of the Multi-track Year-Round Education (MTYRE) Operational Grant Program. Chapter 271 (2008) required all funds appropriated for the MTYRE program in 2007-08 – a total of $97 million -- to be transferred to the Charter School Facility Grant Program a rate of 20 percent each year. The proposed 2012-13 budget makes the final transfer payment of $15 million from MTYRE program to the Charter School Facility Grant program. With this transfer, the Governor's Budget proposes to provide a total of $92 million for the program in 2012-13.

Beginning in 2008-09, the Charter School Facility Grant Program was subject to across-the-board categorical reductions for most state categorical programs. Under current law, these reductions will remain in place through 2014-05 – a total of seven years.

GOVERNOR'S BUDGET PROPOSALS:

1. **Coverage for Non-Classroom Based ADA.** The Governor's budget proposes trailer bill language to repeal provisions of current law which prohibits Charter School Facility Grant funds for units of pupils average daily attendance (ADA) generated through non-classroom based instruction. Instead, the language would allow portions of a charter school's facilities that are used to provide direct instruction and instructional support to pupils enrolled in the school to be eligible for funding under this program. According to the Administration, this change will equalize funding disparities between charter schools that offer non-classroom based instruction and school districts that offer independent study instruction, as well as provide much needed cash flow relief to charter schools through the earlier apportionment schedule.

2. **Earlier Apportionments.** The Governor's Budget proposes trailer bill language to require the apportionment of funding by August 31, of each fiscal year or 30 days after the enactment of the annual budget act, whichever is later. Current law requires the California Department of Education (CDE) to apportion funding in a "timely manner" -- as defined by the department.

   The Governor's proposal would require CDE to use prior year data on pupil eligibility for free and reduced price meals and prior year rent or lease costs provided by the charter school to determine eligibility for the grant program until current year data or actual rent or lease costs become known or until June 30 of each fiscal year. If this data is not available, the language directs CDE to use estimates provided by the charter school so the total rent and lease costs do not exceed the school's total advanced apportionment funding.

LAO COMMENTS & RECOMMENDATIONS: The LAO recommends that the Legislature **modify** the Governor's proposal to streamline the application process by requiring California Department of Education (CDE) to use prior-year data to make initial funding apportionments and require the first payment to be issued by August 31. Per the LAO, using prior-year data for first apportionment would allow for a more timely release of funds.

More specifically, the LAO recommends the following modifications:

- Designate at least one-third of funds be released in initial apportionment.
- Ensure actual cost data used and school amounts are "trued up" accordingly for purposes of the final apportionment.

RELATED LEGISLATION:

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

STAFF RECOMMENDATION: Staff recommends that the Subcommittee hold these issues open until May Revise.

SUGGESTED QUESTIONS:

1. DOF: Given the nature of non-classroom ADA – which presumably does not require school facilities - why is there a need to provide additional facilities funding for these pupils?
2. DOF: What are the costs of adding non-classroom ADA to the Charter School Facility Grant program per the Governor's proposal?
3. DOF: What will the impact of ADA expansion be for charter schools currently served by the program?
4. DOF: What are the reasons for expediting apportionments per the Governor's language?
5. CDE: Please describe the apportionment schedule for the Charter School Facility Grant program and indicate how it compares to allocations for most other school programs.

ISSUE 5. Conveyance/Sale of Surplus District Property to Charter Schools

DESCRIPTION: The Governor proposes trailer bill language to require school districts to convey its surplus property to any interested charter school. The Governor also proposes trailer bill language to allow school districts to sell property to a charter school and maintain eligibility for various educational facility programs.

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

State Programs.

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

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

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

Charter School Security Fund (CSSF). SB 1759, Chapter 586, Statutes of 2000, established the CSSF. Current law requires that the interest rate that charter schools pay on loans made from the CSRLF be deposited into the CSSF to be made available to the CSRLF in the case of default on loans made from the CSRLF. Current law requires the DOF to monitor the adequacy of the fund and report annually to the Legislature on the need, if any, to adjust the terms of the CSRLF and the Security Fund.

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

Federal Programs

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

GOVERNOR'S BUDGET PROPOSALS:

1. **Conveyance of Surplus Property.** The Governor's Budget proposes trailer bill language to require a school district seeking to sell or lease surplus property to first offer the property to any interested charter school providing direct instruction or instructional support. The language further requires the property to be "conveyed" to any charter school that choses to accept the surplus facility. The language defines conveyed as requiring the school district to transfer title to the property identified as surplus real property without requiring an accepting charter school to provide payments to the school district.

   If a charter school accepts the "conveyed" property, they assume liability. If the property ceases to be used for an educational purpose, according to the proposed language, the charter school shall first offer to return the facility to the district that conveyed the property. If the district declines the property, the title goes to the Office of Public School Construction to dispose of the property consistent with the practice used to dispose of facilities under the Charter School Facility Program.

According to the DOF, this change will ensure that state funded education facilities remain to be used for their intended purpose of educating public school students.

2. **Sale of Property.** The Governor proposes budget trailer bill language to allow a school district to sell or lease real property to a charter school as long as the sale does not violate the provisions of a local bond act. The language also allows a school district to remain eligible for other state facilities funding as long as the district can demonstrate eligibility pursuant to requirements under the existing bond act. The language would further allow the district to deposit the proceeds of the sale of real property and personal property located on the real property into the district's general fund to be used for any educational purpose. In addition, the language requires a charter school that purchases real property to assume maintenance responsibility of the school-site and further requires the Office of Public School Construction to develop regulations to clarify and implement this new statute.

   According to the DOF, this change will remove the disincentive of selling unused property to a charter school by removing the associated penalties; thereby, ensuring that educational facilities are effectively utilized.

LAO COMMENTS & RECOMMENDATIONS: LAO supports the concept of allowing school districts to sell or lease surplus property to charter schools, but does not support conveyance of school facilities to charter schools, which raises numerous concerns. For this reason, the LAO makes the following recommendations:

- **Reject Governor's proposal to require districts seeking to sell or lease surplus property to first offer facilities to charter schools and then convey properties to charter schools at no cost.** Per the LAO, because the charter school can return the facility to the district at any time in any condition, it may not have strong incentives to invest in regular maintenance and major facility upgrades that would extend the building's life.

- **Reject Governor's proposal to allow school districts to sell or Lease real property to a charter school without losing eligibility for state bond funding.** Per the LAO, allowing school districts to retain eligibility for state bond funds could result in additional state costs. Some districts would be able to sell a facility and subsequently apply for state bond funding to replace the sold facility.

RELATED LEGISLATION:

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

STAFF COMMENTS & RECOMMENDATIONS: Staff supports the LAO's recommendations, but suggests that the Subcommittee hold the Governor's proposals on conveyance and sale of surplus district property open until May Revise, pending possible development of alternatives to the Governance proposal.

SUGGESTED QUESTIONS:

1. DOF: Has the Administration considered alternatives to requiring "conveyance" of surplus property from districts to charter schools? Could charters be given first priority, or first right of refusal, for sale or lease of surplus property, building upon current statutory frameworks?
2. DOF: Who is responsible for building maintenance and upkeep for facilities conveyed to charter schools? Who is the long-term owner of buildings conveyed to charter schools?
3. DOF: How is surplus property defined? Real property? And personal property?
4. DOF: How does sale of surplus property currently affect district eligibility for hardship assistance levels or eligibility for hardship funding?
5. DOF: Would there be a role for the State Allocation Board (SAB) in conveyance? Would the SAB need to certify?

ISSUE 6. Payment Deferral Exemptions for Charter Schools

DESCRIPTION: The Governor proposes trailer bill language to allow charter schools to seek a hardship deferral waiver from their governing bodies, rather than through their charter authorizers, as currently required.

BACKGROUND:

Over the last several years, the state has deferred payments to school districts as a way to achieve Proposition 98 savings as well as manage the state's cash flow. Relying on deferrals has allowed the state to achieve significant one–time savings while simultaneously allowing school districts to continue operating a larger program by borrowing or using cash reserves. As the magnitude and length of payment deferrals have increased, however, school districts have found it increasingly difficult to front the cash required to continue operating at a higher programmatic level. According to the Legislative Analyst's Office, the state currently defers approximately $9.4 billion in K-12 apportionment payments or 21 percent of the total K-12 program funding.

Hardship Exemptions. As deferrals have grown over the years, school districts and charter schools have begun to have problems meeting their financial obligations. AB 1610 (Budget Committee), Chapter 724, Statutes of 2010, established a deferral exemption process for school districts and charter schools. (There is no exemption provision for county offices of education.)

Under current law, school districts and charter schools may apply for an exemption from the deferral of the June to July principal apportionment payment. Exemptions totaling up to $100 million may be approved by the DOF. If requests for exemptions exceed $100 million, the State Controller, State Treasurer, and DOF may authorize exemptions totaling up to $300 million. If requests exceed the amount available, payments will be made in order based upon the earliest date and time that the complete application was received via e-mail, fax, or mail.

In 2011, nine school districts and 133 charter schools were approved for deferral exemptions for the 2011 June deferral. According to DOF, all applications that were submitted were approved with the exception of one school because their attached cash flow indicated the school was in a positive cash position throughout the fiscal year.

GOVERNOR'S BUDGET PROPOSAL:

The Governor proposes trailer bill language to repeal the requirement for charter authorizers to review and approve deferral exemption requests. This change would allow charter schools to make their deferral waiver requests directly with the Superintendent of Public Instruction and the Department of Finance. According to the Administration, this change is intended to streamline the process by reducing the length of time it takes for a deferral exemption to be approved, and relieves both charter schools and charter authorizers of additional workload.

LAO COMMENTS & RECOMMENDATIONS: The LAO recommends that the Legislature reject the Governor's proposal. The LAO believes that charter authorizers are responsible for the fiscal oversight of charter schools and therefore need to be able to review applicable information, including charter schools' deferral exemption applications. The LAO does not believe this change is necessary and believes that existing fiscal oversight of charter schools by their authorizers is good policy and should be continued.

STAFF COMMENTS:

- **Problem Unclear.** There is no evidence of charter schools having problems with their hardship waiver requests being turned down by their authorizers for unsubstantiated reasons. Most hardship deferral waivers approved are for charter schools. In 2011, nine school districts and 133 charter schools were approved for deferral exemptions for the 2011 June deferral. Reportedly, there are concerns that some charter schools have not sought deferral waivers from their authorizers due to fear they would be viewed as financially unstable. However, according to the LAO, seeking an exemption from payment deferrals does not appear to be grounds for charter revocation under current law.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee adopt the LAO recommendation to reject the Governor's charter schools deferral proposal.

SUGGESTED QUESTIONS:
1. DOF: What is the underlying problem behind this proposal?
2. DOF: How many charter schools have been granted deferral waivers? What is the proportion of charter waivers granted compared to total deferral waivers granted to date?
3. DOF: Have any charter schools had a deferral waiver turned down?
4. DOF: Is there concern that some charter schools are not applying for deferral waivers?
5. DOF: Could any of the requirements for deferral waiver threaten charter renewal?

ISSUE 7. Charter School External Borrowing

DESCRIPTION: The Governor proposes trailer bill language to require county treasurers to loan money to charter schools, allow county offices of education to make short term loans to charter schools and to make charter schools a public agency for purposes of seeking Tax and Revenue Anticipation Notes (TRANS).

BACKGROUND: Due to substantial ongoing, program reductions and substantial ongoing payment deferrals, many local educational agencies have been forced to borrow funds – through internal and external sources – in order to meet their cash needs and avoid fiscal insolvency. These internal and external borrowing sources for LEAs are summarized below:

Internal Borrowing. Internal borrowing is authorized by Education Code Section 42603 and allows LEAs to borrow between funds temporarily to address cash flow shortages. This is the most common method utilized among school districts. The limitations associated with this type of borrowing allows that no more than 75 percent of the money held in any fund during the current fiscal year may be transferred. In addition, funds must be repaid in the same fiscal year (i.e., by June 30) if the transfer is completed prior to the last 120 days of the fiscal year. If funds are transferred within the last 120 days of the fiscal year, repayment of the funds must be made prior to June 30 in the subsequent year. While this is an option for school districts, it is not an option for charter schools.

External Borrowing. There are a few options for districts to borrow externally; however, these options are also not currently available to charter schools:

- **Borrowing from the County Treasurer**. Education Code 42620 allows a school to borrow from the County Treasurer, also known as "dry period financing." Under Article 16, Section 6, of the California Constitution, the County Treasurer must provide funds to a school district should it not be able to meet its obligations. However, the County Treasurer cannot loan districts money after the last Monday in April of the current fiscal year. In addition, the governing board's approval is also required for this type of borrowing. The loan cannot exceed 85 percent of direct taxes levied on behalf of the school district. The advantage to having the County Treasurer provide the funds is based on the ability of the Treasurer to take the repayment from the tax receipts received prior to any distribution to the LEA for property taxes. Repayment must be made from the first monies received by the school district before any other obligation is paid.
- **Borrowing from a County Office of Education.** Education Code 42621 and 42622 allow for a district to seek assistance from a County Office of Education (COE), however, this option is dependent upon the COE being willing and able to provide funding. Specifically, the law authorizes a county superintendent of schools, with approval from the county board of education, to make temporary money transfers to any school district that does not have sufficient funds to meet its current operating expenses. A transfer cannot exceed 85 percent of the amount of money, which will accrue to the school district during the fiscal year. Statute also authorizes a county superintendent, with approval by the county board, to make temporary money transfers to any school district that does not have sufficient money to meet

its current operating expenses in amounts it deems necessary. Any amount transferred by the county superintendent of schools to a school district is required to be repaid prior to June 30 of the current fiscal year.

- **Tax and Revenue Anticipation Notes (TRANs).** School districts utilize these short-term loans to address cash flow problems created when expenditures must be incurred before tax revenues are received. This form of short-term borrowing is the most common method used by LEAs. The LEA must determine the cash flow needs to size the TRANs appropriately. If an LEA cannot demonstrate a cash shortage in the current year but issued a TRANs, they could be subject to arbitrage rebate.

GOVERNOR'S BUDGET PROPOSALS: The Governor proposes trailer bill language to allow county offices of education and county board of supervisors to make short term loans to charter schools from any funds not immediately needed. According to the Administration, this change will allow charter schools to reduce financing costs and may save the state costs associated with deferral exemptions being requested by charter schools.

The Governor also proposes trailer bill language to make charter schools a public agency and allows for county offices of education to borrow funds or issue Tax and Revenue Anticipation Notes (TRANS) for the purpose of providing temporary revenue backed loans to charter schools. According to the Administration, this change will also allow charter schools to reduce financing costs and may save the state costs associated with deferral exemptions being requested by charter schools.

LAO COMMENTS & RECOMMENDATIONS: The LAO does not support provisions of the Governor's proposal that would require counties to make loans to charter schools. The LAO supports other provisions that would authorize counties to make loans and give charters greater access to TRANS. More specifically, the LAO makes the following recommendations.

1. **Adopt Governor's Proposal Allow Charter Schools to Access TRANS.** Per the LAO, this proposal provides additional borrowing option for charter schools. Tax-exempt status of TRANs may provide a lower-cost alternative to current loans from private sector.
2. **Adopt the Governor's Proposal to Authorized County Offices to Provide Loans to Charter Schools**. Per the LAO, this proposal provides additional borrowing options to charter schools without requiring COEs to issue high-risk loans.
3. **Reject the Governor's Proposal to Require the County Treasurer to Provide Charter Schools with Loans if the Charter School is Unable to Meet its Financial Obligations.** Per the LAO, a county may be required to loan funds to a charter school that appears unlikely to repay. Alternatively, the LAO recommends that counties be authorized, but not required, to provide loans.

RELATED LEGISLATION:

- **AB 1576 (Huber).** This current measure would authorize a county board of education to loan money to any charter school in the state for the purposes of meeting the short-term, working capital operational needs of the charter school. **Status: Assembly Appropriations Committee.**

STAFF COMMENTS:

- **Do Charter Schools Qualify as Public Entity for Purposes of Receiving Loans from the County Treasury?** The California Association of County Treasurers and Tax Collectors has serious concerns regarding "dry period financing" for charter schools as proposed by the Administration and opposes the Governor's proposed trailer bill language. According to a letter from the Association, charter schools are not required to bank with county treasurers, as required by traditional school districts, however, the Governor's trailer bill language would authorize charter schools to receive financing from the county treasury. Per the Association, such authorization would give public money and credit to non-profit corporations. Unless the charter school is formed by, and under the complete control of a school district, the Association believes doing so would be unconstitutional. The Association indicates that the State Constitutional provision that permits dry period financing (Article 16, Section 6) relies on the recipients of those loans banking solely with the county treasury, so that the treasury can be assured of repayment. Per the Association, this would not be the case with many, if any, charter schools.

STAFF RECOMMENDATIONS: Staff supports the LAO's recommendations, but that the Subcommittee hold these issues open until May Revise.

SUGGESTED QUESTIONS:

1. DOF: Does the Administration believe there are any constitutional issues that preclude loans from the county treasurers?
2. DOF: Can the Administration clarify current charter school access to TRANS? Are some charters able to access TRANS?
3. DOF: How would counties recoup funds under the Governor's proposals if charter schools closed?

ISSUE 8. Charter School Revolving Loan Fund

DESCRIPTION: The Governor proposes trailer bill language to add a determination process, authorized by Finance, to ensure that the interest payments collected in the Security Fund can be transferred to the Revolving Loan Fund. According to the Administration, this is a technical change that allows the Security Fund to be used as intended.

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

The CSRLF is comprised of federal funds obtained by the state for charter schools, interest from loans issued to charter schools, and any other funds appropriated or transferred to the fund through the annual budget process.

The Charter School Security Fund consists of revenue from interest payments on loans.

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

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

The California Department of Education (CDE) approves the loans and may consider the following when determining whether to approve a school's loan application:

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

Loan Deposits. Under current law (EC Section 41367), funds in the CSSF shall be available for deposit into the CSRLF, in case of default on any loan made from the CSRLF. **The statute is**

silent regarding the transfer process and no transfer has been made to date from the Charter School Security Fund (CSSF) to the CSRLF.

Fund Balance. The balance in the CSSF is approximately **$3.9 million**. Without specific authority regarding the transfer process, the CDE believes that it would need to go through the full discharge of accountability process, which involves several state agencies and is estimated to take a number of years to complete for each defaulted loan.

GOVERNOR'S BUDGET PROPOSAL: The Governor's Budget proposes trailer bill language to require the CDE to monitor the adequacy of the amount of funds in the Charter School Revolving Loan Fund and report annually to the DOF and the Controller on the need, if any, to transfer funds from the Charter School Security Fund to the Charter School Revolving Loan Fund. According to the Administration, this determination process will ensure that the interest payments collected in the Security Fund can be transferred to the Revolving Loan Fund as the original law intended.

LAO COMMENTS & RECOMMENDATIONS: According to the LAO, the Governor's proposal provides an important technical allow the Charter School Revolving Fund to access funds from the Charter School Security Fund, but suggests some improvements. Specifically, the LAO recommends that the Subcommittee adopt the Governor's proposal with modifications, as follows:

- Allow transfer of funds from the Charter School Security Fund to the Charter School Revolving Loan Fund only to recover funds lost due to loan defaults;
- Require DOF to notify the Joint Legislative Budget Committee upon approval of transfer;
- Require the Department of Education to submit detailed fund condition statements to DOF that will be included in the Governor's January budget each year.

STAFF COMMENTS:

Charter Schools Loan Default Rate is Problematic. The LAO has concerns about the current imbalance of the Charter School Revolving Fund due to a high loan default rate and the small amount of revenues available to offset loan defaults. Funds generated from interest payment on loans are supposed to offset the losses the state incurs when a charter school cannot repay its loan (or closes and the state cannot recover associated funds). According to CDE, the primary reason for loan default is the closure of some charter schools. According to the LAO, the Revolving Fund has accumulated $5.7 million in losses from the default of 38 charter school loans. In 2011-12 alone, the state may lose up to $1.0 in loan payments due to defaults.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee approve the Governor's budget proposal, with modifications recommended by the LAO.

SUGGESTED QUESTIONS:

1. CDE: What additional information can the Department provide about the loan default rate for charter schools?
2. CDE: What ability does CDE have to recoup funds when charter schools close?
3. CDE: Is it possible for the Charter School Revolving Loan Fund to be self-sustaining?

ISSUE 9. California School Finance Authority – Charter School Refinancing

DESCRIPTION: The Governor proposes trailer bill language to allow the California School Finance Authority (CSFA) to refinance working capital that has been previously structured.

BACKGROUND:

California School Finance Authority (CSFA). The CSFA was created in 1985 to oversee the statewide system for the sale of revenue bonds to reconstruct, remodel or replace existing school buildings, acquire new school sites and buildings to be made available to public school districts (K-12) and community colleges, and to assist school districts by providing access to financing for working capital and capital improvements. Over the last 25 years, the CSFA has developed a number of school facilities financing programs and most recently is focused on assisting charter schools to meet their facility needs. The CSFA is a three-member board comprised of the State Treasurer, the Superintendent of Public Instruction, and the Director of the DOF, and is administered within the Office of the State Treasurer.

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

While current authority for CSFA includes "financing" this working capital, but there is no authority for CSFA to "refinance" these financing packages.

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes trailer bill language to allow the California School Finance Authority (CSFA) to refinance revenue bonds issued to finance school facilities working capital and capital improvements, which currently is not explicitly authorized. According to the Administration, this is a technical change that conforms to CSFA's current practices.

LAO COMMENTS & RECOMMENDATIONS: The LAO recommends approval of the Governor's budget proposal. Per the LAO, CSFA has the authority to "finance" working capital and capital improvements for charter schools; the Governor's proposal would simply clarify CSFA authority for "refinance" activities.

RELATED LEGISLATION:

- **SB 645 (Simitian).** This 2011 bill authorized the Charter School Financing Authority to refinance working capital for charter schools. The language in SB 645 (Simitian) is very similar to the Governor's budget proposal. **Status: Held in Assembly Appropriations Committee.**

STAFF RECOMMENDATION: Staff recommends that the Subcommittee approve the Governor's proposal. This is considered a technical adjustment to reflect current activities of the California School Finance Authority. There is no known opposition to this proposal.

OUTCOME:

ISSUE 10. DOF April Letters – Various K-12 State Operations and Local Assistance Fund Adjustments (Vote Only)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to various K-12 state operations (support) and local assistance items in the 2012-13 budget. These revisions are proposed by the DOF April 1 Budget Letter. These items are considered technical adjustments, mostly to update federal budget appropriation levels so they match the latest estimates and utilize funds consistent with current programs and policies.

Federal Funds – State Operations (Support) and Local Assistance

1. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add Support Carryover for Common Core Standards Implementation (Issue 146**). It is requested that Item 6110-001-0890 be increased by $2,360,000 to reflect one-time federal Title I carryover funds used to support the continued implementation of academic content standards in mathematics and English language arts and that Schedules (2) and (9) of Item 6110-001-0001 be amended to conform to that action. In August 2010, the State Board of Education adopted content standards in mathematics and English language arts based on the Common Core State Standards developed by national organizations. Chapters 605, 608, and 623, Statutes of 2011 authorize the SDE to conduct specific activities to implement these standards, and the 2011 Budget Act included $3.5 million federal Title I funds for these purposes. The SDE reports that these funds will not be fully expended because the implementation timeline extends beyond the current year. This request will ensure that Common Core activities are completed as prescribed by the statutes.

   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, $2,360,000 is available in one-time Title I carryover funds to conduct activities related to implementation of the academic content standards in mathematics and English language arts, as authorized by Chapters 605, 608, and 623 of the Statutes of 2011.

2. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add Support Carryover for the Striving Readers Comprehensive Literacy Program (Issue 611).** It is requested that Item 6110-001-0890 be increased by $424,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds for the Striving Readers Comprehensive Literacy Program. The program provides support to the State Literacy Team in developing California's State Literacy Plan. In order to finalize the plan, the SDE requests $424,000 to update the ten-year old California Recommended Reading List.

   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, $424,000 is provided in one-time federal ~~Title I~~ carryover funds for the Striving Readers Comprehensive Literacy program.

3. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add Federal Funds for Oversight of Food Service Contracts (Issue 801)**. It is requested that Item 6110-001-0890 be increased by $556,000 Federal Trust Fund and that Item 6110-001-0001 be amended to support workload associated with federally-required oversight of contracts between food service management companies (FSMCs) and school food authorities (SFAs).

   Federal regulations require state agencies to review and approve all contract documents (including solicitations, evaluations, contracts, and bid protests) between FSMCs and SFAs. The SDE's Nutrition Services Division has only 0.25 of a position dedicated to these activities. This request will ensure that the SDE can fund redirected positions to provide the required level of oversight.

   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, $556,000 is provided to support workload associated with federally-required oversight of contracts between food service management companies and school food authorities.

4. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add One-Time Federal Funding for Child Nutrition Reauthorization Workload and Current Year Expenditure Plan (Issue 803)**. It is requested that Item 6110-001-0890 be increased by $4.8 million in one-time Federal Trust Fund and that Item 6110-001-0001 be amended to support contracts and staff travel associated with training SFAs on changes to meal and nutritional standards contained in the federal Healthy, Hunger-Free Kids Act of 2010, Public Law No. 111-296 (Act).

   In an effort to improve federal child nutrition programs, the Act contained many new requirements, including changes to meal patterns and nutritional standards and increased oversight of program sponsors. The Act also provides the following funding increases: (1) $0.06 per meal to SFAs that are compliant with new meal and nutrition requirements and (2) administrative funds specifically for state agencies to provide technical assistance to SFAs on changes to the meal and nutrition requirements. California's allocation of administrative funds is $6.0 million for 2012-13.

   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, $4,800,000 is provided on a one-time basis to support statewide training of school food authorities regarding changes to meal and nutritional standards contained in the federal Healthy, Hunger-Free Kids Act of 2010, Public Law No. 111-296 (2010), as allowed by federal guidelines on the allocation of administrative funds for state costs of implementation of new meal patterns for the National School Lunch Program and School Breakfast Program.

Current Year Expenditure Plan: The 2011 Budget Act provided $500,000 Federal Trust Fund ($1.0 million annualized) for increased workload associated with the Act's requirement that state agencies review each National School Lunch Program (NSLP) sponsor and School Breakfast Program sponsor once every three years. (Previously, only NSLP sponsors were reviewed once every five years.) Provisional language requires the Department of Finance (Finance) to approve the SDE's plan to expend these funds. In February 2012, the SDE submitted a plan that proposed to redirect and fill 10.0 positions by the end of the current fiscal year and to fund these positions in the budget year with $1.0 million of the $6.0 million administrative grant because the positions will provide technical assistance to SFAs regarding new nutritional requirements and certification to receive the additional meal reimbursement.

Finance hereby approves the SDE's plan for the budget year. The SDE will need to use existing federal authority to absorb any current year expenses associated with these positions, which are expected to be minimal. When the increased review requirements take effect in 2013-14, these positions will conduct compliance reviews and will be funded with existing federal state administrative expense funds.

It is requested that Provision 24 of Item 6110-001-0890 be amended as follows to conform to this action:

> "24. Of the funds appropriated in this item, $1,000,000 is provided in 2012-13 for technical assistance to child nutrition sponsors regarding new nutritional requirements and in 2013-14 for increased costs associated with new federal requirements to increase the frequency of compliance reviews for child nutrition programs. ~~Expenditure of these funds is subject to Department of Finance approval of an expenditure plan. The expenditure plan shall be based upon final rules established by the United States Department of Agriculture regarding, but not limited to: (a) the effective date of the requirement to review each National School Lunch Program and School Breakfast Program once every three years and (b) how compliance reviews are conducted, especially new or amended regulations leading to efficiencies in the review process.~~ To the extent that additional staff resources are needed, positions shall be redirected from existing vacancies within the State Department of Education."

5. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE). Add One-Time Carryover for Safe and Supportive Schools (Issue 804)**. It is requested that Item 6110-001-0890 be increased by $680,000 in one-time federal carryover funds and that Item 6110-001-0001 be amended to support the Safe and Supportive Schools program. These carryover funds from 2011-12 will be used to (1) improve the aging California School Climate, Health, Learning Survey system at WestEd, which collects school safety climate data from students, parents, and staff and (2) provide increased technical assistance to participating high schools, which have the worst school safety climates statewide.

   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, $680,000 is provided in one-time carryover funds for the Safe and Supportive Schools program to support enhanced data collection capacity and accuracy and increased technical assistance to participating schools.

6. **Item 6110-161-0890, Local Assistance, State Improvement Grant (Issue 640).** It is requested that Provision 9 of this item be amended to accurately reflect the intended use of the State Improvement Grant and prevent the misinterpretation that the funds are intended for a science-based curriculum, when they are to be used for scientifically-based professional development for special education. The federal State Improvement Grant assists state educational agencies in reforming and improving their systems for personnel preparation and professional development in early intervention, education, and transition services to improve results for children with disabilities.

   Specifically, it is requested that Provision 9 of 6110-161-0890 be amended as follows:

   > 9. Of the funds appropriated in Schedule (6), $2,196,000 is provided for ~~science~~ scientifically−based professional development as part of the State Personnel Development grant.

7. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add Support Carryover for the Public Charter Schools Grant Program (PCSGP) (Issue 322).** *It is requested that Item 6110-001-0890 be increased by $825,000 Federal Trust Fund* and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover for the PCSGP. The PCSGP awards newly approved charter schools between $250,000 and $575,000 to support planning and initial implementation. As part of the 2010 federal grant application, the SDE agreed to contract for an independent evaluation to measure the effectiveness of the PCSGP and for charter development technical assistance to increase the quality of new charter schools in California. These activities were previously funded in the 2011 Budget Act, but due to concerns stemming from a reduction in the federal grant award, the SDE was unable to enter into contracts in the current year. This request will allow the SDE to fulfill its stated activities from the 2010 federal grant application.

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

   > X. Of the funds appropriated in this item, $825,000 is available on a one-time basis for the State Department of Education to contract for an independent evaluation of the Public Charter Schools Grant Program and contract to provide technical assistance to sub-grantees.

8. **Item 6110-112-0890, Local Assistance, Carryover for the Public Charter Schools Grant Program (PCSGP) (Issue 325).** It is requested that Item 6110-112-0890 be increased by $25,814,000 Federal Trust Fund to reflect the availability of one-time federal carryover funds for the PCSGP. The PCSGP awards newly approved charter schools between $250,000 and $575,000 to support planning and initial implementation. The second grant cycle for 2011-12 will not close until March 31, 2012, with an expected grant notification date of June 30, 2012; therefore, there will be insufficient time to award and encumber these funds in the current year. This augmentation will allow SDE to award these funds to recipients in 2012-13.

9. **Item 6110-199-0890, Support, Increase Funding for the American Recovery and Reinvestment Act (ARRA) Early Learning Grant (Issue 403).** It is requested that Provision 2 of this item be amended as follows to increase state operations funding by $45,000 in federal carryover funds to support the last year of the Early Learning Grant

authorized by ARRA of 2009, Public Law No. 111-5. This action will align expenditure authority with actual personnel costs incurred by the SDE.

Specifically, it is requested that Provision 2 of Item 6110-199-0890 be amended as follows:

> 2. Of the funds appropriated in this item, $~~117,000~~162,000 shall be transferred to Item 6110-001-0890 for state operations costs to support the State Advisory Council on Early Childhood Education and Care, subject to approval of a budget revision by the Department of Finance.

General Fund and Other Adjustments

10. **Eliminate Funding for the SDE Administration of the California Subject Matter Projects (CSMP) (Issue 613).** It is requested that Item 6110-001-0001 be decreased by $5.0 million to reflect the reestablishment of the CSMP funding in the University of California (UC) budget. The Governor's Budget proposed to shift $5.0 million General Fund designated for the CSMP from the UC to the SDE. The shift was necessary to ensure that the funding was identified for matching purposes. However, the shift is no longer necessary because it has been determined that the UC can sufficiently identify the funding for federal matching purposes and that funding will remain in the UC budget.

    It is further requested that Provision 17 be deleted from Item 6110-001-0001 to conform to this action.

11. **Item 6110-170-0001, Local Assistance, Add Reimbursement Carryover for the Career Technical Education Program (Issue 082).** It is requested that Item 6110-170-0001 be amended by increasing reimbursements by $1,865,000 to reflect one-time reimbursement carryover funds for the Career Technical Education Program, which will allow for the completion of three projects that could not be completed in the current year due to contract delays.

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

    > X. Of the funds appropriated in this item, $1,865,000 reflects one-time reimbursement carryover funds to support the existing program.

STAFF RECOMMENDATION (CONSENT ITEMS): Staff recommends approval of the entire DOF April Letter list above (Items 1-11), including technical corrections. No issues have been raised for any of these items.

OUTCOME:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Thursday, April 26, 2012
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

Consultant: Kim Connor

OUTCOMES

Public Comment

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

ISSUE 1. Governor's Proposal for Special Education - Mental Health Related Services

DESCRIPTION: The Governor proposes to increase Proposition 98 funding for the special education program by a total of **$98.6 million** in 2012-13 to maintain current funding levels for educationally related mental health services. The Governor's proposal is intended to backfill the loss of $98.6 million in one-time Proposition 63 funds available for educationally related mental health services in 2011-12. By providing an additional $98.6 million in Proposition 98 funding in 2012-13, the Governor's proposal provides a total of **$420.4 million** in local assistance funding for mental health related services in 2012-13, which maintains funding at levels available in the current year.

BACKGROUND:

Federal special education law – currently the Individuals with Disabilities Education Act (IDEA) -- requires that school districts provide students with disabilities the accommodations necessary for them to benefit from their education. This entitlement covers a range of services, including, mental health services, if determined educationally necessary by a student's Individualized Education Program (IEP).

School districts were responsible for mental health related services for students with disabilities from the mid-1970s -- following the passage of the federal special education laws – until 1984. In 1984, California required county mental health agencies to provide mental health services to special education students instead of school districts. These responsibilities, referred to as AB 3632 services after the authorizing legislation, were determined to be a state reimbursable mandate for counties.

As part of the 2010–11 budget act, then–Governor Schwarzenegger vetoed state funding for the AB 3632 program and declared the state mandate suspended, leading to uncertainty as to which entity—schools or counties—was responsible for ensuring that students receive services in 2010–11. To help address uncertainty from the veto and ensure students continued to receive services in 2010–11, the March 2011 education trailer bill provided $81 million in one–time Proposition 98 funds to school districts. This funding was provided on top of $76 million in federal special education funds that was made available to county mental health agencies for providing mental health related services in 2010-11.

As proposed by Governor Brown, the 2011-12 budget package repeals the AB 3632 mandate and permanently shifts responsibility for special education–related mental health services from county mental health agencies back to schools.

Mental Health Related Services Shift – Transition Budget in 2011-12. The 2011-12 budget (1) eliminated the state AB 3632 mandate program, which required counties to provide mental health services to student with disabilities, and (2) shifted responsibility for providing educationally related mental health services – including out-of-state residential services – as required by federal law for students with disabilities.

As a part of this shift, the final budget package appropriated a total **of $423.6 million** for educationally related mental health services in 2011-12, including the following new and existing funds directed for this purpose:

- **$218.8 million** in new Proposition 98 funds allocated to Special Education Local Planning Areas (SELPAs) for educationally related mental health services. Funds are allocated to SELPAS using an equal per pupil formula.
- **$3 million** in new Proposition 98 funds available to the CDE to administer an extraordinary cost pool associated with educationally related mental health services for necessary small special education SELPAs. Funding is provided to CDE – in collaboration with the Department of Finance (DOF) and Legislative Analyst's Office – and subject to final approval of DOF.
- **$31 million** in existing Proposition 98 funds redirected to SELPAs for provision of educationally related mental health services. Funds are allocated to SELPAs on a one-time basis using an equal per pupil formula.
- **$69 million** in existing federal special education funds allocated to SELPAs for educationally related mental health services. Funds are allocated on a one-time basis using a formula that reflects weighted student mental health service counts. It is the intent of the Legislature that in 2012-13 these funds be allocated to SELPAs on an equal per pupil formula.
- **$98.6 million** in Proposition 63 funds allocated to counties via a formula developed by the state Department of Mental Health and local counties (County Mental Health Directors Association), pursuant to Chapter 5, Statutes of 2011. Counties shall use funds exclusively for educationally related mental health services within a pupil's individualized education program (IEP) during the 2011-12 fiscal year. Unused funding will be reallocated to other counties. In order to access funds, LEAs may develop a memorandum of understanding or enter into a contract with its county mental health agency to address the interagency service responsibility for the provision and transition of mental health services identified on a pupil's IEP during 2011-12.
- $**2 million** in one-time federal special education carryover funds appropriated to the Office of Administrative Hearings on a one-time basis for mental health service dispute resolution services in 2011-12. CDE shall submit documentation to the Department of Finance (DOF) justifying the increased mental health services caseload and obtain written approval from DOF prior to spending these funds.
- **$800,000** in one-time federal special education funds appropriated to the Department of Education to provide oversight and technical assistance for LEAs as the responsibility for overseeing education related mental health services transitions from counties and to SELPAs. The department shall use these funds to assist SELPAS:
  - Minimize disruptions and maintain quality services for pupils through the transition period and in future years;
  - Develop internal capacity for overseeing, contracting for, and providing quality educationally related mental health services;

- Identifying best practices and effective models for service delivery;
- Identifying options for controlling costs and accessing Medi-Cal and other local, state, and federal funds; and
- Strengthening linkages between mental health and education services**.**

The department shall also identify options for improving accountability for effective services and positive pupil outcomes. As a part of this effort, the department shall:

- o Establish working groups to generate recommendations regarding best practices, accountability systems, and other matters, and
- o Hold public meetings with stakeholders to solicit input and share results.

➢ **$443,000** in existing ongoing federal special education funds and 3.0 positions at the Department of Education redirected for increased department monitoring associated with educationally related mental health services.

As outlined above, the $423.6 million appropriated in 2011-12 includes **$420.4 million** in local assistance funds and **$3.243 million** in state operations funds to support the program shift.

GOVERNOR'S BUDGET PROPOSAL FOR 2012-13.

Governor's January Adjustments- Local Assistance:

1. **Local Assistance Funding.** The Governor proposes to increase Proposition 98 funding for the special education program by a total of **$98.6 million** in 2012-13 to maintain current funding levels for educationally related mental health services. The Governor proposes to allocate funding pursuant to pupil average daily attendance (ADA), consistent with current allocation methodologies. The Governor's proposal is intended to backfill the loss of $98.6 million in one-time Proposition 63 funds available for educationally related mental health services in 2011-12. (The Governor proposes to "rebench" the Proposition 98 minimum funding guarantee to reflect this funding backfill.) By providing an additional $98.6 million in Proposition 98 funding in 2012-13, the Governor's proposal provides a total of **$420.4 million** in local assistance funding for mental health related services in 2012-13, which maintains funding at levels available in the current year.

2. **Federal Funding Allocations.** The Governor also proposes to adjust the allocation methodology for **$69 million** in federal special education funds beginning in 2012-13. More specifically, the Governor proposes to allocate these federal funds on a per pupil (ADA) basis and to discontinue the current, limited-term formula based on service counts – reflecting 2010-11 special education data -- that was put in place during the initial transition of mental health related services back to schools. The Governor's proposal is consistent with budget bill language in the 2011-12 budget that states intent to allocate the $69 million in federal funds on an equal, per pupil basis (ADA) in 2012-13.

DOF April Letter Requests – State Operations Adjustments:

3. **Federal Funds for Mental Health Services Compliance and Monitoring of Out-of-State Residential Facilities (Issue 645).** It is requested that Item 6110-001-0890 be increased by **$1,226,000** in federal Individuals with Disabilities Education Act (IDEA) funds **and 3.0 limited-term positions be provided for three years**, and that Item 6110-001-0001 be amended, to provide an adequate level of oversight and monitoring related to the transition of mental health services from counties to schools.

   With the passage of Chapter 43, Statutes of 2011 (AB 114), the responsibility for providing mental health services to special education students shifted from counties to schools and has created a significant increase in workload for the SDE. **The SDE has already redirected 5.0 positions, which were funded in the current year with $800,000 in one-time federal IDEA carryover funds, to assist local educational agencies (LEAs) and to provide technical assistance to the field. The proposed funding will continue to support these positions in providing oversight, monitoring, technical assistance, and fiscal and programmatic data collection to ensure a proper transition in the provision of mental health services.** In addition, this request will fund 3.0 new limited-term positions that will monitor residential placements made by LEAs in out-of-state facilities to ensure they meet basic health and safety standards.

4. **Funding for Increased Non-Public Schools and Agencies Certification Workload (Issue 644).** It is requested that Item 6110-001-0001 be amended by increasing reimbursements by **$190,000** for projected increases in workload relating to the number of non-public schools and agencies (NPS/As) seeking certification to provide individualized education program-based mental health services.

   With the passage of Chapter 43, Statutes of 2011 (AB 114), the responsibility for providing mental health services to special education students shifted from counties to schools. The SDE anticipates an increase in NPS/A certification applications it receives due to the ability of local educational agencies to contract with independent agencies for mental health services.

LAO COMMENTS: The LAO does not have a formal recommendation on the Governor's special education proposals. However, the LAO has offered a few issues for the Subcommittee to consider in evaluating the Governor's proposals:

- **Level of New State Funding.** The Governor's proposal to add **$98.6 million** in new Proposition 98 is tied to last year's funding, which is based on historical, AB 3632 spending data. It is unclear how much mental health services actually will cost education under the new model. However, it should be noted that California does not fund special education based on reimbursing actual costs in any case, so that is not a requirement now. It is possible the amount proposed by the Governor could be too much under the new model– given new efficiencies – but special education might be an appropriate place to spend funds.

- **Restrictions & Use of New Funds.** Should the Legislature restrict the additional $98.6 million in Proposition 98 funds just for mental health services or allow SELPAs to use it for any special education purpose based on local population and needs? For the most part, the state does not build firewalls around particular components of special education for particular disabilities, so this is a departure from current practice. Different areas of the state may have different populations with different needs, and what kinds of incentives are created when there is funding restricted for just one type of student or set of services? Restricting funds may also conflict with the intent of the census-based funding model contained in AB 602. During the 3632 transition, however, there has been uniform preference from the field to have these funds "protected" and reserved for this purpose at least for the short term as the dust settles. But given about $320 million of the funding provided to schools to support mental health related services is "restricted" in the current year and proposed to continue to be in 2012-13, the Legislature could think about making the additional $99 million now shifting to schools more flexible within special education. Or the Legislature could add statutory language – beyond what was already provided in AB 114 -- clarifying that if these new funds are restricted, they are restricted for just the short term.

- **Allocation of Federal Funds**. Based on variance in historical allocations and overall state policy for special education funding, Governor's proposal to allocate the **$69 million** based on ADA makes sense. Also, the Legislature stated intent in the 2011-12 budget act to change the formula to an ADA basis in 2012-13.

STAFF COMMENTS.

- **Proposed Federal Fund Allocation Consistent with State and Federal Law.** The Governor's proposed allocation adjustment for the **$69 million** in federal funds is consistent with the state's traditional special education allocation methodology, which utilizes general education pupil counts – as measured by ADA -- not special education pupil counts or placements. Special education funding reforms – enacted by AB 602 in the late 1990's -- moved our state away from funding based upon placement settings or type of disability in order to address historical inequities in funding levels among SELPAs and to eliminate incentives for more restrictive (and costly) placements, which also complies with the least restrictive environment provisions of federal law.

  The Governor's allocation adjustment is also consistent with budget bill language in the 2011-12 budget act, which states that the $69 million federal funds are allocated on a **one-time basis** using a formula that reflects student mental health service counts. The language further states that it is the intent of the Legislature that in 2012-13 these funds be allocated to SELPAs **on an equal, per pupil (ADA) formula**.

- **Costs of Providing Mental Health Related Services Unclear.** More information is needed to assess the true costs of shifting mental health related services to schools, and therefore to fully evaluate the additional $98.6 million proposed by the Governor to cover the costs to education. As evidence, state and federal appropriations for the AB 3632 program prior to the program shift ranged from **$119 million** to **$347 million** annually between 1998-99 and

2009-10 according to the LAO. In the following chart, the LAO summarizes the irregular pattern of funding for the AB 3632 program prior to 2010-11 when most non-education state funding stopped and the status of the state mandate program was in question. In summary, there are two major categories of expenditures -- mental health services and residential care.

AB 3632 Costs Over Time

(In Millions)

	Mental Health Services			Residential Care		
	Federal Special Education	DMH Categorical	Mandate Claims[a]	DSS	County Funds[a]	Totals
1998-99	—	$12	$50	$23	$34	**$119**
1999-00	—	12	68	24	35	**139**
2000-01	—	12	78	25	37	**152**
2001-02	—	12	119	31	46	**208**
2002-03	—	—	146	38	57	**241**
2003-04	—	—	57	39	58	**154**
2004-05	$69	—	68	37	55	**229**
2005-06	69	—	72	38	57	**236**
2006-07	69	52	61	43	65	**290**
2007-08	69	52	83	48	72	**324**
2008-09	69	104	46	51	77	**347**
2009-10	69	—	94	59	89[b]	**311**

[a] Some counties are claiming mandate reimbursements for some of their local share of residential care costs, so some costs may be double-counted in these two columns.
[b] Additional mandate claims being submitted for 2009-10.
DMH = Department of Mental Health and DSS = Department of Social Services.

It is important to point out that the costs of the AB 3632 program may not necessarily be the same for education. For example, some SELPAs are reporting savings from providing mental services directly or contracting directly for services, rather than going through the counties. Additionally, now that schools are fully responsible for mental health services, early intervention could reduce the need for long-term, more intensive and costly services to students in the future. On the other end of the spectrum, some SELPAs may be facing additional costs for providing services. Finally, it is likely that the annual costs for education will change over the transition period, i.e., need for training and service start-up might be needed on the front end but diminish over time.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee hold the Governor's mental health budget proposals open until May Revise.

SUGGESTED QUESTIONS:

1. **DOF:** What assumptions does the Administration make about the additional costs of shifting mental health related services back to schools?
2. **CDE:** What is the Department doing to monitor the provision of mental health related services by LEAs and to assure positive outcomes for children and youth with disabilities during the transition?
3. **CDE:** Based on your survey data, how would the Department summarize service delivery by LEAs during the transition to date?

ISSUE 2. Legislative Analyst's Report on Charter School Funding

DESCRIPTION: The LAO published a report entitled on charter school funding in January 2012 entitled ***Comparing Funding for Charter Schools and Their School District Peers.*** The LAO will present to the Subcommittee major findings and recommendations from that report. The LAO will also provide some general information on charter schools and funding in California, as background for the evaluating the Governor's charter school budget proposals on the Subcommittee hearing agenda today.

GENERAL BACKGROUND:

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

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

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

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

According to CDE, there are currently about **1,007 charter schools** and **8 all-charter districts** operating in California. As reflected by the following table, charter schools have been growing by about 100 schools annually over the last couple of years. Nearly **399,000 pupils** now attend charter schools, which equates to about **6 percent** of the public school pupil population statewide.

	2009-10		2010-11		2011-12	
	Number	**Funded ADA****	**Number**	**Funded ADA****	**Numbers**	**Funded ADA****
Charter Schools	818	298,034	913	343,107	1,007	391,725
Charter Districts*	8	6,949	8	6,992	8	7,062
TOTAL, Charters	**826**	**304,983**	**921**	**350,099**	**1,015**	**398,787**

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

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

- Approximately **85 percent are start-up schools**, and the remainder are conversions of pre-existing public schools.
- Approximately **77 percent are classroom–based or site-based**, and the remainder are either partially or exclusively non-classroom based (independent study).
- Approximately **71 percent are directly funded** (i.e., have a separate account in the county treasury), and the remaining 29 percent are locally funded (i.e., are included in the budget of the chartering authority).

HIGHLIGHTS FROM LAO REPORT: The **Executive Summary** from the LAO report -- ***Comparing Funding for Charter Schools and Their School District Peers*** – is reprinted below:

Executive Summary

"The 1992 legislation that authorized charter schools in California created a funding model intended to provide charter schools with the same per–pupil operational funding as received by other schools in the same school district. The state subsequently modified this policy in 1998, enacting legislation specifying that "charter school operational funding shall be equal to the total funding that would be available to a similar school district serving a similar pupil population." This policy remains in place. To assess the extent to which this policy is being met, we analyzed per–pupil Proposition 98 operational funding for charter schools and their school district peers. Due to data limitations, we focused our analysis primarily on direct–funded charter schools. (These schools receive funding directly from the state whereas locally funded charter schools have some of their funding allocations embedded within their local school district's allotment.)

Total General Purpose Per–Pupil Funding Is Somewhat Less for Charter Schools. In 2010–11, charter schools received, on average, $395 per pupil (or 7 percent) less in total general purpose funding than their school district peers. This difference is relatively small because the largest single source of funding—base general purpose funding—is comparable for both groups. Charter schools, however, receive less in–lieu (or "flexible") categorical funding. The $395 per–pupil funding gap is attributable to school districts receiving $150 more for programs in the Charter School Categorical Block Grant (CSBG) and $245 more for other in–lieu categorical programs. With the 2011–12 midyear elimination of the Home–to–School (HTS) transportation program, the per–pupil funding gap for programs in the CSBG decreased from $150 to $56—lowering the total funding gap to $301 per pupil.

Funding Gap Increases as a Result of Changes in K–3 Class Size Reduction (CSR) and Mandate Rules. The funding gap between charter schools and their school district peers grows if one accounts for recent changes in K–3 CSR and mandate rules. Regarding K–3 CSR, in 2008–09, the state barred any new schools or additional classrooms from participating in the program. Because of the relatively rapid growth of new charter schools, only 49 percent of total K–3 charter school students participated in the program in 2010–11 whereas approximately 95 percent of school district K–3 students participated. This resulted in an additional funding gap of $721 per pupil for new charter schools. Regarding education mandates, the Commission on State Mandates (CSM) made a determination in 2006–07 to disallow charter schools from receiving mandate reimbursement, and the Controller subsequently stopped reimbursing charter schools in 2009–10. While claiming school districts receive on average $46 per pupil to complete certain mandated activities that also apply to charter schools, charter schools receive no associated funding.

Three Recommendations if Existing K–12 Funding Structure Retained. We recommend the Legislature equalize the funding rates of charter schools and their school district peers as well as provide more flexibility for both groups of schools. The Legislature could achieve these objectives either by making changes within the existing K–12 finance system or fundamentally restructuring the existing system. If the existing K–12 funding structure were retained, we recommend the Legislature:

- **Equalize In–Lieu Categorical Funding Rates**. We recommend providing charter schools with the average statewide amount received by school districts for all in–lieu categorical programs—$837 per pupil (a $301 increase from the existing rate of $536 per pupil). Completely closing this funding gap in 2012–13 for the roughly 440,000 charter students projected statewide would cost **$133 million**. Given the state's current fiscal condition, the Legislature could close the funding gap over a multiyear period.

- **Maximize Flexibility for Charter Schools and School Districts**. We recommend making K–3 CSR flexible for both charter schools and school districts by including these funds in their base general purpose allocations and providing the same associated per–pupil funding rate to new charter schools. If new charter schools were provided the statewide average K–3 CSR funding rate, this would cost the state **$16 million** in 2012–13. Similarly, we recommend placing all remaining career technical education programs (agricultural vocational education, Partnership Academies, and apprentice programs) into base general purpose allocations.

- **Provide Charter Schools In–Lieu Mandate Funding.** We recommend the state provide $23 per charter pupil to fund the 17 mandated activities that apply to charter schools. This would cost the state **$10 million** in 2012–13. We recommend the state provide this amount as a supplement to the CSBG. (This funding rate equates to roughly half the amount provided to school districts that file mandate claims, on the rationale that charter schools will incur lower costs as a result of not needing to participate in the state's formal mandate process.)

Two Recommendations if Legislature Pursues More Fundamental Restructuring. Though the above changes would eliminate existing funding disparities between charter schools and school districts, the Legislature could pursue more fundamental restructuring of the K–12 finance system. If a new system were designed to replace the existing one, we recommend the Legislature:

- **Apply the Same Basic Funding Model to Charter Schools and School Districts**. For both charter schools and school districts, we recommend funding a base general purpose allocation—one that is rationale, simple, and transparent—along with a few block grants linked with student needs, and then equalizing associated per–pupil rates over time. Alternatively, the Legislature could consider the Governor's proposal to create a weighted student formula, which also would provide additional funding for disadvantaged students and equalize per–pupil rates over time.

- **Allow Charter Schools Access to Certain Mandate–Related Funding.** In addition to categorical restructuring, the Legislature could consider fundamental changes to the existing mandate reimbursement system. If this course of action were pursued, we recommend applying the new system to both charter schools and school districts. While we think the Governor's discretionary mandate block grant proposal is a reasonable starting point, we recommend allowing both charter schools and school districts access to the associated funding."

STAFF COMMENTS & RECOMMENDATIONS: This is an informational item. However, the LAO's findings and recommendations on charter schools may be useful for the Subcommittee in considering Proposition 98 decisions at May Revise. While the remaining Subcommittee agenda today covers a number of individual charter school issues proposed by the Governor, staff notes that two of the Governor's major finance proposals – weighted pupil formula and mandate block grants – include charter schools in substantial, new ways. While not the only option recommended by the LAO, these major proposals would address the charter school funding disparities outlined in the LAO report.

SUGGESTED QUESTIONS:

1. DOF: What are the benefits for charter schools of the Governor's proposals to implement school finance reforms through a weighted pupil formula and education mandate reforms – through his mandate block grant? How do these benefits compare to the benefits from the Governor's other charter school budget proposals that will be discussed in the agenda today?
2. LAO: What is the impact of funding disparities identified by your report on charter schools and students?
3. LAO: How can charter school funding disparities be addressed within the current fiscal environment? What timing would the LAO recommend?
4. CDE: What do we know about the performance outcomes of charter schools compared to other public schools?

ISSUE 3. Education Funding for Non-Classroom Based Charter Schools

DESCRIPTION: The Governor proposes trailer bill language to eliminate the current law funding determination process for non-classroom-based instruction and instead provide full funding for all non-classroom based charter schools.

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

According to the California Department of Education (CDE), most charter schools receive full funding -- 100 percent of pupil average daily attendance (ADA). However, through a "determination" process administered by CDE and the State Board of Education, a limited number of charter schools statewide receive less than full funding based due to exclusions of their non-classroom based ADA.

Most student ADA for non-classroom based charter schools is funded. As indicated in the table below, an estimated 105,367 student ADA (97 percent) for non-classroom based charter schools is being funded in 2011-12; only 3,329 student ADA (3 percent) is not being funded.

		2009-10		2010-11		2011-12
Non-Classroom Based Charter Schools – Funded & Non-Funded ADA		Student ADA		Student ADA		Student ADA
Reported ADA		**96,119**		**107,107**		**108,696**
Funded ADA		**93,633**		**104,326**		**105,367**
ADA Not Funded		**2,486**		**2,781**		**3,329**
Number of non-classroom based schools		***191***		***213***		***203***
Schools funded at 100 percent		***178***		***200***		***192***
Schools funded at less than 100 percent		***13***		***13***		***11***

Per CDE, a total of 203 charter schools were operating under funding "determinations", which are granted for more than one year. Of these 203 charter schools, only 11 schools receive less than full funding, as indicated in the table above.

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

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

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

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes trailer bill language to remove the funding determination process for non-classroom-based instruction for charter schools. According to the Administration, this change will reduce workload for staff at the California Department of Education, State Board of Education, charter schools and charter authorizers. In addition, the Administration believes this change will equalize funding disparities between charter schools that offer non-classroom-based instruction and school districts that offer independent study instruction.

LAO COMMENTS & RECOMMENDATIONS: The LAO recommends that the Legislature reject the Governor's proposal to eliminate the funding determination process and provide full funding to all non-classroom-based charter schools.

Per the LAO, removing the state's fiscal oversight process would allow non-classroom-based schools to reduce spending on instruction-related activities and still receive full funding. Also would provide schools that have lower cost structures with funding augmentations in 2012-13 without a clear rationale. For these schools, state costs would increase by about $20 million.

STAFF RECOMMENDATION: Staff supports the LAO's recommendations, but recommends that the Subcommittee hold this issue open until May Revise.

SUGGESTED QUESTIONS:

1. DOF: What are the problems with the current determination process that the Administration is trying to address or streamline?
2. DOF: Does the Administration have any concerns about the loss of oversight with elimination of the determination process? Has the Administration considered other ways to streamline the determination process that don't include total elimination of the process?
3. DOF: The Administration believes the Governor's proposal will equalize funding disparities between charter schools that offer non-classroom-based instruction and school districts that offer independent study instruction. Can the Administration provide more detail about this comparison?
4. DOF: What are the costs of providing full funding to about eleven charter schools not receiving full funding, per the Governor's proposal?
5. CDE: What is the audit process for non-classroom based charter schools approved for funding? How often are these charter schools audited?
6. CDE: What are the Department's greatest concerns about the elimination of the determination process for non-classroom based charter schools? Can the Department suggest other alternatives to streamline the current process?

ISSUE 4. Charter School Facilities Grant Program

DESCRIPTION: The Governor proposes trailer bill language to make non-classroom-based instruction eligible for the Charter Schools Facilities Grant program. The Governor also proposes to establish an apportionment schedule for the program that would provide earlier payments to charter schools.

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

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

The charter schools are funded at $750 per unit of classroom-based average daily attendance, or up to 75 percent of its annual facilities rent and lease costs for the school, whichever is lower.

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

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

Funds for this program increased substantially with the transfer of funds from the phase out of the Multi-track Year-Round Education (MTYRE) Operational Grant Program. Chapter 271 (2008) required all funds appropriated for the MTYRE program in 2007-08 – a total of $97 million -- to be transferred to the Charter School Facility Grant Program a rate of 20 percent each year. The proposed 2012-13 budget makes the final transfer payment of $15 million from MTYRE program to the Charter School Facility Grant program. With this transfer, the Governor's Budget proposes to provide a total of $92 million for the program in 2012-13.

Beginning in 2008-09, the Charter School Facility Grant Program was subject to across-the-board categorical reductions for most state categorical programs. Under current law, these reductions will remain in place through 2014-05 – a total of seven years.

GOVERNOR'S BUDGET PROPOSALS:

1. **Coverage for Non-Classroom Based ADA.** The Governor's budget proposes trailer bill language to repeal provisions of current law which prohibits Charter School Facility Grant funds for units of pupils average daily attendance (ADA) generated through non-classroom based instruction. Instead, the language would allow portions of a charter school's facilities that are used to provide direct instruction and instructional support to pupils enrolled in the school to be eligible for funding under this program. According to the Administration, this change will equalize funding disparities between charter schools that offer non-classroom based instruction and school districts that offer independent study instruction, as well as provide much needed cash flow relief to charter schools through the earlier apportionment schedule.

2. **Earlier Apportionments.** The Governor's Budget proposes trailer bill language to require the apportionment of funding by August 31, of each fiscal year or 30 days after the enactment of the annual budget act, whichever is later. Current law requires the California Department of Education (CDE) to apportion funding in a "timely manner" -- as defined by the department.

   The Governor's proposal would require CDE to use prior year data on pupil eligibility for free and reduced price meals and prior year rent or lease costs provided by the charter school to determine eligibility for the grant program until current year data or actual rent or lease costs become known or until June 30 of each fiscal year. If this data is not available, the language directs CDE to use estimates provided by the charter school so the total rent and lease costs do not exceed the school's total advanced apportionment funding.

LAO COMMENTS & RECOMMENDATIONS:

Coverage for Non-Classroom Based ADA. The LAO recommends that the Legislature **reject** the Governor's proposal to allow non-classroom-based ADA to count towards the Charter School Facility Grant Program. Per the LAO, non-classroom-based charter schools currently are able to receive facility grant funds for their classroom-based ADA. The Governor's proposal does not provide enforceable mechanism to provide non-classroom-based schools with cost-based facilities funding. The Legislature could explore options for allowing non-classroom-based ADA to receive partial funds.

Earlier Apportionments. The LAO recommends that the Legislature **modify** the Governor's proposal to streamline the application process by requiring California Department of Education (CDE) to use prior-year data to make initial funding apportionments and require the first payment to be issued by August 31. Per the LAO, using prior-year data for first apportionment would allow for a more timely release of funds. More specifically, the LAO recommends the following modifications:

- Use prior-year data for first apportionment to allow for a more timely release of funds.
- Designate at least one-third of funds be released in initial apportionment.
- Ensure actual cost data used and school amounts are "trued up" accordingly for purposes of the final apportionment.

RELATED LEGISLATION:

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

STAFF RECOMMENDATION: Staff recommends that the Subcommittee hold these issues open until May Revise.

SUGGESTED QUESTIONS:

1. DOF: Given the nature of non-classroom ADA – which presumably does not require school facilities - why is there a need to provide additional facilities funding for these pupils?
2. DOF: What are the costs of adding non-classroom ADA to the Charter School Facility Grant program per the Governor's proposal?
3. DOF: What will the impact of ADA expansion be for charter schools currently served by the program?
4. DOF: What are the reasons for expediting apportionments per the Governor's language?
5. CDE: Please describe the apportionment schedule for the Charter School Facility Grant program and indicate how it compares to allocations for most other school programs.

ISSUE 5. Conveyance/Sale of Surplus District Property to Charter Schools

DESCRIPTION: The Governor proposes trailer bill language to require school districts to convey its surplus property to any interested charter school. The Governor also proposes trailer bill language to allow school districts to sell property to a charter school and maintain eligibility for various educational facility programs.

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

State Programs.

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

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

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

Charter School Security Fund (CSSF). SB 1759, Chapter 586, Statutes of 2000, established the CSSF. Current law requires that the interest rate that charter schools pay on loans made from the CSRLF be deposited into the CSSF to be made available to the CSRLF in the case of default on loans made from the CSRLF. Current law requires the DOF to monitor the adequacy of the fund and report annually to the Legislature on the need, if any, to adjust the terms of the CSRLF and the Security Fund.

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

Federal Programs

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

GOVERNOR'S BUDGET PROPOSALS:

1. **Conveyance of Surplus Property.** The Governor's Budget proposes trailer bill language to require a school district seeking to sell or lease surplus property to first offer the property to any interested charter school providing direct instruction or instructional support. The language further requires the property to be "conveyed" to any charter school that choses to accept the surplus facility. The language defines conveyed as requiring the school district to transfer title to the property identified as surplus real property without requiring an accepting charter school to provide payments to the school district.

   If a charter school accepts the "conveyed" property, they assume liability. If the property ceases to be used for an educational purpose, according to the proposed language, the charter school shall first offer to return the facility to the district that conveyed the property. If the district declines the property, the title goes to the Office of Public School Construction to dispose of the property consistent with the practice used to dispose of facilities under the Charter School Facility Program.

According to the DOF, this change will ensure that state funded education facilities remain to be used for their intended purpose of educating public school students.

2. **Sale of Property.** The Governor proposes budget trailer bill language to allow a school district to sell or lease real property to a charter school as long as the sale does not violate the provisions of a local bond act. The language also allows a school district to remain eligible for other state facilities funding as long as the district can demonstrate eligibility pursuant to requirements under the existing bond act. The language would further allow the district to deposit the proceeds of the sale of real property and personal property located on the real property into the district's general fund to be used for any educational purpose. In addition, the language requires a charter school that purchases real property to assume maintenance responsibility of the school-site and further requires the Office of Public School Construction to develop regulations to clarify and implement this new statute.

   According to the DOF, this change will remove the disincentive of selling unused property to a charter school by removing the associated penalties; thereby, ensuring that educational facilities are effectively utilized.

LAO COMMENTS & RECOMMENDATIONS: LAO supports the concept of allowing school districts to sell or lease surplus property to charter schools, but does not support conveyance of school facilities to charter schools, which raises numerous concerns. For this reason, the LAO makes the following recommendations:

- **Reject Governor's proposal to require districts seeking to sell or lease surplus property to first offer facilities to charter schools and then convey properties to charter schools at no cost.** Per the LAO, because the charter school can return the facility to the district at any time in any condition, it may not have strong incentives to invest in regular maintenance and major facility upgrades that would extend the building's life.

- **Reject Governor's proposal to allow school districts to sell or Lease real property to a charter school without losing eligibility for state bond funding.** Per the LAO, allowing school districts to retain eligibility for state bond funds could result in additional state costs. Some districts would be able to sell a facility and subsequently apply for state bond funding to replace the sold facility.

RELATED LEGISLATION:

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

STAFF COMMENTS & RECOMMENDATIONS: Staff supports the LAO's recommendations, but suggests that the Subcommittee hold the Governor's proposals on conveyance and sale of surplus district property open until May Revise, pending possible development of alternatives to the Governance proposal.

SUGGESTED QUESTIONS:

1. DOF: Has the Administration considered alternatives to requiring "conveyance" of surplus property from districts to charter schools? Could charters be given first priority, or first right of refusal, for sale or lease of surplus property, building upon current statutory frameworks?
2. DOF: Who is responsible for building maintenance and upkeep for facilities conveyed to charter schools? Who is the long-term owner of buildings conveyed to charter schools?
3. DOF: How is surplus property defined? Real property? And personal property?
4. DOF: How does sale of surplus property currently affect district eligibility for hardship assistance levels or eligibility for hardship funding?
5. DOF: Would there be a role for the State Allocation Board (SAB) in conveyance? Would the SAB need to certify?

ISSUE 6. Payment Deferral Exemptions for Charter Schools

DESCRIPTION: The Governor proposes trailer bill language to allow charter schools to seek a hardship deferral waiver from their governing bodies, rather than through their charter authorizers, as currently required.

BACKGROUND:

Over the last several years, the state has deferred payments to school districts as a way to achieve Proposition 98 savings as well as manage the state's cash flow. Relying on deferrals has allowed the state to achieve significant one–time savings while simultaneously allowing school districts to continue operating a larger program by borrowing or using cash reserves. As the magnitude and length of payment deferrals have increased, however, school districts have found it increasingly difficult to front the cash required to continue operating at a higher programmatic level. According to the Legislative Analyst’s Office, the state currently defers approximately $9.4 billion in K-12 apportionment payments or 21 percent of the total K-12 program funding.

Hardship Exemptions. As deferrals have grown over the years, school districts and charter schools have begun to have problems meeting their financial obligations. AB 1610 (Budget Committee), Chapter 724, Statutes of 2010, established a deferral exemption process for school districts and charter schools. (There is no exemption provision for county offices of education.)

Under current law, school districts and charter schools may apply for an exemption from the deferral of the June to July principal apportionment payment. Exemptions totaling up to $100 million may be approved by the DOF. If requests for exemptions exceed $100 million, the State Controller, State Treasurer, and DOF may authorize exemptions totaling up to $300 million. If requests exceed the amount available, payments will be made in order based upon the earliest date and time that the complete application was received via e-mail, fax, or mail.

In 2011, nine school districts and 133 charter schools were approved for deferral exemptions for the 2011 June deferral. According to DOF, all applications that were submitted were approved with the exception of one school because their attached cash flow indicated the school was in a positive cash position throughout the fiscal year.

GOVERNOR’S BUDGET PROPOSAL:

The Governor proposes trailer bill language to repeal the requirement for charter authorizers to review and approve deferral exemption requests. This change would allow charter schools to make their deferral waiver requests directly with the Superintendent of Public Instruction and the Department of Finance. According to the Administration, this change is intended to streamline the process by reducing the length of time it takes for a deferral exemption to be approved, and relieves both charter schools and charter authorizers of additional workload.

LAO COMMENTS & RECOMMENDATIONS: The LAO recommends that the Legislature reject the Governor's proposal. The LAO believes that charter authorizers are responsible for the fiscal oversight of charter schools and therefore need to be able to review applicable information, including charter schools' deferral exemption applications. The LAO does not believe this change is necessary and believes that existing fiscal oversight of charter schools by their authorizers is good policy and should be continued.

STAFF COMMENTS:

- **Problem Unclear.** There is no evidence of charter schools having problems with their hardship waiver requests being turned down by their authorizers for unsubstantiated reasons. Most hardship deferral waivers approved are for charter schools. In 2011, nine school districts and 133 charter schools were approved for deferral exemptions for the 2011 June deferral. Reportedly, there are concerns that some charter schools have not sought deferral waivers from their authorizers due to fear they would be viewed as financially unstable. However, according to the LAO, seeking an exemption from payment deferrals does not appear to be grounds for charter revocation under current law.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee adopt the LAO recommendation to reject the Governor's charter schools deferral proposal.

SUGGESTED QUESTIONS:

1. DOF: What is the underlying problem behind this proposal?
2. DOF: How many charter schools have been granted deferral waivers? What is the proportion of charter waivers granted compared to total deferral waivers granted to date?
3. DOF: Have any charter schools had a deferral waiver turned down?
4. DOF: Is there concern that some charter schools are not applying for deferral waivers?
5. DOF: Could any of the requirements for deferral waiver threaten charter renewal?

ISSUE 7. Charter School External Borrowing

DESCRIPTION: The Governor proposes trailer bill language to require county treasurers to loan money to charter schools, allow county offices of education to make short term loans to charter schools and to make charter schools a public agency for purposes of seeking Tax and Revenue Anticipation Notes (TRANS).

BACKGROUND: Due to substantial ongoing, program reductions and substantial ongoing payment deferrals, many local educational agencies have been forced to borrow funds – through internal and external sources – in order to meet their cash needs and avoid fiscal insolvency. These internal and external borrowing sources for LEAs are summarized below:

Internal Borrowing. Internal borrowing is authorized by Education Code Section 42603 and allows LEAs to borrow between funds temporarily to address cash flow shortages. This is the most common method utilized among school districts. The limitations associated with this type of borrowing allows that no more than 75 percent of the money held in any fund during the current fiscal year may be transferred. In addition, funds must be repaid in the same fiscal year (i.e., by June 30) if the transfer is completed prior to the last 120 days of the fiscal year. If funds are transferred within the last 120 days of the fiscal year, repayment of the funds must be made prior to June 30 in the subsequent year. While this is an option for school districts, it is not an option for charter schools.

External Borrowing. There are a few options for districts to borrow externally; however, these options are also not currently available to charter schools:

- **Borrowing from the County Treasurer**. Education Code 42620 allows a school to borrow from the County Treasurer, also known as "dry period financing." Under Article 16, Section 6, of the California Constitution, the County Treasurer must provide funds to a school district should it not be able to meet its obligations. However, the County Treasurer cannot loan districts money after the last Monday in April of the current fiscal year. In addition, the governing board's approval is also required for this type of borrowing. The loan cannot exceed 85 percent of direct taxes levied on behalf of the school district. The advantage to having the County Treasurer provide the funds is based on the ability of the Treasurer to take the repayment from the tax receipts received prior to any distribution to the LEA for property taxes. Repayment must be made from the first monies received by the school district before any other obligation is paid.
- **Borrowing from a County Office of Education.** Education Code 42621 and 42622 allow for a district to seek assistance from a County Office of Education (COE), however, this option is dependent upon the COE being willing and able to provide funding. Specifically, the law authorizes a county superintendent of schools, with approval from the county board of education, to make temporary money transfers to any school district that does not have sufficient funds to meet its current operating expenses. A transfer cannot exceed 85 percent of the amount of money, which will accrue to the school district during the fiscal year. Statute also authorizes a county superintendent, with approval by the county board, to make temporary money transfers to any school district that does not have sufficient money to meet

its current operating expenses in amounts it deems necessary. Any amount transferred by the county superintendent of schools to a school district is required to be repaid prior to June 30 of the current fiscal year.

- **Tax and Revenue Anticipation Notes (TRANs).** School districts utilize these short-term loans to address cash flow problems created when expenditures must be incurred before tax revenues are received. This form of short-term borrowing is the most common method used by LEAs. The LEA must determine the cash flow needs to size the TRANs appropriately. If an LEA cannot demonstrate a cash shortage in the current year but issued a TRANs, they could be subject to arbitrage rebate.

GOVERNOR'S BUDGET PROPOSALS: The Governor proposes trailer bill language to allow county offices of education and county board of supervisors to make short term loans to charter schools from any funds not immediately needed. According to the Administration, this change will allow charter schools to reduce financing costs and may save the state costs associated with deferral exemptions being requested by charter schools.

The Governor also proposes trailer bill language to make charter schools a public agency and allows for county offices of education to borrow funds or issue Tax and Revenue Anticipation Notes (TRANS) for the purpose of providing temporary revenue backed loans to charter schools. According to the Administration, this change will also allow charter schools to reduce financing costs and may save the state costs associated with deferral exemptions being requested by charter schools.

LAO COMMENTS & RECOMMENDATIONS: The LAO does not support provisions of the Governor's proposal that would require counties to make loans to charter schools. The LAO supports other provisions that would authorize counties to make loans and give charters greater access to TRANS. More specifically, the LAO makes the following recommendations.

1. **Adopt Governor's Proposal Allow Charter Schools to Access TRANS.** Per the LAO, this proposal provides additional borrowing option for charter schools. Tax-exempt status of TRANs may provide a lower-cost alternative to current loans from private sector.
2. **Adopt the Governor's Proposal to Authorized County Offices to Provide Loans to Charter Schools**. Per the LAO, this proposal provides additional borrowing options to charter schools without requiring COEs to issue high-risk loans.
3. **Reject the Governor's Proposal to Require the County Treasurer to Provide Charter Schools with Loans if the Charter School is Unable to Meet its Financial Obligations.** Per the LAO, a county may be required to loan funds to a charter school that appears unlikely to repay. Alternatively, the LAO recommends that counties be authorized, but not required, to provide loans.

RELATED LEGISLATION:

- **AB 1576 (Huber).** This current measure would authorize a county board of education to loan money to any charter school in the state for the purposes of meeting the short-term, working capital operational needs of the charter school. **Status: Assembly Appropriations Committee.**

STAFF COMMENTS:

- **Do Charter Schools Qualify as Public Entity for Purposes of Receiving Loans from the County Treasury?** The California Association of County Treasurers and Tax Collectors has serious concerns regarding "dry period financing" for charter schools as proposed by the Administration and opposes the Governor's proposed trailer bill language. According to a letter from the Association, charter schools are not required to bank with county treasurers, as required by traditional school districts, however, the Governor's trailer bill language would authorize charter schools to receive financing from the county treasury. Per the Association, such authorization would give public money and credit to non-profit corporations. Unless the charter school is formed by, and under the complete control of a school district, the Association believes doing so would be unconstitutional. The Association indicates that the State Constitutional provision that permits dry period financing (Article 16, Section 6) relies on the recipients of those loans banking solely with the county treasury, so that the treasury can be assured of repayment. Per the Association, this would not be the case with many, if any, charter schools.

STAFF RECOMMENDATIONS: Staff supports the LAO's recommendations, but recommends that the Subcommittee hold these issues open until May Revise.

OUTCOMES: Approved LAO recommendations, including alternative to authorize rather than require County Treasurers to lend to charters, as follows: (Vote: 3-0)
1. **Adopt Governor's Proposal Allow Charter Schools to Access TRANS**. Per the LAO, this proposal provides additional borrowing option for charter schools. Tax-exempt status of TRANs may provide a lower-cost alternative to current loans from private sector.
2. **Adopt the Governor's Proposal to Authorized County Offices to Provide Loans to Charter Schools.** Per the LAO, this proposal provides additional borrowing options to charter schools without requiring COEs to issue high-risk loans.
3. **Reject the Governor's Proposal to Require the County Treasurer to Provide Charter Schools with Loans if the Charter School is Unable to Meet its Financial Obligations**. Per the LAO, a county may be required to loan funds to a charter school that appears unlikely to repay. Alternatively, the LAO recommends that counties be authorized, but not required, to provide loans. Approved LAO recommendations **(Vote: 3-0),** as follows:

SUGGESTED QUESTIONS:
1. DOF: Does the Administration believe there are any constitutional issues that preclude loans from the county treasurers?
2. DOF: Can the Administration clarify current charter school access to TRANS? Are some charters able to access TRANS?
3. DOF: How would counties recoup funds under the Governor's proposals if charter schools closed?

ISSUE 8. Charter School Revolving Loan Fund

DESCRIPTION: The Governor proposes trailer bill language to add a determination process, authorized by Finance, to ensure that the interest payments collected in the Security Fund can be transferred to the Revolving Loan Fund. According to the Administration, this is a technical change that allows the Security Fund to be used as intended.

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

The CSRLF is comprised of federal funds obtained by the state for charter schools, interest from loans issued to charter schools, and any other funds appropriated or transferred to the fund through the annual budget process.

The Charter School Security Fund consists of revenue from interest payments on loans.

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

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

The California Department of Education (CDE) approves the loans and may consider the following when determining whether to approve a school's loan application:

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

Loan Deposits. Under current law (EC Section 41367), funds in the CSSF shall be available for deposit into the CSRLF, in case of default on any loan made from the CSRLF. **The statute is**

silent regarding the transfer process and no transfer has been made to date from the Charter School Security Fund (CSSF) to the CSRLF.

Fund Balance. The balance in the CSSF is approximately **$3.9 million**. Without specific authority regarding the transfer process, the CDE believes that it would need to go through the full discharge of accountability process, which involves several state agencies and is estimated to take a number of years to complete for each defaulted loan.

GOVERNOR'S BUDGET PROPOSAL: The Governor's Budget proposes trailer bill language to require the CDE to monitor the adequacy of the amount of funds in the Charter School Revolving Loan Fund and report annually to the DOF and the Controller on the need, if any, to transfer funds from the Charter School Security Fund to the Charter School Revolving Loan Fund. According to the Administration, this determination process will ensure that the interest payments collected in the Security Fund can be transferred to the Revolving Loan Fund as the original law intended.

LAO COMMENTS & RECOMMENDATIONS: According to the LAO, the Governor's proposal provides an important technical allow the Charter School Revolving Fund to access funds from the Charter School Security Fund, but suggests some improvements. Specifically, the LAO recommends that the Subcommittee adopt the Governor's proposal with modifications, as follows:

- Allow transfer of funds from the Charter School Security Fund to the Charter School Revolving Loan Fund only to recover funds lost due to loan defaults;
- Require DOF to notify the Joint Legislative Budget Committee upon approval of transfer;
- Require the Department of Education to submit detailed fund condition statements to DOF that will be included in the Governor's January budget each year.

STAFF COMMENTS:

Charter Schools Loan Default Rate is Problematic. The LAO has concerns about the current imbalance of the Charter School Revolving Fund due to a high loan default rate and the small amount of revenues available to offset loan defaults. Funds generated from interest payment on loans are supposed to offset the losses the state incurs when a charter school cannot repay its loan (or closes and the state cannot recover associated funds). According to CDE, the primary reason for loan default is the closure of some charter schools. According to the LAO, the Revolving Fund has accumulated $5.7 million in losses from the default of 38 charter school loans. In 2011-12 alone, the state may lose up to $1.0 in loan payments due to defaults.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee approve the Governor's budget proposal, with modifications recommended by the LAO.

OUTCOME: Approved Staff Recommendation. (Vote: 3-0)

SUGGESTED QUESTIONS:

1. CDE: What additional information can the Department provide about the loan default rate for charter schools?
2. CDE: What ability does CDE have to recoup funds when charter schools close?
3. CDE: Is it possible for the Charter School Revolving Loan Fund to be self-sustaining?

ISSUE 9. California School Finance Authority – Charter School Refinancing

DESCRIPTION: The Governor proposes trailer bill language to allow the California School Finance Authority (CSFA) to refinance working capital that has been previously structured.

BACKGROUND:

California School Finance Authority (CSFA). The CSFA was created in 1985 to oversee the statewide system for the sale of revenue bonds to reconstruct, remodel or replace existing school buildings, acquire new school sites and buildings to be made available to public school districts (K-12) and community colleges, and to assist school districts by providing access to financing for working capital and capital improvements. Over the last 25 years, the CSFA has developed a number of school facilities financing programs and most recently is focused on assisting charter schools to meet their facility needs. The CSFA is a three-member board comprised of the State Treasurer, the Superintendent of Public Instruction, and the Director of the DOF, and is administered within the Office of the State Treasurer.

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

While current authority for CSFA includes "financing" this working capital, but there is no authority for CSFA to "refinance" these financing packages.

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes trailer bill language to allow the California School Finance Authority (CSFA) to refinance revenue bonds issued to finance school facilities working capital and capital improvements, which currently is not explicitly authorized. According to the Administration, this is a technical change that conforms to CSFA's current practices.

LAO COMMENTS & RECOMMENDATIONS: The LAO recommends approval of the Governor's budget proposal. Per the LAO, CSFA has the authority to "finance" working capital and capital improvements for charter schools; the Governor's proposal would simply clarify CSFA authority for "refinance" activities.

RELATED LEGISLATION:

- **SB 645 (Simitian).** This 2011 bill authorized the Charter School Financing Authority to refinance working capital for charter schools. The language in SB 645 (Simitian) is very similar to the Governor's budget proposal. **Status: Held in Assembly Appropriations Committee.**

STAFF RECOMMENDATION: Staff recommends that the Subcommittee approve the Governor's proposal. This is considered a technical adjustment to reflect current activities of the California School Finance Authority. There is no known opposition to this proposal.

OUTCOME: Approved Staff Recommendation. (Vote: 2-0)

ISSUE 10. DOF April Letters – Various K-12 State Operations and Local Assistance Fund Adjustments (Vote Only)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to various K-12 state operations (support) and local assistance items in the 2012-13 budget. These revisions are proposed by the DOF April 1 Budget Letter. These items are considered technical adjustments, mostly to update federal budget appropriation levels so they match the latest estimates and utilize funds consistent with current programs and policies.

Federal Funds – State Operations (Support) and Local Assistance

1. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add Support Carryover for Common Core Standards Implementation (Issue 146**). It is requested that Item 6110-001-0890 be increased by $2,360,000 to reflect one-time federal Title I carryover funds used to support the continued implementation of academic content standards in mathematics and English language arts and that Schedules (2) and (9) of Item 6110-001-0001 be amended to conform to that action. In August 2010, the State Board of Education adopted content standards in mathematics and English language arts based on the Common Core State Standards developed by national organizations. Chapters 605, 608, and 623, Statutes of 2011 authorize the SDE to conduct specific activities to implement these standards, and the 2011 Budget Act included $3.5 million federal Title I funds for these purposes. The SDE reports that these funds will not be fully expended because the implementation timeline extends beyond the current year. This request will ensure that Common Core activities are completed as prescribed by the statutes.

   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, $2,360,000 is available in one-time Title I carryover funds to conduct activities related to implementation of the academic content standards in mathematics and English language arts, as authorized by Chapters 605, 608, and 623 of the Statutes of 2011.

2. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add Support Carryover for the Striving Readers Comprehensive Literacy Program (Issue 611).** It is requested that Item 6110-001-0890 be increased by $424,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds for the Striving Readers Comprehensive Literacy Program. The program provides support to the State Literacy Team in developing California's State Literacy Plan. In order to finalize the plan, the SDE requests $424,000 to update the ten-year old California Recommended Reading List.

   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, $424,000 is provided in one-time federal ~~Title I~~ carryover funds for the Striving Readers Comprehensive Literacy program.

3. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add Federal Funds for Oversight of Food Service Contracts (Issue 801)**. It is requested that Item 6110-001-0890 be increased by $556,000 Federal Trust Fund and that Item 6110-001-0001 be amended to support workload associated with federally-required oversight of contracts between food service management companies (FSMCs) and school food authorities (SFAs).

   Federal regulations require state agencies to review and approve all contract documents (including solicitations, evaluations, contracts, and bid protests) between FSMCs and SFAs. The SDE's Nutrition Services Division has only 0.25 of a position dedicated to these activities. This request will ensure that the SDE can fund redirected positions to provide the required level of oversight.

   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, $556,000 is provided to support workload associated with federally-required oversight of contracts between food service management companies and school food authorities.

4. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add One-Time Federal Funding for Child Nutrition Reauthorization Workload and Current Year Expenditure Plan (Issue 803)**. It is requested that Item 6110-001-0890 be increased by $4.8 million in one-time Federal Trust Fund and that Item 6110-001-0001 be amended to support contracts and staff travel associated with training SFAs on changes to meal and nutritional standards contained in the federal Healthy, Hunger-Free Kids Act of 2010, Public Law No. 111-296 (Act).

   In an effort to improve federal child nutrition programs, the Act contained many new requirements, including changes to meal patterns and nutritional standards and increased oversight of program sponsors. The Act also provides the following funding increases: (1) $0.06 per meal to SFAs that are compliant with new meal and nutrition requirements and (2) administrative funds specifically for state agencies to provide technical assistance to SFAs on changes to the meal and nutrition requirements. California's allocation of administrative funds is $6.0 million for 2012-13.

   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, $4,800,000 is provided on a one-time basis to support statewide training of school food authorities regarding changes to meal and nutritional standards contained in the federal Healthy, Hunger-Free Kids Act of 2010, Public Law No. 111-296 (2010), as allowed by federal guidelines on the allocation of administrative funds for state costs of implementation of new meal patterns for the National School Lunch Program and School Breakfast Program.

Current Year Expenditure Plan: The 2011 Budget Act provided $500,000 Federal Trust Fund ($1.0 million annualized) for increased workload associated with the Act's requirement that state agencies review each National School Lunch Program (NSLP) sponsor and School Breakfast Program sponsor once every three years. (Previously, only NSLP sponsors were reviewed once every five years.) Provisional language requires the Department of Finance (Finance) to approve the SDE's plan to expend these funds. In February 2012, the SDE submitted a plan that proposed to redirect and fill 10.0 positions by the end of the current fiscal year and to fund these positions in the budget year with $1.0 million of the $6.0 million administrative grant because the positions will provide technical assistance to SFAs regarding new nutritional requirements and certification to receive the additional meal reimbursement.

Finance hereby approves the SDE's plan for the budget year. The SDE will need to use existing federal authority to absorb any current year expenses associated with these positions, which are expected to be minimal. When the increased review requirements take effect in 2013-14, these positions will conduct compliance reviews and will be funded with existing federal state administrative expense funds.

It is requested that Provision 24 of Item 6110-001-0890 be amended as follows to conform to this action:

"24. Of the funds appropriated in this item, $1,000,000 is provided in 2012-13 for technical assistance to child nutrition sponsors regarding new nutritional requirements and in 2013-14 for increased costs associated with new federal requirements to increase the frequency of compliance reviews for child nutrition programs. ~~Expenditure of these funds is subject to Department of Finance approval of an expenditure plan. The expenditure plan shall be based upon final rules established by the United States Department of Agriculture regarding, but not limited to: (a) the effective date of the requirement to review each National School Lunch Program and School Breakfast Program once every three years and (b) how compliance reviews are conducted, especially new or amended regulations leading to efficiencies in the review process.~~ To the extent that additional staff resources are needed, positions shall be redirected from existing vacancies within the State Department of Education."

5. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE). Add One-Time Carryover for Safe and Supportive Schools (Issue 804)**. It is requested that Item 6110-001-0890 be increased by $680,000 in one-time federal carryover funds and that Item 6110-001-0001 be amended to support the Safe and Supportive Schools program. These carryover funds from 2011-12 will be used to (1) improve the aging California School Climate, Health, Learning Survey system at WestEd, which collects school safety climate data from students, parents, and staff and (2) provide increased technical assistance to participating high schools, which have the worst school safety climates statewide.

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, $680,000 is provided in one-time carryover funds for the Safe and Supportive Schools program to support enhanced data collection capacity and accuracy and increased technical assistance to participating schools.

6. **Item 6110-161-0890, Local Assistance, State Improvement Grant (Issue 640).** It is requested that Provision 9 of this item be amended to accurately reflect the intended use of the State Improvement Grant and prevent the misinterpretation that the funds are intended for a science-based curriculum, when they are to be used for scientifically-based professional development for special education. The federal State Improvement Grant assists state educational agencies in reforming and improving their systems for personnel preparation and professional development in early intervention, education, and transition services to improve results for children with disabilities.

   Specifically, it is requested that Provision 9 of 6110-161-0890 be amended as follows:

   > 9. Of the funds appropriated in Schedule (6), $2,196,000 is provided for ~~science~~ scientifically−based professional development as part of the State Personnel Development grant.

7. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE) Add Support Carryover for the Public Charter Schools Grant Program (PCSGP) (Issue 322).** *It is requested that Item 6110-001-0890 be increased by $825,000 Federal Trust Fund* and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover for the PCSGP. The PCSGP awards newly approved charter schools between $250,000 and $575,000 to support planning and initial implementation. As part of the 2010 federal grant application, the SDE agreed to contract for an independent evaluation to measure the effectiveness of the PCSGP and for charter development technical assistance to increase the quality of new charter schools in California. These activities were previously funded in the 2011 Budget Act, but due to concerns stemming from a reduction in the federal grant award, the SDE was unable to enter into contracts in the current year. This request will allow the SDE to fulfill its stated activities from the 2010 federal grant application.

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

   > X. Of the funds appropriated in this item, $825,000 is available on a one-time basis for the State Department of Education to contract for an independent evaluation of the Public Charter Schools Grant Program and contract to provide technical assistance to sub-grantees.

8. **Item 6110-112-0890, Local Assistance, Carryover for the Public Charter Schools Grant Program (PCSGP) (Issue 325).** It is requested that Item 6110-112-0890 be increased by $25,814,000 Federal Trust Fund to reflect the availability of one-time federal carryover funds for the PCSGP. The PCSGP awards newly approved charter schools between $250,000 and $575,000 to support planning and initial implementation. The second grant cycle for 2011-12 will not close until March 31, 2012, with an expected grant notification date of June 30, 2012; therefore, there will be insufficient time to award and encumber these funds in the current year. This augmentation will allow SDE to award these funds to recipients in 2012-13.

9. **Item 6110-199-0890, Support, Increase Funding for the American Recovery and Reinvestment Act (ARRA) Early Learning Grant (Issue 403).** It is requested that Provision 2 of this item be amended as follows to increase state operations funding by $45,000 in federal carryover funds to support the last year of the Early Learning Grant

authorized by ARRA of 2009, Public Law No. 111-5. This action will align expenditure authority with actual personnel costs incurred by the SDE.

Specifically, it is requested that Provision 2 of Item 6110-199-0890 be amended as follows:

> 2. Of the funds appropriated in this item, $~~117,000~~162,000 shall be transferred to Item 6110-001-0890 for state operations costs to support the State Advisory Council on Early Childhood Education and Care, subject to approval of a budget revision by the Department of Finance.

General Fund and Other Adjustments

10. **Eliminate Funding for the SDE Administration of the California Subject Matter Projects (CSMP) (Issue 613).** It is requested that Item 6110-001-0001 be decreased by $5.0 million to reflect the reestablishment of the CSMP funding in the University of California (UC) budget. The Governor's Budget proposed to shift $5.0 million General Fund designated for the CSMP from the UC to the SDE. The shift was necessary to ensure that the funding was identified for matching purposes. However, the shift is no longer necessary because it has been determined that the UC can sufficiently identify the funding for federal matching purposes and that funding will remain in the UC budget.

    It is further requested that Provision 17 be deleted from Item 6110-001-0001 to conform to this action.

11. **Item 6110-170-0001, Local Assistance, Add Reimbursement Carryover for the Career Technical Education Program (Issue 082).** It is requested that Item 6110-170-0001 be amended by increasing reimbursements by $1,865,000 to reflect one-time reimbursement carryover funds for the Career Technical Education Program, which will allow for the completion of three projects that could not be completed in the current year due to contract delays.

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

    > X. Of the funds appropriated in this item, $1,865,000 reflects one-time reimbursement carryover funds to support the existing program.

STAFF RECOMMENDATION (CONSENT ITEMS): Staff recommends approval of the entire DOF April Letter list above (Items 1-11), including technical corrections. No issues have been raised for any of these items.

OUTCOMES:

1. **Approved Items 1-4 and 6-11 (Vote: 3-0)**
2. **Approved Item 5 (Vote: 2-1)**

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Thursday, May 3, 2012
Upon adjournment of Senate Budget and Fiscal Review Committee
Room 4203, State Capitol

PART A

SUMMARY CHART, ITEMS PROPOSED FOR VOTE ONLY:

Item	Campus	Project	Phase	Action
1	None – CA State Library	Relocation for Infrastructure Renovation, Year 5	N/A	Approve
2	None – CA State Library	Sutro Library Relocation, Ongoing Operations	N/A	Approve
	UC Capital Outlay: Various Project Reappropriations			
3a	Berkeley	Helios Energy Research Facility	C	Approve
3b	Riverside	Environmental Health and Safety Expansion	W, C	Approve
3c	Los Angeles San Diego San Francisco	Telemedicine and PRIME Facilities, Phase 2	E	Approve
3d	Merced	Site Development and Infrastructure, Phase 4	C	Approve
3e	Riverside	East Campus Infrastructure and Improvements, Phase 2	C	Approve
3f	San Diego	Structural and Materials Engineering Building	E	Approve
3g	San Diego	Scripps Institution of Oceanography Research Support Facilities	C	Approve
3h	Santa Barbara	Davidson Library Addition and Renovation	W, C	
	CSU Capital Outlay: Various Project Reappropriations			
4a	Bakersfield	Art Center and Satellite Plant	W, C	Approve
4b	Maritime Academy	Physical Education Replacement	P, W, C	Approve
4c	Monterey Bay	Academic Building II	P, W, C	Approve
4d	Chico	Taylor II Replacement Building	W, C	Approve
4e	Fresno	Faculty Office/Laboratory Building	W, C	Approve
4f	East Bay	Warren Hall Replacement Building	P, W, C	Approve
4g	Channel Islands	West Hall	W, C	Approve
4h	San Jose	Spartan Complex Renovation	W, C	Approve
4i	San Bernardino	Access Compliance Barrier Removal Project	W, C	Approve
	CCC Capital Outlay: Various Project Reappropriations			
5a	College of the Canyons, Santa Clarita CCD	Administrative and Student Services Building	C, E	Approve
5b	El Camino Compton Center, El Camino CCD	Allied Health Building	C	Approve
5c	Gavilan College, Gavilan CCD	Replace Water Supply System	W, C	Approve
5d	Pacific Coast Campus, Long Beach City College, Long Beach CCD	Multi-Disciplinary Academic Building	E	Approve
	UC, CSU, and CCC Capital Outlay: Continuing Projects, Phase Appropriations			
6a	UC Santa Cruz	Infrastructure Improvements, Phase 2	C	Approve
6b	CSU San Diego	Storm/Nasatir Hall Renovation	E	Approve
6c	CSU Stanislaus	Science I Renovation	E	Approve
6d	CSU Channel Islands	Classroom and Faculty Office Renovation/Addition	E	Approve
6e	Glendale CCD, Glendale College	Laboratory and College Services Building	C, E	Approve
	UC and CSU Capital Outlay: Various Extensions of Project Liquidation Periods			
7a	UC Berkeley	Campbell Hall Seismic Replacement Building	W	Approve
7b	CSU Channel Islands	Infrastructure Improvements, Phase 1A and 1B	C	Approve
	CCC Capital Outlay: Various Project Reversions			
8a	11 CCDs	Please see page 12 for detailed listing	N/A	Approve

Staff Recommendation. Approve the above list of proposed vote-only items.

DESCRIPTIONS OF ITEMS PROPOSED FOR VOTE ONLY

ITEM 1. CSL RELOCATION FOR INFRASTRUCTURE RENOVATION, YEAR 5

Governor's Budget Request. The January budget requests $3.9 million GF in one-time and ongoing operations funding for year five of the project to renovate the historic Stanley Mosk Library and Courts Building (Building). The California State Library (CSL) is housed in the Building, which is located at 914 Capitol Mall and was constructed in 1928. The 2005 Budget Act provided funds for the renovation of the Building, consisting of fire, life safety, and infrastructure improvements and the rehabilitation of historically significant architectural elements. During the renovation, the CSL was unable to remain in the Building. The majority of the staff relocated to the nearby Library and Courts Annex building (Annex). A separate space was leased in West Sacramento to temporarily house the CSL's extensive collections. As this is the final year of the renovation project, the resources in this request will support the following activities: (1) return CSL staff and collections to the Building and the Annex, and resume full library operations in those locations; (2) add shelving capacity to the Building and the Annex to offset the loss of shelving resulting from architectural modifications made to the Building during the renovation; and (3) purchase of equipment necessary to resume full library operations in the Building. Beginning in 2013-14, and ongoing, the CSL's operating costs are estimated to decrease by $141,000 over current year costs.

ITEM 2. CSL SUTRO LIBRARY RELOCATION, ONGOING OPERATIONS

Governor's Budget Request. The January budget requests $236,000 GF in 2012-13 and ongoing to support the operations of the Sutro Library Branch of the CSL in the newly renovated San Francisco State J. Paul Leonard Library (JPLL). The Sutro Library holds a distinguished collection of rare books and manuscripts and is viewed as one of the foremost collections in the country of family histories and U.S. local histories. Legislation in 2002 and 2006 appropriated funding for the JPLL joint use library. The renovation of the JPLL began in 2007; the Sutro Library took occupancy of the fifth and sixth floors of the completed JPLL space during 2011-12. The resources in this request are a continuation of the resources provided in 2011-12 to relocate the Sutro Library and establish operations in the JPLL space.

ITEM 3. UC CAPITAL OUTLAY: VARIOUS PROJECT REAPPROPRIATIONS

3a. UC Berkeley – Helios Energy Research Facility

Governor's Budget Request. The January budget requests a reappropriation for the construction phase of the Helios Energy Research Facility project at UC Berkeley. The Helios Energy Research Facility consists of two buildings, the Helios Energy Research Facility, located adjacent to the Berkeley Campus, and the Solar Energy Research Center, located on the Lawrence Berkeley National Laboratory. The reappropriation is for construction of the Solar Energy Research Center, a building housing research devoted to nanoscale photovoltaic and electrochemical solar energy systems. The reappropriation is necessary because a lease-revenue bond sale has not been scheduled for the 2011-12 fiscal year and the campus has not yet been able to encumber the funds within the required time period.

3b. UC Riverside – Environmental Health and Safety Expansion

Governor's Budget Request. The January budget requests a reappropriation for the working drawings and construction phases of the Environmental Health and Safety Expansion project at UC Riverside. The project will provide new waste handling facilities and related office and support space to help this unit respond to the increased health and safety-related requirements of the growing campus. A reappropriation is necessary because a lease-revenue bond sale has not been scheduled for the 2011-12 fiscal year and the campus has not yet been able to encumber the funds within the required time period.

3c. UC Los Angeles, UC San Diego, and UC San Francisco – Telemedicine and PRIME Facilities, Phase 2

Governor's Budget Request. An April 1 Finance Letter requests reappropriations for the equipment phases for telemedicine and PRIME program related facilities projects in conjunction with the UC Los Angeles, UC San Diego, and UC San Francisco campuses. These reappropriations are necessary because a few of the clinics initially identified as community partners have closed due to financial or unforeseen circumstances. Thus, the campuses are in the process of contracting with financially viable clinics that serve the same communities, and additional time is needed for equipment purchases. All contracts with the clinics are anticipated to be complete by fall 2012.

3d. Merced – Site Development and Infrastructure, Phase 4

Governor's Budget Request. An April 1 Finance Letter requests a reappropriation for the construction phase of the Site Development and Infrastructure, Phase 4, project at UC Merced. The project will provide necessary infrastructure and site development work to provide erosion control and storm water management, perimeter and interior road improvements, and improvements to the existing corporation yard; improve functionality of the central plant and telecommunications building; and install utilities to support future building sites in the core campus. A reappropriation is needed because the 1996 GO bond funding appropriated for the project's preliminary plans and working drawings were not sold until late November 2011, thereby causing a significant delay in the project schedule. As a result of the delay in design funding and work, the campus will not be able to proceed to bid prior to June 30, 2012.

3e. Riverside – East Campus Infrastructure and Improvements, Phase 2

Governor's Budget Request. An April 1 Finance Letter requests a reappropriation for the construction phase of the East Campus Infrastructure and Improvements, Phase 2, project at UC Riverside. The project will provide upgrades to heating, cooling, and electrical service; extension of the utility infrastructure to the development area north of North Campus Drive; installation of a new boiler and chiller; and construction of a new thermal energy storage tank. A reappropriation is needed because the campus needs more time to award all construction contracts. The project proceeded to bid in 2010, and all bids came in over budget. After the campus re-evaluated the project, it sought Regental approval of an augmentation of $3 million using one-time campus funds from its Short-Term Investment Pool. The reappropriation will allow the time needed to award all contracts of this multi-component infrastructure project in fall 2012.

3f. San Diego – Structural and Materials Engineering Building

Governor's Budget Request. An April 1 Finance Letter requests two reappropriations for the equipment phase of the Structural and Materials Engineering Building project at UC San Diego. The project will provide new instructional and research space for the Jacobs School of Engineering and Department of Visual Arts. The new building, which includes instructional, research laboratory, studio, and office space, will address space deficiencies due to recent and projected growth. The reappropriations are needed because the project experienced a year-and-a-half delay in the start of construction due to the Pooled Money Investment Board funding freeze. Consequently, construction is expected to be completed by August 2012 and additional time for equipment purchases will be needed so the building can be occupied in fall 2012.

3g. San Diego – Scripps Institution of Oceanography (SIO) Research Support Facilities

Governor's Budget Request. An April 1 Finance Letter requests a reappropriation for the construction phase of the SIO Research Support Facilities project at UC San Diego. The project will replace currently deficient space by constructing new interior research space and new exterior research support areas at the SIO. The project also includes improvements to the existing access road. A reappropriation is needed because bond funding for the project's design phase was not sold until late November 2011, thereby causing a delay in the project schedule. Preliminary plans were approved in February 2012. The lease-revenue bonds to fund the construction phase are anticipated to be sold in a fall 2012 bond sale. Consequently, the campus will not be able to proceed to bid by June 30, 2012.

3h. Santa Barbara – Davidson Library Addition and Renovation

Governor's Budget Request. An April 1 Finance Letter requests a reappropriation for the working drawings and construction phases of the Davidson Library Addition and Renovation project at UC Santa Barbara. The project will construct new library facilities and renovate and seismically upgrade existing library facilities on the Santa Barbara campus. The project will provide additional collections space and additional reading and computing workspace for users, consolidate library operations for greater operational efficiency, and address seismic and life safety deficiencies in the existing buildings. A reappropriation is needed because of unforeseen seismic issues in the project's eight-story tower which requires additional design and construction work, and the project is also awaiting funding from a lease-revenue bond sale. The reappropriation will allow the campus to perform this additional work and be prepared for a future lease-revenue bond sale.

4. CSU CAPITAL OUTLAY: VARIOUS PROJECT REAPPROPRIATIONS

4a. Bakersfield – Art Center and Satellite Plant

Governor's Budget Request. The January budget requests a reappropriation for the working drawings and construction phases of the Art Center and Satellite Plant project at CSU Bakersfield. The project will construct a new art center and satellite mechanical plan, and extend the campus sewer line. A budget reappropriation is necessary because a lease-revenue bond sale has not been scheduled for this project in 2011-12 budget year, and the campus has thus been unable to encumber the funds within the required time period.

4b. Maritime Academy – Physical Education Replacement

Governor's Budget Request. The January budget requests a reappropriation for the preliminary plans, working drawings, and construction phases of the Physical Education Replacement project at the Maritime Academy. The project will replace the existing Physical Education Building and Natatorium that were constructed in 1944 and 1947, respectively. A budget reappropriation is necessary because a lease-revenue bond sale has not been scheduled for this project in the 2011-12 fiscal year, and the campus has thus been unable to encumber the funds within the required time period.

4c. Monterey Bay – Academic Building II

Governor's Budget Request. The January budget requests a reappropriation for the preliminary plans, working drawings, and construction phases of the Academic Building II project at CSU Monterey Bay. The project will build a new facility for instructional program support space for the School of Information Technology and Communications Design and School of Business. A budget reappropriation is necessary because a lease-revenue bond sale has not been scheduled for this project in the 2011-12 fiscal year, and the campus has thus been unable to encumber the funds within the required time period.

4d. Chico – Taylor II Replacement Building

Governor's Budget Request. The January budget requests a reappropriation for the construction phase of the Taylor II Replacement Building project at CSU Chico. The project proposes to demolish the 42-year-old Alva P. Taylor Hall and construct the new Taylor II Replacement Building to accommodate the College of Humanities and Fine Arts. A budget reappropriation is necessary because a lease-revenue bond sale has not been scheduled for this project in the 2011-12 fiscal year, and the campus has thus been unable to encumber the funds within the required time period.

An April 1 Finance Letter separately requests a reappropriation for working drawings for this project. The reappropriation is necessary because the GO bond sale to fund the design phase of this project did not occur until late in the fall of 2011, necessitating additional time for completion of the working drawings.

4e. Fresno – Faculty Office/Laboratory Building

Governor's Budget Request. The January budget requests a reappropriation for the construction phase of the Faculty Office/Laboratory Building project at CSU Fresno. The project will construct a new two-story facility to house graduate research laboratories, classroom space, and faculty offices for the Colleges of Health and Human Services and Physical Education. A budget reappropriation is necessary because a lease-revenue bond sale has not been scheduled for this project in the 2011-12 fiscal year, and the campus has thus been unable to encumber the funds within the required time period.

An April 1 Finance Letter separately requests a reappropriation for working drawings for this project. The reappropriation is necessary because the GO bond sale to fund the design phase of this project did not occur until late in the fall of 2011, necessitating additional time for completion of the working drawings.

4f. East Bay – Warren Hall Replacement Building

Governor's Budget Request. The January budget requests a reappropriation for the preliminary plans, working drawings, and construction phases of the Warren Hall Replacement Building project at CSU East Bay. The project will demolish the E. Guy Warren Hall Building and construct a new replacement office building adjacent to the Warren Hall site. A budget reappropriation is necessary because a lease-revenue bond sale has not been scheduled for this project in the 2011-12 fiscal year, and the campus has thus been unable to encumber the funds within the required time period.

4g. Channel Islands – West Hall

Governor's Budget Request. The January budget requests a reappropriation for the construction phase of the West Hall project at CSU Channel Islands. The project will renovate a portion of West Hall and add lecture and laboratory space and faculty offices. A budget reappropriation is necessary because a lease-revenue bond sale has not been scheduled for this project in the 2011-12 fiscal year, and the campus has thus been unable to encumber the funds within the required time period.

An April 1 Finance Letter separately requests a reappropriation for working drawings for this project. The reappropriation is necessary because the GO bond sale to fund the design phase of this project did not occur until late in the fall of 2011, necessitating additional time for completion of the working drawings.

4h. San Jose – Spartan Complex Renovation

Governor's Budget Request. The January budget request a reappropriation for the construction phase of the Spartan Complex Renovation at CSU San Jose. The project will retrofit the Spartan Complex, including the Uchida Hall/Natatorium, Uchida Hall Annex, Spartan Complex East, and Spartan Complex Central, which is classified with a seismic Level 5 rating. A budget reappropriation is necessary because a lease-revenue bond sale has not been scheduled for this project in the 2011-12 fiscal year, and the campus has thus been unable to encumber the funds within the required time period.

An April 1 Finance Letter separately requests a reappropriation for working drawings for this project. The reappropriation is necessary because the GO bond sale to fund the design phase of this project did not occur until late in the fall of 2011, necessitating additional time for completion of the working drawings.

4i. San Bernardino – Access Compliance Barrier Removal Project

Governor's Budget Request. An April 1 Finance Letter requests a reappropriation for the working drawings and construction phases of the Access Compliance Barrier Removal project at CSU San Bernardino. The project is necessary to conform with a court ordered legal settlement related to ADA compliance. The project removes existing access barriers on the campus. Progress has been steady and the project is 62 percent complete. A reappropriation is necessary due to the state's suspension of capital outlay projects and resulting changes in how the state provides cash to delayed projects; this project was one of the last to receive all the needed cash for the project. Consequently, additional time is needed for the orderly completion of the project.

ITEM 5. CCC CAPITAL OUTLAY: VARIOUS PROJECT REAPPROPRIATIONS

5a. Santa Clarita CCD, College of the Canyons – Administrative and Student Services Building

Governor's Budget Request. An April 1 Finance Letter requests a reappropriation for the construction and equipment phases of the Administrative and Student Service Building project at the College of the Canyons. The project will consolidate student services and administrative functions that are now scattered throughout the campus. The project also includes the demolition of the existing Colleges Services Building which is under-sized and outmoded. A reappropriation is necessary because of delays with obtaining final design approval from the Division of the State Architect (DSA). The district is expected to receive permission to go to bid by July 1, 2012; however, the project schedule is very tight and any further unforeseen delays could result in reversion of construction funds if the project is not reappropriated.

5b. El Camino CCD, El Camino Compton Center – Allied Health Building

Governor's Budget Request. An April 1 Finance Letter requests a reappropriation for the construction phase of the Allied Health Building project at the El Camino Compton Center. The project will renovate and reactive existing classroom, health science laboratories, office, and computer study space. The Allied Health instructional programs were displaced from the Allied Health Building when the facility was damaged by a flood in December 2006. Since that time, the program has been located in "make-shift" facilities that are not appropriate to house the curriculum. Allied Health Instruction must move to permanent space in order to support degree and certificate programs in Nursing, Licensed Vocational Nursing, and Clinical Nursing Assistant. A reappropriation is necessary because unforeseen soil conditions required the district to re-work the foundations and structure of the project in the working drawings resulting in delaying the submission of the plans to the DSA. After securing other approvals from the Chancellor's Office and DOF, the district is expected to receive permission to go to bid by June 30, 2012; however, the project schedule is very tight and any further unforeseen delays could result in reversion of construction funds if the project is not reappropriated.

5c. Gavilan CCD, Gavilan College – Replace Water Supply System

Governor's Budget Request. An April 1 Finance Letter requests a reappropriation for the working drawings and construction phases of the project to replace the water supply system at Gavilan College. The current domestic, fire, and potable water distribution system was constructed in 1966, along with the initial Gavilan campus buildings. The backbone of this distribution system is comprised of a water main that connects a one million gallon steel tank located on the foothill immediately above the campus to a well that is located 1,000 feet east of the campus. Due to several seismic events over the past 44 years, the water tank has lost wall shell ductility, which has caused the bottom tier to buckle and bulge out. The tank cannot be filled to fire marshal mandated levels out of fear of collapse. The overall scope of the project is to build a replacement water system that has two new 669,000 gallon reservoir tanks with a replacement water distribution system that is properly sized to distribute the fire and irrigation demands for the campus. A reappropriation is necessary because of findings during the environmental review process that has caused a delay in the completion of the Environmental Impact Report, which is now expected to be completed in October 2012.

5d. Long Beach CCD, Long Beach City College, Pacific Coast Campus – Multi-Disciplinary Academic Building

Governor's Budget Request. An April 1 Finance Letter requests a reappropriation for the equipment phase of the Multi-Disciplinary Academic Building project at Long Beach City College. The project will renovate space in four buildings that comprise the academic core of the campus. A reappropriation is necessary because of construction delays, which have all been resolved. The project's construction schedule was slower than expected because of some abatement issues, DSA review of tie beam details, and delays in the demolition process. The project may not reach 50 percent completion prior to the expiration of the encumbrance period for equipment on June 30, 2012.

ITEM 6. UC, CSU, AND CCC CAPITAL OUTLAY: CONTINUING PROJECTS, PHASE APPROPRIATIONS

6a. UC Santa Cruz – Infrastructure Improvements, Phase 2

Governor's Budget Request. An April 1 Finance Letter requests the addition of two budget bill items, in the amount of $7.732 million ($6.532 million from the Public Education Facilities Bond Act of 1996 and $1.2 million from the Higher Education Facilities Bond Act of June 1992), to fund the construction phase of the Infrastructure Improvements Phase 2 project at UC Santa Cruz. Total project costs are $8.416 million from GO bonds.

The 2006 and 2007 Budgets appropriated a total of $684,000 from GO bonds for the preliminary plans ($367,000) and working drawings ($317,000) phases for this project. The project is part of a multi-phase program of improvements to existing campus infrastructure to provide increased infrastructure reliability, to increase systems capacity, and to respond to problems presented by the unique campus topography. The project will provide improvements to electrical, natural gas, storm water drainage, and campus core heating water systems. This is the second of three planned projects designed to improve infrastructure reliability on the Santa Cruz campus. The project had been delayed due to the prior year's suspension of capital outlay projects resulting in changes in how the state provides cash to delayed projects. Consequently, UC is now able to proceed using available GO bonds to complete the project.

6b. CSU San Diego – Storm/Nasatir Halls Renovation

Governor's Budget Request. An April 1 Finance Letter requests $2.583 million in GO bond funding for the equipment phase of the Storm/Nasatir Hall Renovation project at CSU San Diego. Through a combination of replacement facilities, an addition, and a renovation, the project will provide lecture space, lower- and upper-division laboratory space, and faculty offices in Storm Hall and Nasatir Hall. This is the first major renovation performed on these facilities, which were originally completed in 1957, and will address asbestos and lead paint abatement, seismic deficiencies, ADA accessibility, fire code violations, electrical, HVAC and telecommunications deficiencies, and elevator and stairway improvements. A building addition will provide a 180 seat lecture hall, faculty office, and improved circulation. Equipment funding is requested at 85 percent of new construction due to the extensive reprogramming of building uses and the building addition (generally, equipment funding is provided at 100 percent of construction). The project is dependent upon state and non-state funding from the Aztec Shops and the Associated Students.

6c. CSU Stanislaus – Science I Renovation

Governor's Budget Request. An April 1 Finance Letter requests $1.757 million in GO bond funding for the equipment phase of the Science I Renovation project at CSU Stanislaus. The project will equip the Science Building I. The construction phase of this project renovated the building, which had a seismic Level 5 rating. The renovation accommodated growth of general education programs, including business, education, and social sciences.

6d. CSU Channel Islands – Classroom and Faculty Offices Renovation/Addition

Governor's Budget Request. An April 1 Finance Letter requests $1.209 million in GO bond funding for the equipment phase of the Classroom and Faculty Offices Renovation/Addition project at CSU Channel Islands. The project will equip the renovation of the North Hall and the addition of new construction. The construction phase of this project provided classrooms, faculty offices, and support space on two levels.

6e. Glendale CCD, Glendale College – Laboratory and College Services Building

Governor's Budget Request. An April 1 Finance Letter requests the addition of a new budget item, in the amount of $41.237 million in GO bond funding for the construction and equipment phases of the Laboratory and College Services Building project at Glendale College. The project will construct a three-story building to replace temporary instructional facilities and to expand college facilities to meet enrollment levels that will be on campus when the building is occupiable. The laboratory space is for the interdisciplinary studies, Journalism, English, Anthropology, and commercial services programs. The 2007 Budget Act appropriated $2.769 million for preliminary plans and working drawings. In the past few months, various community college districts have experienced significant bid savings that has resulted in sufficient bond authority becoming available to fund this project (please see Agenda Item 8 for a discussion of the reversions that cumulatively fund this project).

ITEM 7. UC AND CSU CAPITAL OUTLAY, EXTENSIONS OF PROJECT LIQUIDATION PERIODS

7a. UC Berkeley – Campbell Hall Seismic Replacement Building

Governor's Budget Request. An April 1 Finance Letter requests to extend the liquidation period by one additional year (until June 30, 2013) for the working drawings phase of the Campbell Hall Seismic Replacement Building project at UC Berkeley. The working drawings phase was originally phase appropriated in 2007. Additional time is requested to resolve various design issues (e.g., proper sizing of steam pipes and data communication lines) before payments can be finalized.

7b. CSU Channel Islands – Infrastructure Improvements, Phase 1A and 1B

Governor's Budget Request. An April 1 Finance Letter requests to extend the liquidation period by one additional year (until June 30, 2013) for the construction phase of the Infrastructure Improvements Phase 1A and 1B project at CSU Channel Islands. The project has been completed; however, the project has an outstanding contractor claim for which additional time is needed to reach resolution.

ITEM 8. CCC CAPITAL OUTLAY, VARIOUS PROJECT REVERSIONS

Governor's Budget Request. An April 1 Finance Letter requests to revert the unencumbered construction or equipment balances of 11 projects in various CCC districts. These balances are project savings and/or decisions by districts not to proceed with the project at this time and the funds are no longer needed. The three projects which are solely decisions by districts not to proceed with a given project are noted with an asterisk.

Figure 1 – CCC Projects with Reverting Unencumbered Amounts

Project Name	Item, Budget Act (BA)	Amount
San Luis Obispo CCD, North County Center, Technology and Trades Complex*	6870-301-6041(34), BA 2005	$7,816,000
Napa Valley CCD, Napa Valley College, Library/Learning Resource Center	6870-303-6049(17), BA 2006	$3,869,000
Grossmont-Cuyamaca CCD, Cuyamaca College, LRC Expansion/Remodel, Phase I	6870-303-6049(3), BA 2007	$74,000
Coast CCD, Orange Coast College, Consumer and Science Lab Building	6870-301-6049(4), BA 2008	$19,000
Ohlone CCD, Ohlone College, Fire Suppression*	6870-303-6041(1), BA 2008	$5,257,000
Sonoma CCD, Santa Rosa Jr. College, Public Safety Training Center Advanced Laboratory & Office Complex*	6870-301-6049(25), BA 2008	$5,748,000
Riverside CCD, Riverside City College, Nursing Science Building	6870-301-6049(16), BA 2008	$1,786,000
Santa Clarita CCD, College of the Canyons, Library Addition	6870-301-6049(20), BA 2008	$5,099,000
West Valley-Mission CCD, District wide, Fire Alarm System Replacement	6870-301-6049(18), BA 2009	$8,475,000
Monterey Peninsula CCD, Monterey Peninsula College, Humanities, Business, Student Services	6870-301-6049(4), BA 2010	$1,349,000
State Center CCD, Fresno City College, Old Administrative Building, North and East Wings, Ph.III	6870-301-6049(7), BA 2010	$200,000
	6041 Bond Total	**$13,073,000**
	6049 Bond Total	**$26,619,000**
	Total, All Bonds	**$39,692,000**

PROPOSED VOTE-DISCUSSION ITEMS

6120 CALIFORNIA STATE LIBRARY

Department Overview. Founded in 1850, the California State Library (CSL) is the oldest and most continuous cultural agency in the state. Among its responsibilities, the CSL supports a transparent government by collecting, preserving, and ensuring access to government publications; ensures access to books and information for the visually impaired or those who are otherwise physically handicapped and unable to read standard print; provides library and information services to the legislative and executive branches of state government, members of the public, and public libraries; administers and promotes literacy outreach programs; and develops technological systems to improve resource sharing and enhance access to information.

2011 Budget Act. As part of the triggers included in the 2011 Budget Act, and effective January 1, 2012, funding for three local assistance programs, as well as the Public Library Foundation (PLF) and the California Civil Liberties Public Education Program (CCLPEP), were eliminated. The three local assistance programs eliminated were: (1) California Library Literacy Services; (2) California Library Services Act; and (3) California Newspaper Project. These reductions (excluding for PLF and CCLPEP) total nearly $12 million.

Figure 2 – CSL Major Sources of Funding *(dollars in thousands)*

Funding Source	2010-11	2011-12	2011-12 revised	2012-13
General Fund	$10,190	$10,770[2]	$10,770[2]	$12,740[3]
General Fund - Local Assistance	$31,056	$15,866	$0	$0
Central Service Cost Recovery Fund	$1,368	$1,734	$1,734	$1,275
Federal Funds – State Operations[1]	$7,259	$7,257	$7,257	$7,380
Federal Funds – Local Assistance[1]	$12,518	$12,518	$12,518	$12,518
Other Funds (excludes debt service)	$3,655	$2,539	$3,091	$2,616
Total	**$66,046**	**$50,684**	**$35,370**	**$36,529**

[1]Due to calendar differences between the state and federal fiscal years, and the fact that the federal funds are available for expenditure over two years, the amount of federal funding displayed in a given state fiscal year totals greater than $16 million total received from the federal government.
[2]Increased General Funds in 2011-12 were the result of various adjustments, including for the end of employee furloughs.
[3]The 2012-13 General Fund allocation reflects an increase over 2011-12, even in light of the $1.1 million reduction in the budget, due to several factors, including costs associated with the CSL's relocation back into the Library & Courts Building which has been under extensive renovations.

Item 1: CSL State Operations Proposed Reduction

Governor's Budget Request. The January budget reduces the CSL's 2012-13 operating budget by $1.1 million GF and 13 positions reflective of reduced workload levels due to the 2011 Budget Act trigger cut that eliminated five local assistance library programs: (1) California Library Literacy Services; (2) California Library Services Act; (3) California Civil Liberties Public Education Program; (4) Public Library Foundation; and (5) California Newspaper Project were eliminated. These reductions totaled $15.9 million GF.

The January budget proposal was modified by an April 1 Finance Letter augmenting the CSL budget by $609,000 GF and three positions to more accurately reflect the resources dedicated to ongoing programs and functions at the CSL and to refine the state operations reduction included in the January budget.

<u>The net proposed state operations reduction is $491,000 and 10 positions</u>. Of the ten positions, four shall be redirected from existing vacancies.

Background. The CSL has 140.8 authorized positions, split between State Library Services, Library Development Services, Information Technology Services, and Administration. The CSL reports that its current vacancy rate is 20 positions, a rate of approximately 12-14 percent. The CSL indicates this rate is slightly inflated due to the fact that a total of nine staff retired in the past six to nine months. The CSL is currently in the process of filling approximately eight of these positions. The remaining vacant positions total at least ten positions.

The January budget reduction of $1.1 million and 13 positions to the CSL's state operations budget was intended to correspond to the elimination of the five library local assistance programs. In response, the CSL undertook further analysis and provided to staff and the Administration information that the number of positions and time allotted to each of the eliminated local assistance programs are instead equivalent to six positions and $491,000.

In light of this information, the Administration advanced the April 1 Finance Letter partially restoring the state operations reduction. The remaining difference between the CSL staffing and cost analysis and the April 1 Finance Letter is four positions. The Administration requests that these four positions be redirected from existing vacancies.

Staff Comment. Given the CSL's vacancy rate, it is reasonable for four of the ten eliminated positions to be redirected from existing vacancies.

Staff Recommendation. Approve the January budget proposal as modified by the April 1 Finance Letter, for a net state operations reduction of $491,000 and 10 positions. Of the ten positions, four would be redirected from existing vacancies.

VOTE:

Item 2: CSL Federal Funds – Match and Maintenance of Effort Requirements

Background. Over the past five years, the state has received each year an average of over $16 million in federal Library Service and Technology Act (LSTA) funding. In 2011, due to cuts at the federal level, the state received $15.5 million in LSTA funding. The funds are available for expenditure for two years and support services consistent with LSTA priorities. To be eligible for these funds, the state is required to meet federal match and maintenance of effort (MOE) requirements.

- ✓ The <u>match</u> requirement determines what percentage of LSTA funding a state can spend. The LSTA is funded 66 percent by the federal government, with a required state match of 34 percent; i.e., in federal fiscal year 2011, California received $15.497 million in LSTA funding, which the state matched with $7.983 million in state funds.

- ✓ The MOE requirement determines the state's allotment of LSTA funding for the next federal fiscal year. It is based on population and determined by a three-year rolling average of state funds spent on libraries consistent with the LSTA. If the state's average expenditure level falls, the allotment of dollars falls by a similar percentage.

State-funded local assistance library programs comprise the majority of the state's match and MOE calculations. These programs are: (1) California Library Literacy Services provides community-centered assistance to low-literacy adults and their families; (2) California Library Services Act promotes resource sharing through cooperative library systems and reimburses public libraries for loans to individuals living outside their jurisdiction; and (3) California Newspaper Project identifies, describes, and preserves California newspapers. Two other programs are also included in the calculations: (1) Telephonic Reading Program allows persons with visual impairments to use their telephones to listen to more local news, TV Guide listings, archived radio shows, etc.; and (2) Library Development provides leadership and support of the future of California through its libraries.

As part of the triggers included in the 2011 Budget Act, funding for the three local assistance programs, as well as the Public Library Foundation (PLF) and the California Civil Liberties Public Education Program (CCLPEP), were eliminated. These reductions (excluding for PLF and CCLPEP) total over $12 million and jeopardize the state's ability to meet federal match and MOE requirements. Failure to meet the match jeopardizes the amount of LSTA funds the state can spend in 2012-13. Failure to meet the MOE jeopardizes the state's 2012-14 allotment of LSTA funds.

The CSL reports that 112 public libraries reported a decrease in funding in 2010-11, representing 63 percent of the public libraries in California. There are 182 local library jurisdictions that receive some state funds, of which 17 get more than 10 percent of their total funding from the state (and another 31 get more than five percent of their total funding from the state). Those local libraries that receive a greater share of their funding from the state rely on state support heavily and may be forced to close or take drastic measures (such as charging patrons for book loans) if they lose state funding.

Staff Comment. The 2011 Budget Act triggers have impacted the CSL budget and the state's ability to meet the LSTA match and MOE requirements. While there is some overlap in the match and MOE calculations, the most immediate problem is with the match. Should the state fail to identify roughly $5 million more in qualifying 2012-13 state expenditures, the state will only be able to spend $5.37 million of the total $15.03 million in federal LSTA funding available to the state. The CSL is currently evaluating its budget to identify additional expenditures that can be used for match purposes. The CSL is also considering instituting a local match, which has never been in place before, in order to assist the state in meeting the federal match.

The match problem would be solved if the state meets the MOE requirements. The CSL indicates that approximately $17.1 million in funding is needed in 2012-13 in order to fully meet the federal MOE requirement and maintain the historical level of LSTA funding. Were this funding to be provided, the match problem would also be resolved. However, absent this action, the CSL's December 2012 report will show a 19 percent drop in meeting the MOE, which means that the CSL's allotment for 2012-2014 will be reduced by 19 percent, resulting in additional programmatic reductions in state fiscal year 2013-14. If these local assistance library programs continue to go unfunded in the 2012-13 budget (as currently proposed in the January budget), the CSL anticipates that its December 2013 report will show a 85 percent drop in meeting the MOE; this will translate to an 85 percent reduction in the 2013-15 allotment, resulting in the need for significantly more programmatic reductions in state fiscal year 2014-15.

The federally-funded programs that are at risk include the Braille and Talking Book program and the Southern Braille Institute, which utilize about $2.8 million of the federal funds each year to operate. More than 87,000 people statewide would lose service and access to a variety of information and resources. The CSL would also not be able to fund other important programs as about 30 percent of its staff participate in federal projects and are funded through federal dollars. Examples of other programs potentially impacted include: California Government Information Access/California Portal; Library Materials and Database Acquisition; and Historic California Photograph Digitization.

Staff notes that a waiver of the federal MOE requirements is possible (it is not available for the match requirements). The guidelines state that a waiver would be equitable due to "*exceptional or uncontrollable circumstances such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the state*." The waiver application also requires documentation of whether or not the reductions to the state library are proportionate to all other state agencies. In 2011, 12 state libraries could not meet their MOE and 10 of those states applied for waivers. The CSL indicates that if MOE cannot be met, it plans to submit a waiver; latest figures indicate that a total of 18 state libraries will also be requesting a waiver.

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

1. What updated information can the CSL provide regarding its efforts to identify additional qualifying expenditures to meet the match requirements?
2. What is the likelihood of the state receiving a waiver of the MOE requirements?
3. Will the Administration be proposing either modified or additional 2012-13 budget requests to address either or both the match and MOE requirements?

Staff Recommendation. Staff recommends that this item be held open, pending receipt of the May Revision.

Item 3: CCC Neighboring State Student Enrollment Fee

Governor's Budget Request. An April 1 Finance Letter proposes budget trailer bill language that would increase student fees for qualifying neighboring state students that attend a CCC based on reciprocal state attendance agreements to an amount that is three times the California resident student fee.

Background. Current law requires eligible neighboring state students to pay $42 per unit to attend a CCC. However, the California resident student fee level is scheduled to increase from $36 per unit to $46 per unit effective the summer term of 2012. As a result, and absent a change in statute, eligible neighboring state students would be paying lower student fees than California residents beginning this summer.

By establishing neighboring state student fees at a multiple of the current California resident student fee, the Administration's proposal would allow neighboring student fees to adjust in concert with any future adjustments to resident student fees. The proposed trailer bill language would set the multiplier at three times the California resident student fee, which translates to a rate of $138 per unit effective summer 2012. The Administration indicates this fee level would be approximately midway between Oregon, Nevada, and Arizona resident student fees, that range in the mid-$70 per unit, and California nonresident student fees, that range around $200 per unit.

The January budget estimates that the current neighboring state student fee of $42 per unit would generate approximately $500,000 in student fee revenues in 2012-13; however, a determination will be made at the May Revision to the extent that the proposed fee increase would generate additional student fee revenue.

Staff Comment. The Chancellor's Office has indicated that Nevada is no longer participating in this program. Therefore, California's current reciprocal state attendance agreements are only with Oregon and Arizona. Without Nevada's participation, it is not clear that a fee level of $138 per unit is still midway between Oregon and Arizona resident student fees and the current California nonresident student fee.

The Chancellor's Office has also raised a concern about increasing the fees to a multiplier of three, given the potential negative impact it would have on those community college districts that accept Oregon and Arizona state students participating in this program. Staff also notes, regardless of the multiplier chosen, the Subcommittee may wish to consider a phased-in approach over a two- or three-year period.

Staff Recommendation. Hold this item open pending receipt of additional information and the May Revision.

Item 4: UC Public Works Board Trailer Bill Language

Governor's Budget Proposal. The January budget proposes budget trailer bill language to authorize the Public Works Board (PWB) to provide repayment from state bond proceeds to UC for the interim financing costs of capital outlay projects that have been approved by the Legislature.

Background. The PWB was created by the Legislature to, among other functions, oversee the fiscal matters associated with construction of projects for state agencies. The PWB is also the issuer of lease-revenue bonds (LRBs). The Legislature appropriates funds for capital outlay projects; through review and approval processes, the PWB ensures that capital outlay projects adhere to the Legislature's appropriation intents.

Interim financing is the funds used until a bond-funded project is sufficiently far enough along to sell bonds for it. Since the Pooled Money Investment Board stopped authorizing interim financing loans for LRB-financed projects in 2008, the PWB has changed its processes for issuing LRB bonds from selling the bonds near the end of project construction to near the end of design. This results in the need to capitalize the costs of the project until the completion of construction.

In recent years, due to concerns about the state indebtedness level as well as market conditions, there have been fiscal years where either no LRBs were sold or a sale was delayed and/or reduced in size. This has impacted state capital outlay generally, as well as the UC specifically. At this time there are four remaining UC capital outlay projects that have been approved by the Legislature and are awaiting a state lease-revenue bond (LRB) sale for both design and construction: (1) Helios Energy East Research Facility, UC Berkeley; (2) Environmental Health and Safety Expansion, UC Riverside; (3) Davidson Library Addition and Renewal, UC Santa Barbara; and (4) Scripps Institution of Oceanography Research Support Facilities, UC San Diego. In total, these projects represent $118.217 million in LRB funding. The Administration indicates that it plans to include these four projects in the state LRB sale scheduled for fall 2012 but that other variables, such as market appetite and project readiness for sale, could result in all or none of the projects being sold.

The Administration's proposed trailer bill would amend statute to allow UC's interim financing costs to be reimbursable by the PWB. Under current law, reimbursement is limited to only the principal amount financed. With this proposed change, UC would be able to provide interim financing from its commercial paper program for the list of projects that have been approved by the Legislature, but for which bonds have not been sold due to delays in state bond sales, thereby allowing these projects to move forward.

The Administration indicates that the statutory change would provide savings to the state because UC's interim financing costs would be slightly lower due to a number of factors: (1) UC has a slightly better credit rating than the state; (2) UC would only sell what is needed on a cash-flow basis versus needing the full project costs two years in advance; therefore, interest costs would be less because the amount financed is less and would grow gradually as the building is completed; and (3) short term investment rates are better than long-term investment rates; UC would likely borrow at one to two percent, versus PWB at four percent.

On March 15, 2012, the Subcommittee heard and held open pending receipt of the May Revision a related LRB debt service proposal. The January budget proposes one final LRB related budget adjustment of $9.7 million to UC's budget and that: (1) the total funds for LRB debt service costs are now a permanent part of UC's budget; (2) the funding is not restricted for debt service (yet UC would still have to make the required payments); and (3) no future adjustments will be provided for this purpose. Should the proposal be adopted, UC indicates that it would likely refinance its existing LRB debt and lower short-term costs by lengthening the period of time (to 30 years) over which the debt would be repaid; i.e., restructuring 15-year debt to 30-year debt by refinancing bonds that have an average of 15 years of payments remaining. The "freed up" funding would then be used for other UC capital outlay and support budget needs.

Staff Comment. While staff agrees that the proposed statutory changes would slightly lower the state's costs, it is inconsistent to consider adoption of this item separate from the related January budget LRB debt service proposal. If the Subcommittee adopts the broader January budget LRB debt service proposal, the trailer bill language would appear unnecessary. However, if the Subcommittee rejects the January budget LRB debt service proposal, further consideration of the trailer bill language is warranted. Staff also finds that it is premature to act on this trailer bill now, as the Administration recently indicated that UC might request modifications to the trailer bill language to not limit the new authority to only its commercial paper program.

Staff Recommendation. Hold this item open pending the Subcommittee's final action on the January budget LRB debt service proposal and finalization of the proposed budget trailer bill language.

Item 5: CSU Capital Outlay, Various Campuses, Seismic Upgrades

Governor's Budget Request. An April 1 Finance Letter requests the addition of a new budget bill item in the amount of $10.995 million (GO bonds) and $11.155 million (reimbursements – federal funds) to fund the preliminary plans, working drawings, and construction phases of five seismic upgrade projects on four CSU campuses, as illustrated in Figure 3 below.

This request also includes budget bill provisional language to recognize the receipt of the federal funds and, if all or part of the funding does not materialize, authorize utilization of any remaining state funds to fund as many of the projects as possible. The provisional language also includes notification to the JLBC with a 30-day written notice of the intent to fully fund a project.

Figure 3 – Various CSU Campuses, Seismic Upgrades Using FEMA Grants (*dollars in thousands*)

Campus	Project	Description	Total (GO Bonds)
Los Angeles	Administration	The project will upgrade the structural system of the Administration building, originally built in 1962, including seismic strengthening of the building's support beams on the second floor.	$5,799 ($2,799)
Humboldt	Van Duzer Theatre	The project will upgrade the structural systems of the Theatre Arts Building, constructed in 1960, to correct structural deficiencies including new bracing for the main roof trusses, metal decks, and roof diaphragm.	$7,920 ($4,920)
Humboldt	Library	The project will upgrade the structural systems of the Library building, last renovated in 1976, to correct structural deficiencies and provide the necessary reinforcement to insure the stability of the building's support columns, as well as replace the existing roof with new metal roofing.	$5,558 ($2,558)
Bakersfield	Dore Theatre	The project will upgrade the structural systems of the Dore Theater, constructed in 1981, to correct structural deficiencies including bracing roof diaphragms and connections to support columns, and strengthening support connections to walls and canopies. Additionally, seismic bracing will be upgraded for all non-structural elements such as piping, fire sprinklers, partitions, and ceilings.	$1,867 ($467)
San Luis Obispo	Crandall Gymnasium	The project will provide seismic improvements for Crandall Gymnasium to allow the facility to be occupied by performing the seismic upgrade to address current deficiencies. This building is not currently occupied, pending completion of the seismic work.	$1,006 ($251)
		Total Funds	**$22,150**

Background. As part of the CSU Board of Trustee's seismic policy, the Chancellor's Office maintains lists of buildings identified by the Seismic Review Board with hazards that are significant enough to warrant special attention. The five CSU capital outlay seismic projects identified in this request are all rated by the Division of the State Architect as a seismic Level Six (out of seven), meaning that in a seismic event, the building would suffer extensive structural damage with partial collapse likely and substantial risk to life.

The CSU is in the process of applying, through the California Emergency Management Agency (CalEMA), for five hazard mitigation grants administered by the Federal Emergency Management Agency (FEMA) that could help offset state costs for these five projects. The grants require a minimum state share of 25 percent of the total project cost and would provide federal matching funds of 75 percent of the total project cost, not to exceed $3.0 million dollars per project. However, the 25 percent state share must be in place at the time of application submittal. CalEMA advises that final applications are due to FEMA by July 18, 2012, and the application review could take between six months and a year before funds are obligated. If these projects are completed the buildings would be rated as seismic Level Three.

Staff Comment. It is clear that these projects are needed. However, the construct of the budget bill provisional language raises several questions. If all or part of the requested federal funds is not received, the language authorizes the Administration to use the remaining GO bond funds to fully fund one or more of the projects (with notification to the JLBC). This would allow upgrades to as many of the projects as possible. However, it is not clear from the provisional language how these five projects fall within the systemwide capital outlay priorities of CSU. The Subcommittee may therefore wish to consider modifying the provisional language to ensure that if this authority is exercised it is done so consistent with the CSU's State Funded Capital Outlay Program 2012-13 Priority List.

Staff Recommendation. Approve the request with modified budget provisional language ensuring consistency with the CSU's State Funded Capital Outlay Program 2012-13 Priority List.

VOTE:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Thursday, May 3, 2012
Upon adjournment of Senate Budget and Fiscal Review Committee
Room 4203, State Capitol

PART A

OUTCOMES

Item	Department	Page
	California State Library: Governor's Proposed 2012-13 Budget	
	All Departments: April 1 Finance Letters and Capital Outlay	
6120	**California State Library (CSL)**	
6440	**University of California (UC)**	
6610	**California State University (CSU)**	
6870	**California Community Colleges (CCC)**	

Proposed Vote-Only Items

Proposed Vote-Only Items 1 through 8 approved by a 3-0 vote.

Proposed Vote-Discussion Items

Item Approved by a 3-0 vote.

Item held open pending receipt of the May Revision.

Item 3	CCC Neighboring State Student Enrollment Fee	Page 17
	Item held open pending receipt of additional information and the May Revision.	
Item 4	UC Public Works Board Trailer Bill Language	Page 18
	Item held open pending the Subcommittee's final action on the January budget LRB debt service proposal and finalization of the proposed budget trailer bill language.	
Item 5	CSU Capital Outlay: Various Campuses, Seismic Upgrades	Page 20
	Item approved with modified budget provisional language ensuring consistency with the CSU's State Funded Capital Outlay Program 2012-13 Priority List by a vote of 3-0.	
	Public Comment	

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

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Thursday, May 3, 2012
Upon adjournment of Senate Budget and Fiscal Review Committee
Room 4203, State Capitol

PART B

6110 Department of Education

ISSUE 1. Federal Workforce Investment Act (WIA) Title II Grant Funds – Adult Education and Family Literacy Act

BACKGROUND: Since the early 2000s, California has annually received federal WIA Title II grant funds to provide instruction in English as a Second Language, Adult Basic Education, and Adult Secondary Education to adults in needs of these literacy services. The 2009 Budget Act stated legislative intent to further evaluate changes that may be necessary to improve the implementation of accountability-based funding under the WIA Title II. In program year 2010 (the most recent available data), these federals funds serviced 697,000 students and funded 254 agencies. Over 25,000 students obtained a high school diploma or General Education Development certificate and 47 percent of students advanced one or more federal reporting levels. In 2011-12, California received roughly $78 million in WIA Title II grant funds.

The CDE is currently working to revise the Request for Applications (RFA) for the 2013-14 WIA Title II grant cycle. CDE indicates that the current WIA California State Plan and the CDE adult education planning document, *Linking Adults to Opportunity,* will serve as source documents in the generation of the new RFA for 2013-14. In addition, these revisions will include incorporating core federal performance metrics into the RFA and making transition to postsecondary education and training or to employment with career opportunities central goals of the program. A new RFA will also open the application process to new applicants.

STAFF COMMENT: CDE's work to date to revise the WIA Title II RFA for the 2013-14 grant cycle is consistent with legislative intent and overall legislative efforts to improve the state's education and training infrastructure to better address the long-term economic needs of the state. To provide further support for the Department's efforts, and ensure that this work is completed in advance of 2013-14 WIA Title II grant cycle, the Subcommittee may wish to consider the adoption of provisional budget bill language.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee adopt placeholder provisional budget bill language requiring the CDE to revise the WIA Title II RFA for the 2013-14 grant cycle. These revisions shall include incorporating core federal performance metrics into the RFA and making transition to postsecondary education and training or to employment with career opportunities central goals of the program.

VOTE:

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 2. DOF April Letter -- State Special Schools -- Capital Outlay (Vote Only)

DESCRIPTION: The Department of Finance (DOF) April Letter requests additional lease-revenue funding in 2012-13 for two capital outlay projects at the State School for the Deaf in Riverside. More specifically, DOF requests an additional **$6.1 million** to add construction phase lease-revenue bond appropriations -- beyond levels originally approved – to enable the projects to be completed.

DOF APRIL LETTER REQUEST.

Addition of Budget Bill Item 6110-301-0660, Capital Outlay, Department of Education.
It is requested to add Item 6610-301-0660 to the budget in order to add construction phase lease- revenue bond appropriation for two projects at the State School for the Deaf in Riverside to enable the projects to be completed.

Both of these projects have had cost increases resulting from their stoppage due to the Pooled Money Investment Board's decision to suspend the AB 55 loans used to provide interim financing for these types of projects. As a result, both projects were stopped until funding was identified to complete the design. These projects are finishing design and expect to be ready to go to bid in the fall in time for the fall bond sales, which will provide funding for the construction phase.

The DOF April Letter requests additional construction funding in order to meet the specific needs of the two current capital outlay projects, as follows:

1. ***California State Special Schools, Riverside School for the Deaf: Academic, Support Cores, Bus Loop and Renovation Project*** will construct: six support cores for academic areas (early childhood education, elementary, and high schools); three additional classrooms; a bus loop; will renovate office space and educational areas; and install efficient boilers.

   This project began in 2007 with the appropriation of approximately **$10.4 million** in lease revenue bonds for preliminary plans, working drawings, construction, and equipment.

   As a result of the temporary stoppage, **an additional $1,510,000 is needed** in construction to address cost increases from new federal accessibility code requirements, and compliance with California Department of Education's Program for Deaf and Hard of Hearing Students—Guidelines for Quality Standards that have since been updated.

2. ***California State Special Schools, Riverside School for the Deaf: New Gymnasium and Pool Center Project*** will demolish the existing gym and pool center to construct a new 45,000 square foot gymnasium and 23,000 square foot pool center. The project will include modifying existing utilities as necessary, complete telephone systems including teletypewriters, closed-circuit television, community access television, fire alarm systems, parking and road realignment.

   This project began in 2006 with the appropriation of approximately **$25 million** in lease revenue bonds for preliminary plans, working drawings, construction, and equipment.

   As a result of the temporary stoppage, **an additional $4,591,000 is needed** in construction to address cost increases from new federal accessibility code requirements, abatement costs to remove chlordane found during site investigation work, and compliance with California Department of Education's Program for Deaf and Hard of Hearing Students—Guidelines for Quality Standards that have been updated.

STAFF RECOMMENDATION (VOTE ONLY). Staff recommends approval of the DOF April Letter requests to authorize additional lease-revenue funding for two projects at the State School for the Deaf in Riverside. These two capital outlay projects were originally approved in previous state budgets with state lease-revenue bonds, but due to new construction conditions and new state and federal program requirements, the costs of completing these projects has increased. No issues have been raised for these two issues.

6110 DEPARTMENT OF EDUCATION

ISSUE 3. DOF April Letter – Federal Migrant Education Program Audit

DESCRIPTION: The Department of Finance (DOF) April Letter requests that funding authority for the State Board of Education be increased by **$800,000** in the 2012-13 Budget Act to reflect the appropriation of one-time federal funds to contract for an independent audit of the federally-funded Migrant Education Program.

BACKGROUND: The federally-funded Migrant Education Program (MEP) provides migratory students with additional supplemental instruction, English language development, and instructional materials. The purpose of the federal Migrant Education Program is to assist states to:

1. Support high-quality and comprehensive educational programs for migratory children to help reduce the educational disruptions and other problems that result from repeated moves;
2. Ensure that migratory children who move among the States are not penalized in any manner by disparities among the States in curriculum, graduation requirements, and State academic content and student academic achievement standards;
3. Ensure that migratory children are provided with appropriate educational services (including supportive services) that address their special needs in a coordinated and efficient manner;
4. Ensure that migratory children receive full and appropriate opportunities to meet the same challenging State academic content and student academic achievement standards that all children are expected to meet;
5. Design programs to help migratory children overcome educational disruption, cultural and language barriers, social isolation, various health-related problems, and other factors that inhibit the ability of migrant children to do well in school, and to prepare them to make a successful transition to post-secondary education or employment; and
6. Ensure migratory children benefit from State and local systemic reforms.

Additionally, state statute requires the State Superintendent of Public Instruction to identify and recruit parents of identified migratory students for local parent advisory councils to participate in local-level MEP planning, operation, and evaluation.

Migrant Students. California has the largest MEP enrollment in the nation with 176,001 migratory children reported for the most recent (2009-2010) category 1 child count. This is a 15 percent decrease from the 2008-2009 child count (36,713 fewer students). According to the California Department of Education (CDE), the reasons for the decrease in MEP enrollment include the overall economic downturn with high unemployment and high cost of living in the State; reduced agricultural activity due to drought and land development; and enhanced border control. CDE stated that 56 percent of MEP students make intrastate qualifying moves; 28 percent move between California and Mexico; and 16 percent move to or from other states.

Migrant Education Funding. The 2010-11 budget appropriates **$135.0 million** for the federal Migrant Education Program grant. According to CDE, the state sets aside **$1.3 million** (one percent) of the total grant for State Administration; **$115.1 million** (85 percent) for Local Assistance to the Migrant Education Program regions; and **$18.6 million** (14 percent) for State-Level Activities.

The $18.6 million for State-Level Activities includes various statewide service contracts, including $7.1 million for Mini-Corp (services for undergraduate students); $6.0 million for MEES (migrant education student tracking system); and $5.5 million for other statewide programs (ranging from school readiness to out-of-school youth).

Program and Service Delivery. California's Migrant Education Program is organized as a regional service system comprised of 23 regions that include 14 county offices of education and 9 direct funded districts (LEAs). These 23 regions serve migratory children enrolled in approximately one-half of the state's public schools in 568 of the 1,059 LEAs in the State. CDE uses four service delivery models under this system:

1. **Centralized Region Model.** Region is responsible for all funds and provides all services to several districts;
2. **Direct Funded Districts Model**. Region is a single district (LEA);
3. **District Reimbursement Model.** Region funds districts (LEAs), which provide services through district service agreements (DSAs); district is responsible for funds and for providing services;
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CDE subgrants MEP funds to its regions through the regional application review process. Regions distribute DSAs to districts with migrant populations and approve DSAs (using a checklist provided by CDE) in time for the region to submit its regional application and DSAs (including budgets) to CDE by May 31 each year. CDE uses this process to provide administrative oversight and monitoring, coordination, and technical assistance to its 23 regions. Regional directors coordinate and collaborate with one another (and with CDE) through the Regional Directors Council.

Recent Federal Audits.

In 2005 the U.S. Department of Education, Office of Migrant Education (OME) conducted a Federal Program Review (audit) of California's Migrant Education Program. This review resulted in a number of corrective actions. CDE's response to these corrective actions is still underway. Most notably, OME found that CDE had not adequately responded to three substantive concerns about its operation of the Migrant Education Program and placed special conditions on the state's 2011-12 federal grant.
In July 2011, the U.S. Department of Education conducted a Targeted Desk Review (audit), whereby OME visited CDE to conduct a focused review of "program operations" for the Migrant Education Program. The Targeted Desk Review was initiated, in part, because CDE had not completed responses to the 2005 Program Review.

CDE recently received the findings of the OME Targeted Desk Review in 2011, which also reflect corrective actions 2005 Program Review. According to CDE, the OME review identified: deficiencies in analysis, review and reporting by the State Parent Advisory Council (SPAC); identification and recruitment of migrant students and families; and fiscal oversight of the 23 regions. According to CDE, some of the federal findings "were egregious and required additional investigation."

In response to the OME findings, CDE prepared a corrective action plan, which was transmitted to the federal government in January 2012. According to CDE, the OME findings require the department to address all of the following as a part of the corrective action plan:

1. State Parent Advisory Council: The OME findings require the CDE to perform additional duties which are to include: developing contracts and coordinating with outside vendors, setting up and implementing webinars, live streaming of all SPAC meeting in English and Spanish, negotiate and implement interpreters and hotel contracts for parents, and provide support to take meeting minutes, monitor elections, and verify parent eligibility status for SPAC.

2. Professional Development: The OME findings require the CDE to provide professional development activities to enable regional staff to provide targeted instruction that helps migrant students meet state content and performance standards. The OME determined that guidance and training is needed to assist migrant education regional personnel in the use of assessment data to effectively plan programs and supplement classroom instruction.

3. Fiscal Audit Activities: The OME findings require more detailed fiscal oversight of all fiscal and programmatic contracted activities, including the review of itemized expenditure categories for each of the migrant regions as necessary. In some instances, the OME found regions with excessive administrative costs that not only exceeded California administrative cost standards, but reduce the funds available for direct services to migrant students.

DOF APRIL LETTER REQUEST:

Items 6110-009-0001 and 6110-009-0890, State Operations (Support), State Board of Education (Board) (Issue 081). It is requested that Item 6110-009-0890 be added in the amount of $800,000 and that Item 6110-009-0001 be revised to provide **$800,000** one-time federal Title I, Part C carryover funds for the Board to contract for an **independent audit or review** of the federally funded Migrant Education Program (MEP).

Given the recent federal report on the MEP, the Board and the Department of Education has expressed a desire for additional examination of the MEP to ensure program compliance and to identify areas of improvement.

It is further requested that Item 6110-009-0890 be added as follows to conform to this action:

6110-009-0890—For support of the Department of Education, for payment to Item 6110-009-0001, payable from the Federal Trust Fund…………………………$800,000

Provisions:

1. The funds appropriated in this item are for the State Board of Education to contract for an independent audit or review of the federally-funded Migrant Education Program.

Preliminary Scope of Work for Audit. The CDE has provided a preliminary scope of work plan for independent audit proposed by the DOF April Letter. In summary, the CDE currently requests that the State Controller's Office conduct limited scope audits in accordance with Government Auditing Standards. Of the Title I, Part C, Migrant Education programs identified by nine local education agencies (LEAs).

More specifically, the preliminary scope of the LEA audits will encompass fiscal years 2007-08 through 2010-11. The areas of review include: internal controls, allowable costs, administrative costs, allocation of funding, supplanting, and parent advisory council activities, as delineated below:

1. Internal Controls

- Assess the regions' internal controls over the Migrant program (including expenditures, funding, and parent advisory council stipends) and specify recommendations for improvement.

2. Allowable Costs

- Verify that program funding was utilized on expenditures that are reasonable, necessary, and properly supported in accordance with applicable state and federal program requirements. Testing should include, but not be limited to the following areas:

- Travel – Determine the amount, purpose, and reasonableness of travel costs (transportation, hotel, per diem, and stipends) charged to the program, including travel by regional and parent advisory council members attending in-state and out-of-state meetings and conferences.
- Equipment – Verify that equipment is appropriately purchased and utilized solely for program purposes.
- Vehicles – Determine if vehicle costs charged to the program are used only for program purposes. Document purpose and determine reasonableness of vehicle usage.

3. Administrative Costs

- Quantify the regions' administrative costs charged to the program; and identify the proportional relationship to program funding received.
- Assess the reasonableness of regional office and district staff compensation charged to the program.

4. Allocation of Funding

- Assess the reasonableness of the regions' methodology for allocating program funding to the sub-recipients.

5. Supplanting

- Determine if the regions utilize Migrant program funds to provide services, that the regions previously provided with non-Migrant funds.
- Determine if the regions utilized Migrant program funds to provide services that were already required to be made available under other federal, state, or local laws.

6. **Parent Advisory Council Activities**:

- Document and assess compliance of the regions' policies and procedures for electing parent advisory council members.
- Verify that at least two-thirds of the members of the parent advisory council are parents of migrant children.
- Verify that parent advisory council stipends are paid in accordance with program requirements.

ADDITIONAL CDE BUDGET REQUEST:

Migrant Education Program - Intervention Working Group Team. CDE has requested authority to expend an additional $400,000 in federal Migrant Education carryover funds – beyond the $800,000 proposed in the DOF April Letter – to contract for an Intervention Working Group Team. The DOF is currently reviewing this request for purposes of May Revise.

The proposed Intervention Working Group Team would assist CDE in addressing the findings from the U.S. Department of Education; Office of Migrant Education (OME)

Monitoring Report dated June, 2011. CDE has provided a list of the OME findings it must address and related activities for the Intervention Working Group Team, as follows:

1. State Parent Advisory Council. The contractor would perform the following activities:

- Research other state's State Parent Advisory Councils (SPAC) bylaws, regulations, laws, roles, and responsibilities.
- Provide recommendations to the Superintendent of Public Instruction (SPI) on possible alternatives to California's SPAC.
- Review all current contracts for SPAC activities and develop criteria for reviewing and selecting contracts to support SPAC requirements (e.g., interpreters, webinars, live streaming, etc.).
- Review and advise on subcommittee activities as needed and as determined by CDE.

2. Professional Development. The contractor would perform the following activities:

- Review and research alignment between California's Comprehensive Needs Assessment, State Service Delivery Plan, and the State Service Delivery Application.
- Review current technical assistance provided by CDE to assist migrant education regional personnel in the use of assessment data to effectively plan programs and supplement classroom instruction.
- Review current technical assistance provided by contractors to assist CDE and migrant regions in processes for data management as related to applications and state and federal monitoring requirements.
- Design and Implement a comprehensive professional development plan and system to meet the needs of the CDE MEP Staff along with Regions and Districts.

3. Fiscal Audit Activities. The contractor would perform the following activities:

- Review and evaluate current data collection requirements and quarterly reporting from subgrantees regarding itemized expenditures.
- Review and evaluate sub-grantee administrative costs and direct service costs and CDE's systems to track this data.
- Provide recommendations to the SPI on possible internal system improvements to better assist CDE in tracking this data and providing consistent and standardized technical assistance to sub-grantees regarding the definition of direct and administrative costs and supplemental instruction.

4. Leadership Requirement. The contractor would perform the following activities:

- Review and evaluate all current Migrant State Contracts.
- Research other state migrant program service delivery systems and provide recommendations to SSPI on a possible alternative to California's hybrid system.
- Oversee the 8-10 migrant audits being conducted and provide recommendations to the SSPI on internal and external infrastructure system improvements to the CDE migrant office, the Migrant Regions and affected LEAs (subgrantees).
- Oversee the work outlined in items 1, 2 and 3 above.

LAO COMMENTS & RECOMMENDATIONS.

LAO Report on Migrant Education. The LAO will provide the Subcommittee with a brief description of the Migrant Education program and review recommendations for a comprehensive set of reforms designed to improve the federal Migrant Education Program from a report published in 2006.

The LAO report made recommendations to address the program's: (1) funding and service model; (2) data system; and (3) carryover funding process. The 2006 LAO report identified four major concerns with the current MEP funding model, which are outlined below:

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

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

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

STAFF COMMENTS:

Strength and Timing of Audit. The federal audit has raised serious issues – at the state and local level. According to CDE, some of the federal OME findings were "egregious and required additional investigation." The U.S. Department of Education also found that CDE had not adequately responded to three substantive concerns from the OME review about its operation of the Migrant Education Program, and as a result, placed special conditions on the state's 2011-12 federal grant. Given the severity of these issues, would these state and local issues be better addressed by the Bureau of State Audits, rather than the independent audit and state intervention teams proposed by CDE?

STAFF RECOMMENDATION: Staff recommends that the Subcommittee hold this item open until May Revise.

SUGGESTED QUESTIONS:

1. CDE: What are the major findings and recommendations raised by the recent federal audit of the Migrant Education Program?
2. CDE: According to CDE, some of the federal findings were "egregious and required additional investigation." Can CDE summarize the most serious findings?
3. CDE: Has the Department complied with the federal audit? What is the status of any corrective actions or special conditions that resulted from the audit?
4. CDE: Are CDE's proposals for an independent state audit and state intervention team <u>required</u> by the federal audit findings and corrective actions?
5. CDE: Per the Department, the federal audit found some Migrant Education regional programs "with excessive administrative costs that not only exceeded California administrative cost standards but reduce the funds available for direct services to migrant students."
    a. How are these problems being addressed by the Department?
    b. How high were administrative rates?
    c. What are the associated dollar amounts?
    d. How much funding is being diverted from direct services as a result of high administrative rates?
6. CDE: Can CDE provide additional details for the proposed independent state audit included in the DOF letter?
    a. The DOF April Letter request indicates that the State Board of Education will administer the audit? Is that still the case?
    b. CDE: Who is likely to conduct the independent audit?
    c. CDE: What is the timeframe for the audit?
7. CDE: Can CDE provide additional details for the proposed Intervention Working Group Team currently being reviewed by the Department of Finance?
    a. How will contracted staff work with CDE?
    b. How will staff work with regional staff?
    c. What is the timeframe for the Intervention Team?
8. CDE: What is the status of the annual report for the Migrant Education program?
9. CDE: Does the Department see opportunities for addressing some of the current problems with the Migrant Education Program through program reforms, such as those recommended by the LAO's 2006 report?

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Thursday, May 3, 2012
Upon adjournment of Senate Budget and Fiscal Review Committee
Room 4203, State Capitol

OUTCOMES

PART B

6110 Department of Education

ISSUE 1. Federal Workforce Investment Act (WIA) Title II Grant Funds – Adult Education and Family Literacy Act

BACKGROUND: Since the early 2000s, California has annually received federal WIA Title II grant funds to provide instruction in English as a Second Language, Adult Basic Education, and Adult Secondary Education to adults in needs of these literacy services. The 2009 Budget Act stated legislative intent to further evaluate changes that may be necessary to improve the implementation of accountability-based funding under the WIA Title II. In program year 2010 (the most recent available data), these federals funds serviced 697,000 students and funded 254 agencies. Over 25,000 students obtained a high school diploma or General Education Development certificate and 47 percent of students advanced one or more federal reporting levels. In 2011-12, California received roughly $78 million in WIA Title II grant funds.

The CDE is currently working to revise the Request for Applications (RFA) for the 2013-14 WIA Title II grant cycle. CDE indicates that the current WIA California State Plan and the CDE adult education planning document, *Linking Adults to Opportunity,* will serve as source documents in the generation of the new RFA for 2013-14. In addition, these revisions will include incorporating core federal performance metrics into the RFA and making transition to postsecondary education and training or to employment with career opportunities central goals of the program. A new RFA will also open the application process to new applicants.

STAFF COMMENT: CDE's work to date to revise the WIA Title II RFA for the 2013-14 grant cycle is consistent with legislative intent and overall legislative efforts to improve the state's education and training infrastructure to better address the long-term economic needs of the state. To provide further support for the Department's efforts, and ensure that this work is completed in advance of 2013-14 WIA Title II grant cycle, the Subcommittee may wish to consider the adoption of provisional budget bill language.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee adopt placeholder provisional budget bill language requiring the CDE to revise the WIA Title II RFA for the 2013-14 grant cycle. These revisions shall include incorporating core federal performance metrics into the RFA and making transition to postsecondary education and training or to employment with career opportunities central goals of the program.

OUTCOME: Approved staff recommendation. (Vote: 3-0)

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 2. DOF April Letter -- State Special Schools -- Capital Outlay (Vote Only)

DESCRIPTION: The Department of Finance (DOF) April Letter requests additional lease-revenue funding in 2012-13 for two capital outlay projects at the State School for the Deaf in Riverside. More specifically, DOF requests an additional **$6.1 million** to add construction phase lease-revenue bond appropriations -- beyond levels originally approved – to enable the projects to be completed.

DOF APRIL LETTER REQUEST.

Addition of Budget Bill Item 6110-301-0660, Capital Outlay, Department of Education.
It is requested to add Item 6610-301-0660 to the budget in order to add construction phase lease- revenue bond appropriation for two projects at the State School for the Deaf in Riverside to enable the projects to be completed.

Both of these projects have had cost increases resulting from their stoppage due to the Pooled Money Investment Board's decision to suspend the AB 55 loans used to provide interim financing for these types of projects. As a result, both projects were stopped until funding was identified to complete the design. These projects are finishing design and expect to be ready to go to bid in the fall in time for the fall bond sales, which will provide funding for the construction phase.

The DOF April Letter requests additional construction funding in order to meet the specific needs of the two current capital outlay projects, as follows:

1. ***California State Special Schools, Riverside School for the Deaf: Academic, Support Cores, Bus Loop and Renovation Project*** will construct: six support cores for academic areas (early childhood education, elementary, and high schools); three additional classrooms; a bus loop; will renovate office space and educational areas; and install efficient boilers.

   This project began in 2007 with the appropriation of approximately **$10.4 million** in lease revenue bonds for preliminary plans, working drawings, construction, and equipment.

   As a result of the temporary stoppage, **an additional $1,510,000 is needed** in construction to address cost increases from new federal accessibility code requirements, and compliance with California Department of Education's Program for Deaf and Hard of Hearing Students—Guidelines for Quality Standards that have since been updated.

2. ***California State Special Schools, Riverside School for the Deaf: New Gymnasium and Pool Center Project*** will demolish the existing gym and pool center to construct a new 45,000 square foot gymnasium and 23,000 square foot pool center. The project will include modifying existing utilities as necessary, complete telephone systems including teletypewriters, closed-circuit television, community access television, fire alarm systems, parking and road realignment.

   This project began in 2006 with the appropriation of approximately **$25 million** in lease revenue bonds for preliminary plans, working drawings, construction, and equipment.

   As a result of the temporary stoppage, **an additional $4,591,000 is needed** in construction to address cost increases from new federal accessibility code requirements, abatement costs to remove chlordane found during site investigation work, and compliance with California Department of Education's Program for Deaf and Hard of Hearing Students—Guidelines for Quality Standards that have been updated.

STAFF RECOMMENDATION (VOTE ONLY). Staff recommends approval of the DOF April Letter requests to authorize additional lease-revenue funding for two projects at the State School for the Deaf in Riverside. These two capital outlay projects were originally approved in previous state budgets with state lease-revenue bonds, but due to new construction conditions and new state and federal program requirements, the costs of completing these projects has increased. No issues have been raised for these two issues.

OUTCOME: Approved staff recommendation. (Vote: 3-0)

6110 DEPARTMENT OF EDUCATION

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- Vehicles – Determine if vehicle costs charged to the program are used only for program purposes. Document purpose and determine reasonableness of vehicle usage.

3. Administrative Costs

- Quantify the regions' administrative costs charged to the program; and identify the proportional relationship to program funding received.
- Assess the reasonableness of regional office and district staff compensation charged to the program.

4. Allocation of Funding

- Assess the reasonableness of the regions' methodology for allocating program funding to the sub-recipients.

5. Supplanting

- Determine if the regions utilize Migrant program funds to provide services, that the regions previously provided with non-Migrant funds.
- Determine if the regions utilized Migrant program funds to provide services that were already required to be made available under other federal, state, or local laws.

6. **Parent Advisory Council Activities**:

- Document and assess compliance of the regions' policies and procedures for electing parent advisory council members.
- Verify that at least two-thirds of the members of the parent advisory council are parents of migrant children.
- Verify that parent advisory council stipends are paid in accordance with program requirements.

ADDITIONAL CDE BUDGET REQUEST:

Migrant Education Program - Intervention Working Group Team. CDE has requested authority to expend an additional $400,000 in federal Migrant Education carryover funds – beyond the $800,000 proposed in the DOF April Letter – to contract for an Intervention Working Group Team. The DOF is currently reviewing this request for purposes of May Revise.

The proposed Intervention Working Group Team would assist CDE in addressing the findings from the U.S. Department of Education; Office of Migrant Education (OME)

Monitoring Report dated June, 2011. CDE has provided a list of the OME findings it must address and related activities for the Intervention Working Group Team, as follows:

1. State Parent Advisory Council. The contractor would perform the following activities:

- Research other state's State Parent Advisory Councils (SPAC) bylaws, regulations, laws, roles, and responsibilities.
- Provide recommendations to the Superintendent of Public Instruction (SPI) on possible alternatives to California's SPAC.
- Review all current contracts for SPAC activities and develop criteria for reviewing and selecting contracts to support SPAC requirements (e.g., interpreters, webinars, live streaming, etc.).
- Review and advise on subcommittee activities as needed and as determined by CDE.

2. Professional Development. The contractor would perform the following activities:

- Review and research alignment between California's Comprehensive Needs Assessment, State Service Delivery Plan, and the State Service Delivery Application.
- Review current technical assistance provided by CDE to assist migrant education regional personnel in the use of assessment data to effectively plan programs and supplement classroom instruction.
- Review current technical assistance provided by contractors to assist CDE and migrant regions in processes for data management as related to applications and state and federal monitoring requirements.
- Design and Implement a comprehensive professional development plan and system to meet the needs of the CDE MEP Staff along with Regions and Districts.

3. Fiscal Audit Activities. The contractor would perform the following activities:

- Review and evaluate current data collection requirements and quarterly reporting from subgrantees regarding itemized expenditures.
- Review and evaluate sub-grantee administrative costs and direct service costs and CDE's systems to track this data.
- Provide recommendations to the SPI on possible internal system improvements to better assist CDE in tracking this data and providing consistent and standardized technical assistance to sub-grantees regarding the definition of direct and administrative costs and supplemental instruction.

4. Leadership Requirement. The contractor would perform the following activities:

- Review and evaluate all current Migrant State Contracts.
- Research other state migrant program service delivery systems and provide recommendations to SSPI on a possible alternative to California's hybrid system.
- Oversee the 8-10 migrant audits being conducted and provide recommendations to the SSPI on internal and external infrastructure system improvements to the CDE migrant office, the Migrant Regions and affected LEAs (subgrantees).
- Oversee the work outlined in items 1, 2 and 3 above.

LAO COMMENTS & RECOMMENDATIONS.

LAO Report on Migrant Education. The LAO will provide the Subcommittee with a brief description of the Migrant Education program and review recommendations for a comprehensive set of reforms designed to improve the federal Migrant Education Program from a report published in 2006.

The LAO report made recommendations to address the program's: (1) funding and service model; (2) data system; and (3) carryover funding process. The 2006 LAO report identified four major concerns with the current MEP funding model, which are outlined below:

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

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

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

STAFF COMMENTS:

Strength and Timing of Audit. The federal audit has raised serious issues – at the state and local level. According to CDE, some of the federal OME findings were "egregious and required additional investigation." The U.S. Department of Education also found that CDE had not adequately responded to three substantive concerns from the OME review about its operation of the Migrant Education Program, and as a result, placed special conditions on the state's 2011-12 federal grant. Given the severity of these issues, would these state and local issues be better addressed by the Bureau of State Audits, rather than the independent audit and state intervention teams proposed by CDE?

STAFF RECOMMENDATION: Staff recommends that the Subcommittee hold this item open until May Revise.

SUGGESTED QUESTIONS:

1. CDE: What are the major findings and recommendations raised by the recent federal audit of the Migrant Education Program?
2. CDE: According to CDE, some of the federal findings were "egregious and required additional investigation." Can CDE summarize the most serious findings?
3. CDE: Has the Department complied with the federal audit? What is the status of any corrective actions or special conditions that resulted from the audit?
4. CDE: Are CDE's proposals for an independent state audit and state intervention team <u>required</u> by the federal audit findings and corrective actions?
5. CDE: Per the Department, the federal audit found some Migrant Education regional programs "with excessive administrative costs that not only exceeded California administrative cost standards but reduce the funds available for direct services to migrant students."
    a. How are these problems being addressed by the Department?
    b. How high were administrative rates?
    c. What are the associated dollar amounts?
    d. How much funding is being diverted from direct services as a result of high administrative rates?
6. CDE: Can CDE provide additional details for the proposed independent state audit included in the DOF letter?
    a. The DOF April Letter request indicates that the State Board of Education will administer the audit? Is that still the case?
    b. CDE: Who is likely to conduct the independent audit?
    c. CDE: What is the timeframe for the audit?
7. CDE: Can CDE provide additional details for the proposed Intervention Working Group Team currently being reviewed by the Department of Finance?
    a. How will contracted staff work with CDE?
    b. How will staff work with regional staff?
    c. What is the timeframe for the Intervention Team?
8. CDE: What is the status of the annual report for the Migrant Education program?
9. CDE: Does the Department see opportunities for addressing some of the current problems with the Migrant Education Program through program reforms, such as those recommended by the LAO's 2006 report?

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Thursday, May 10, 2012
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

Consultant: Kim Connor

Public Comment

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

ISSUE 1. Year-Three Survey: Update on School District Finance in California – Legislative Analyst's Office

DESCRIPTION: The Legislative Analyst's Office (LAO) will present to the Subcommittee major findings and recommendations from their most recent annual survey of school finance, as published recently in their report entitled *Year Three Survey: Update on School District Finance in California.* More specifically, the LAO report will share survey results about how districts are responding to recent budget reductions, flexibility policies, and funding deferrals, as well as how districts are approaching their 2012-13 budgets. The LAO will also present recommendations to the Legislature about how to help districts manage budget uncertainty in the coming year and improve the K-12 funding system on a lasting basis.

HIGHLIGHTS FROM LAO REPORT: Findings and recommendations from the Executive Summary of the LAO report **– *Year Three Survey: Update on School Finance in California* –** released on May 2, 2012, are presented below:

LAO FINDINGS

"Districts Have Implemented Notable Reductions in Recent Years. Despite an influx of short–term federal aid and state interventions to minimize cuts to K–12 education, school district expenditures dropped by almost 5 percent between 2007–08 and 2010–11. Districts reduced spending by between 1 percent and 3 percent each year, spreading federal funds and reserves across years to moderate the 6 percent drop in revenues that occurred in 2009–10. Moreover, data suggest districts actually have cut programs even more deeply in order to accommodate increasing costs associated with local teacher contract provisions and health benefits contributions. Given certificated staff represent the largest operational expense in school budgets, this area is unsurprisingly where most reductions have been focused. Districts achieved some of these savings by reducing their workforce (across all employee groups) and making corresponding increases to class sizes. Additionally, districts instituted staff furloughs and made corresponding decreases to both student instructional days and staff work days.

Categorical Flexibility Continues to Be Important for Districts. To provide school districts more local discretion for making programmatic reductions, in February 2009 the Legislature temporarily removed programmatic and spending requirements for about 40 categorical programs and an associated $4.7 billion. As in our prior surveys, districts continue to indicate this flexibility has facilitated their local budget processes, and most districts continue to redirect the majority of funding away from most flexed categorical programs to other local purposes. An increasing number of districts, however, report that the current categorical flexibility provisions are not sufficient to ameliorate continuing year–upon–year funding reductions and cost increases. Our survey respondents indicate that new flexibility for the categorical programs that remain restricted would help them manage budgetary uncertainties in 2012–13 as well as accommodate potentially deeper reductions. In addition to seeking more near–term flexibility, the vast majority of districts indicate they would like the state to eliminate many categorical programs on a lasting basis.

Districts Planning for Challenging Budget Situation in 2012–13. In addition to constrained resources, districts face the additional challenge of budgeting for the upcoming school year without knowing whether voters will approve a revenue–generating ballot measure in November. While the Governor's state budget proposal includes these potential revenues (and corresponding midyear trigger reductions were the voters to reject his tax measure), the vast majority of districts plan to take a more cautious approach. Specifically, because districts have a difficult time making large reductions midway through the school year, almost 90 percent of our survey respondents plan to wait for the results of the November election before spending the potential tax revenue. Districts request that the Legislature maximize local flexibility and provide them greater latitude to manage reductions at the local level. Specifically, were additional state funding reductions to be necessary, districts hope the state focuses them on restricted programs and activities while avoiding additional cuts to their unrestricted funding (such as revenue limits). Restoring state funding deferrals also is a high priority for districts, as a rising number have had to borrow or make cuts to accommodate these delayed state payments, and our survey suggests even more would do so were the state to implement additional deferrals in 2012–13."

LAO RECOMMENDATIONS:

"Recommend Legislature Take Immediate Actions to Help Districts Manage Budget Uncertainty. We recommend the Legislature increase the tools available for districts to balance the dual objectives of preparing their budgets during uncertain times and minimizing detrimental effects on districts' educational programs. Because districts will only take advantage of these tools if they are sure they can count on them when they adopt their budgets this summer, **we recommend these changes be part of the initial budget package and take effect July 1, 2012. Specifically**, **we recommend the Legislature: (1) remove strings from more categorical programs; (2) adopt a modified version of the Governor's mandate reform proposal; (3) reduce instructional day requirements; (4) change the statutory deadlines for both final and contingency layoff notifications; and, (5) eliminate statutory restrictions related to contracting out and substitute teachers.**

And Initiate Broad–Scale Restructuring of K–12 Funding System. We also recommend the state immediately begin laying the groundwork for a new K–12 funding system. Our survey findings reaffirm how recent categorical flexibility provisions have fundamentally shifted the way districts use funds at the local level and how disconnected existing program allocations have become from their original activities and populations. Whether the state adopts a version of the Governor's weighted student funding formula or instead opts to allocate funds based on a few thematic block grants, **we recommend the Legislature initiate the new funding system now, phasing in changes over several years to give districts time to plan and adjust.** To ensure the state can appropriately monitor student achievement and intervene when locally designed efforts are not resulting in desired outcomes, **we also recommend the Legislature refine its approach to school accountability in tandem with changes to the school funding system**. A more robust accountability system would include improvements such as vertically scaled assessments, value–added performance measures based on student–level data, a single set of performance targets, and more effective types of interventions. As a new approach to K–12 funding is being phased in, the state could maintain some spending requirements—particularly for disadvantaged students—and then remove those requirements once an improved accountability system has been fully implemented."

SUGGESTED QUESTIONS:

1. The LAO recommends that the Legislature refine its approach to K-12 accountability "in tandem" with changes to the school finance system. Can you provide more detail about the types of accountability improvements you recommend?

2. The LAO report indicates that since the recession hit, school districts have reduced spending by almost five percent per pupil? This translates to a reduction of $565 per pupil between 2007-08 and 2010-11? Can you provide more background on these figures in order to better understand the impact on budget reductions on school districts?

ISSUE 2. School District Fiscal Oversight and Intervention – Legislative Analyst's Office

DESCRIPTION: The Legislative Analyst's Office (LAO) will present to the Subcommittee major findings and recommendations from their recently released report entitled *School District Fiscal Oversight and Intervention.* The LAO report provides an overview and assessment of the state's fiscal oversight system for school districts.

HIGHLIGHTS FROM LAO REPORT: Findings and recommendations from the Executive Summary of the LAO report – ***School District Fiscal Oversight and Intervention*** – released on April 30, 2012, are presented below:

LAO Findings:

Report on School District Oversight and Intervention. The primary goal of the fiscal oversight system is to ensure that school districts can meet their fiscal obligations and continue educating students. In recent years, the system has received considerable attention as the economic downturn has presented school districts with significant fiscal challenges.

System Consists of Monitoring, Support, and Intervention. The fiscal oversight system established by the state in 1991 makes County Offices of Education (COEs) responsible for the fiscal oversight of all school districts residing in their county and requires them to review a school district's financial condition at various points throughout the year. If a school district appears to be in fiscal distress, COEs, and in some instances the state, are granted various tools designed to help the district return to fiscal health.

Fiscal Distress Often Linked to Unsustainable Local Bargaining Agreements and Declining Enrollment. School districts with several consecutive years of operating deficits tend to be the ones most likely to be experiencing fiscal distress. This is particularly the case when districts run deficits during good economic times, as these districts will have a smaller cushion to deal with unanticipated cost increases or funding reductions during an economic downturn. Prolonged deficit spending often is linked with unsustainable local bargaining agreements. Given employee costs are the largest component of a district's budget, bargaining agreements that increase district costs at a faster rate than school district funding are particularly problematic. School districts with declining enrollment also are more likely to have fiscal problems, since the district's funding typically will decrease at a faster rate than its costs and require reductions even during good economic times.

Fiscal Oversight Process Begins With COE Review of Locally Adopted District Budget. To provide a consistent framework for assessing fiscal health, COEs use a state-established set of criteria and standards. The first point of review in the school year begins when the COE reviews the school district's adopted budget. The COE determines whether the budget allows the school district to meet its financial obligations during the fiscal year. If the COE disapproves the school district's budget, the school district must make modifications and resubmit the budget for approval. Disapproved budgets are a rare occurrence (on average only three budgets are disapproved per year), in part because school districts typically understand what is required to receive budget approval.

[Fiscal Oversight] Continues as Districts Submit Interim Budget Reports at Subsequent Points in Fiscal Year. The COEs also must review the financial health of school districts at two points during the school year using updated revenue and expenditure estimates. These reviews are known as "first interim" and "second interim" reports. After reviewing a district's report, the COE certifies whether the school district is at risk of failing to meet its obligations for the current year or two subsequent fiscal years. A district in good fiscal condition receives a positive certification. By comparison, a district that may be unable to meet its obligations in the current or either of the two subsequent fiscal years receives a qualified certification. A district that will be unable to meet its obligations in the current or subsequent fiscal year receives a negative certification.

At Signs of Distress, COEs Authorized to Provide Support. When a school district is certified as qualified or negative, COEs may intervene in certain ways, including assigning a fiscal expert and requiring an update of the district's cash flow and expenditure estimates. In addition, COEs must review any new collective bargaining agreements and approve the issuance of certain debt. School districts with these certifications also are required to submit a "third interim" report. If the above interventions do not improve the district's fiscal condition, COEs can impose more intense interventions, including staying and rescinding actions of a school district's local governing board.

If District Cannot Meet Obligations, State Provides Emergency Loan and Takes Administrative Control. When a school district is unable to meet its financial obligations, the state provides it with an emergency General Fund loan. The school district then works with the state's Infrastructure and Economic Development Bank to issue bonds to repay the initial state loan. The district is responsible for paying the debt service and issuance costs of the loan as well as the salaries of various employees hired to provide administrative assistance to the district. From a governance perspective, the state Superintendent of Public Instruction (SPI) assumes all of the duties and powers of the local board and appoints a state administrator to act on his or her behalf. The primary goal of the state administrator is to restore the fiscal solvency of the school district as soon as possible. When the SPI and state administrator determine that the district meets certain performance standards and is likely to comply with its recovery plan, the local governing board regains control of the district and the state administrator departs. Until the loan is repaid in full, a state trustee with stay and rescind powers is assigned to oversee the district.

System of Oversight and Intervention Generally Has Been Effective. Over the last two decades, the state's fiscal oversight system has reduced the number of school districts requiring state assistance and has provided oversight and support while still primarily maintaining local authority. During the more than 20 years the new system has been in effect, eight districts have received emergency state loans. By comparison, 26 districts required such loans in the 12 years prior to the new system. Furthermore, to this point, no school district has required an emergency loan as a result of the recent recession and associated budget reductions. Additionally, while the number of districts with qualified and negative budget certifications has increased in recent years, the state has not seen a corresponding increase in the number of emergency loans required.

This suggests the system's structure of support and intervention is serving a critical early warning function—allowing districts to get the help they need while fiscal problems tend to be smaller and more manageable.

LAO RECOMMENDATIONS:

Recommend Preserving System Moving Forward. Despite the system's effectiveness, state actions over the last three budget cycles temporarily have reduced the ability of COEs to identify districts on the road toward fiscal distress. Most notably, the state adopted legislation that prevented COEs from disapproving 2011-12 budgets if districts appeared unable to meet their financial obligations for the following two fiscal years. **We recommend the state avoid additional actions that would diminish its ability to assess school district fiscal health, provide support for fiscally unhealthy school districts, and prevent the need for emergency loans.** Although proper fiscal oversight is important at any time, it is particularly important in years during and following an economic recession, when districts are more likely to experience fiscal distress.

SUGGESTED QUESTIONS:

1. Can the LAO further explain why it is so vital for school districts to avoid emergency loans?

2. Why is it so important to preserve the existing fiscal oversight and intervention system in difficult fiscal times?

ISSUE 3. Fiscal Status of School Districts – Presentation from Fiscal Crisis and Management Assistance Team

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

BACKGROUND:

Interim Financial Status Reports. Current law requires local educational agencies (LEAs) -- school districts and county offices of education -- to file two interim reports annually on their financial status with the California Department of Education. First Interim Reports are due to the state by January 15 of each fiscal year; Second Interim reports are due by April 15 each year. Additional time is needed by the Department to certify these reports.

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

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

First Interim Report. The First Interim report – the most recent available – was published by CDE in February 2012 and identified seven school districts with negative certifications. The First Interim Report reflects data generated by LEAs in Fall 2011, prior to release of the Governor's January 2012-13 budget, which includes substantial mid-year trigger cuts if the Governor's proposed November ballot initiative is not passed by statewide voters. The seven school districts with negative certifications at First Interim in 2011-12 – as listed below -- will not be able to meet their financial obligations for 2011-12 or 2012-13.

Negative Certifications, First Interim Report, 2011-12

	District	County	Budget ($)
1	Vallejo City Unified	Solano	135 million
2	Inglewood Unified	Los Angeles	104 million
3	Calexico Unified	Imperial	81 million
4	Paso Robles Joint Unified	San Luis Obispo	55 million
5	Cotati-Rohnert Park Unified	Sonoma	46 million
6	Travis Unified	Solano	41 million
7	South Monterey County Joint Union HIgh	Monterey	19 million

The First Interim report also identified 119 school districts and one county office of education with qualified certifications. (Attachment A provides a complete list of LEAs with negative or qualified certifications for the First Interim Report for 2011-12.) These LEAs with qualified certifications may not be able to meet their financial obligations for 2011-12, 2012-13, or 2013-14.

A comparison of First Interim certifications over the last twenty years indicates that the number of districts with qualified and negative status districts has been climbing since 2008-09 coinciding with the downturn in the state economy and the beginning of reductions in education programs.

Summary of Negative and Qualified Certifications For Local Educational Agencies

Fiscal Year	Negative Certifications First Interim (1)	Negative Certifications Second Interim (1)	Negative Certifications Fiscal Year Totals (3)	Qualified Certifications First Interim (2)	Qualified Certifications Second Interim (2)	Qualified Certifications Fiscal Year Totals (3)
1991-92	1	3	3	19	21	27
1992-93	2	5	5	18	17	23
1993-94	3	5	6	24	22	33
1994-95	2	1	2	57	55	66 (6)
1995-96	1	1	2	12	17	21
1996-97	0	0	0	11	18	22
1997-98	0	1	1	12	7	15
1998-99	1	1	1	13	14	20
1999-00	2	6	6	13	20	27
2000-01	2	4	4	24	19	33
2001-02	8	6	8	32	35	48
2002-03	5	8	8	39	56	67
2003-04	7	9	10	50	36	60
2004-05	10	14	15	54	48	70
2005-06	5	4	5	32	29	41
2006-07	3	5	5	19	19	22
2007-08	7	14	15	29	109	122
2008-09	16	19	23	74	89	119
2009-10	12	14	18	114	160	190
2010-11	13	13	15	97	130	148

Source: California Department of Education

Notes:
(1) A negative certification is assigned to a school district or county office of education that *will not* meet its financial obligation for the remainder of the current year or subsequent year.
(2) A qualified certification is assigned to a school district or county office of education that *may not* meet its financial obligations for the current year or two subsequent years.
(3) Fiscal Year Totals for negative and qualified certifications are unduplicated, not cumulative.
(4) 1994-95 qualified certifications include all 27 school districts in Orange County and the Orange County Office of Education which were certified as qualified based on the uncertainty surrounding the Orange County bankruptcy.

Preliminary FCMAT Reports for Second Interim. According to FCMAT, the Second Interim Report for 2011-12 will provide a more complete assessment of school district financial status and the number of districts on the negative and qualified list will probably increase when published by June or July. FCMAT will provide preliminary Second Interim information to the Subcommittee.

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

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

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

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

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

State Emergency Loan Recipients. Eight school districts have sought emergency loans from the state since 1990. (Attachment B summarizes the amounts of these emergency loans, interest rates on loans, and the status of repayments.) Four of these districts – Coachella Valley Unified, Compton Unified, Emery Unified, and West Fresno Elementary – have paid off their loans. Four districts have continuing state emergency loans –Oakland Unified, Richmond/West Contra Costa Unified, South Monterey County Joint Union High (formerly King City Joint Union High), and Vallejo City Unified. Of the four districts with continuing emergency loans from the state, two remain on the negative list at First Interim 2011-12 – South Monterey County Joint Union High and Vallejo City Unified.

No School Districts Have Required an Emergency Loan Since Start of Recent Recession. According to the LAO, despite the fiscal challenges and uncertainty faced by school districts following the recent economic downturn, no school district to this point has required an emergency loan as a result of recent budget reductions. South Monterey County Joint Union High (formerly King City Joint Union High School District) -- the last school district to receive an emergency loan -- required a loan based on fiscal problems that were in place prior to major budget reductions in 2009.

RELATED LEGISLATION:

SB 477 (Wright). Appropriates $12.9 million in General Fund as an emergency apportionment (loan) for the Inglewood Unified School District and requires the district to enter into a lease financing agreement with the California Infrastructure and Economic Development Bank (I-Bank) for the purpose of financing the emergency apportionment. **Status:** Assembly Education Committee

SB 1240 (Cannella). Reduces the interest rate for South Monterey County Joint Union High School District (formerly King City Joint Union High School District) from 5.44 percent to one percent, but this change will only be operative if the district passes a local parcel tax by January 1, 2015. **Status:** Senate Appropriations Committee

AB 1858 (Alejo). Reduces the interest rate for the emergency loan obtained by the South Monterey County Joint Union High School District in 2099 from 5.44 percent to one percent. **Status:** Assembly Appropriations Committee

AB 1898 (Alejo). Proposes to change the financing mechanism for emergency loans made to school districts from the California I-Bank to the Pooled Money Investment Account (PMIA). **Status:** Assembly Appropriations Committee

Recent Reductions of Fiscal Standards and Oversight for School Districts.

As pointed out by the LAO in their recent report – *School District Fiscal Oversight and Intervention* -- the fiscal oversight process for school districts has been somewhat weakened in recent years, due to one-time budget actions taken by state that have reduced the ability of county offices of education (COEs) to disapprove school district budgets or certify districts as qualified or negative. As summarized by the LAO, beginning in 2009, the state reduced the minimum reserve requirements for school districts to one–third of their existing levels in 2009–10, 2010–11, and 2011–12, making it more difficult for COEs to provide fiscal oversight for districts with low reserve levels.

Of greater concern to the LAO, in the 2011–12 budget package the state adopted legislation that included provisions that went much further in reducing fiscal oversight of school district. These new statutory provisions were enacted by Chapter 43; Statutes of 2011 (AB 114) and prevented COEs from disapproving 2011–12 school district budgets if the district appeared unable to meet its financial obligations for the following two fiscal years.

The LAO highlights other provisions contained in Chapter 43 that required school districts to assume the same level of per–pupil funding in 2011–12 as they received in 2010–11 when reviewing district budgets, and prevented districts from making any budget reductions – in spite of proposed trigger reductions -- for staffing and programs in 2011-12.

Per the LAO, these changes to the existing oversight system "reduced the ability of COEs to use existing tools to monitor and assist at-risk districts."

A more detailed summary of these Chapter 43 provisions for school districts, as well as county offices of education, is provided below:

- Requires school districts and county offices of education in 2011-12 to project the same level of revenue per pupil as it received in 2010-11 and to maintain staffing and programs at that level in 2011-12. The Governor's signing message, however, emphasizes that school districts and county offices of education should still make reductions to account for cost increases, the loss of federal funds, declining enrollment, or other factors that would require program reductions.
- Prohibits school districts and county offices of education from being required to demonstrate they can meet financial obligations for the two years beyond the current fiscal year, consistent with previous law.
- Limits the current authority of county offices of education to provide fiscal oversight for school districts by reducing existing requirements governing the approval of school district budgets in 2011-12.
- Limits the current authority of the Superintendent of Public Instruction to provide fiscal oversight for county offices of education by reducing existing requirements governing the approval of county offices of education budgets in 2011-12.
- Extends for two additional years (through 2011-12) existing statutory authority for school districts to reduce their "reserves for economic uncertainties" to one-third of the amounts previously required to be held, and requires them to restore those reserves to the normal levels by the beginning of 2013-14. In effect, these provisions allow LEAs to reduce reserves without fiscal oversight that would be otherwise required.

FCMAT Management Review Report -- Los Angeles County Office of Education

On December 6, 2011, FCMAT published its final report reflecting findings and recommendations of a detailed management review of the Los Angeles County of Education (LACOE). The FCMAT review – which commenced in April 2011 - was requested and funded by LACOE.

The FCMAT management report was a large undertaking – involving more than 30 FCMAT staff and experienced consultants who conducted site visits and interviews with LACOE. As agreed to by FCMAT and LACOE, the scope of the study involved a performance review focused on validation and staffing of core programs; fiscal management practices including reporting of budget and financial information; management and administration of educational programs including attendance at juvenile court schools; management at division and principal/site level; and management of grant and categorical programs.

The final FCMAT report to LACOE is 379 pages and includes nearly 401 recommendations for changes or improvement. Several of the FCMAT findings and recommendations identified potential cost savings for LACOE. For example, FCMAT found "excessive layers of management and multiple clerical staff performing similar functions", and indicated potential savings of nearly $4.0 million annually from reducing a number of management and support positions. LACOE was found to have a workers' compensation rate of 6.20 percent – which was found to be very high compared to other county offices of education. FCMAT indicated that each one percent reduction in the workers' compensation rate would save LACOE $2.6 million a year.

The FCMAT report also included several findings and savings recommendations that all together could reduce LACOE juvenile court schools, county community schools, and community day school expenditures by a total of approximately $20 million annually. Approximately $8.5 million of this amount would result from additional revenue generated by increasing court school attendance to levels in comparable county office programs, and from focusing on reimbursement requests for Medi-Cal administrative activities and Medi-Cal eligible activities. Most of the remaining $11.0 million would be achieved by addressing over-staffing issues and bringing staffing for teachers, administrators, counselors, and special education services into line with staffing levels for comparable counties.

According to FCMAT, LACOE "has continued to propose and make operational changes in many of the areas that FCMAT studied and reported on." Per FCMAT, at the time the report was published, LACOE had already begun working on a number of the findings and recommendations in the report, and was making progress.

STAFF COMMENTS:

- **Avoid Measures that Would Constrain District's Ability to Plan for Budget Uncertainty.** The LAO recommends that the Legislature "take care not to adopt measures that might actually *constrain* districts' abilities to plan for budget uncertainty (such as prohibiting layoffs or programmatic reductions), potentially leaving them in an untenable financial situation should revenue measures fail in November." Instead, the LAO recommends that the Legislature "*increase* the tools available for districts to balance the dual objectives of preparing for the possibility of unsuccessful ballot initiatives while mitigating detrimental effects on districts' educational programs."

- **State Fiscal Standards and Oversight Most Needed in Difficult Fiscal Times**. According to the LAO, the fiscal oversight system is especially crucial during challenging fiscal times, when school districts often must deal with uncertain revenues, large state deferrals, and possible trigger reductions. Per the LAO, recent changes to the existing oversight system reduced the ability of COEs to use existing statutory tools to monitor and assist at-risk districts. Per the LAO, given the oversight process is crucial to identifying districts that may need additional support and assistance, these types of actions both reduce the amount of information available to the state and reduce the tools available for COEs to assist school districts.

- **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.

SUGGESTED QUESTIONS:

General

1. What has been the practical effect of the provisions in AB 114 (Budget Committee), Chapter 43, Statutes of 2011, which reduced the ability of county offices of education to disapprove district budgets or certify districts as qualified or negative?

2. What is the primary focus of FCMAT as they work with districts in the current fiscal climate? What are the measures or factors used by FCMAT to assess fiscal solvency?

3. How are school districts building their budgets for 2012-13 given the uncertainty of state revenues, most notably uncertainty about November 2012 ballot initiatives?

4. Are there any districts that are of particular concern? Any that may need emergency funding from the state and, if so, what is the potential impact on the state General Fund?

5. What trends are you seeing in enrollment? How is declining enrollment affecting district budgeting?

Governor's Education Budget Reforms

6. Are school districts supportive of the Governor's mandate block grant proposal?

7. How are districts viewing the Governor's proposed Weighted Pupil Formula?

Emergency Loans

8. Why is it important for LEAs to avoid state emergency loans? Where does the financial burden fall for state emergency loans – on LEAs or the state?

9. Why are the interest rates for districts with emergency loans so different?

10. Are you aware of any other LEAs that may be facing financial insolvency and requiring a state emergency loan?

Deferrals

11. How are payment deferrals affecting LEAs, especially in light of ongoing intra-year and inter-year deferrals?

12. Do the hardship provisions for intra-year and inter-year deferrals provide adequate protection for districts and charter schools facing serious financial problems?

13. Can you describe the most common problems faced by school districts on the negative list?

14. Has categorical flexibility helped LEAs balance their budgets? What additional flexibility are districts asking for in moving forward?

LACOE Management Review

15. In your management review report for LACOE published last December, FCMAT stated that "in the absence of significant budget adjustments, LACOE will be in severe financial distress and require outside assistance during fiscal year 2012-13." What is the fiscal status for LACOE now? What specific budget adjustments need to be made?

16. What were some of the major costs savings recommendations included in the LACOE management review report?

17. Are some of the issues identified by the FCMAT management review unique to LACOE or the kind of issues found in reviews of other county offices and schools districts experiencing fiscal distress?

ISSUE 4. Governor's Categorical Program Elimination Proposals

DESCRIPTION: The Governor's budget proposes to eliminate funding for four small categorical programs in 2012-13. Three of these programs are funded with non-Proposition 98 General Fund dollars; one remaining program is funded with Proposition 98 dollars.

The Administration proposes to eliminate these categorical funds to (1) achieve General Fund savings for the state and (2) be consistent with the Administration's approach to funding Proposition 98 categorical programs under the Weighted Pupil Formula proposal.

While the Governor proposes to eliminate state funding for these programs, the Administration has indicated that these programs could continue at the local level with other existing state or local resources.

GOVERNOR'S CATEGORIOCAL FUNDING ELIMINATION PROPOSALS.

Non-Proposition 98 Programs:

1. **Indian Education Centers.** The American Indian Education Center Program was established in statute in 1974. According to CDE, the centers serve as educational resource centers for Native American students, their families, and the public schools. The primary focus of the centers is providing direct services to improve achievement in reading/language arts and mathematics. A secondary purpose is to build student self-concept through cultural activities. A desired outcome of these activities is to create a skilled educated workforce in the Indian community and in California. American Indians have the highest dropout rates and largest achievement gaps of any group in our State.

   Currently, the California Department of Education funds 27 Indian Education Centers, which serve approximately 5,000 American Indian students statewide. These centers are funded by two funding streams: $3.639 million in Proposition 98 funding and $376,000 in non-Prop 98 General Fund. Total funding ranges from about $93,000 to $221,000 for each center.

   Governor's Proposal: The Governor proposes to eliminate **$376,000** in non-Proposition 98 funding and to continue **$3.639 million** in Proposition 98 funding for the Indian Education Centers in 2012-13. However, while the $3.639 million in Proposition 98 funding is currently included in the categorical flexibility program, the Governor proposes to re-establish Proposition 98 funded Indian Education Centers as a stand-alone program instead of moving it into the Weighted Pupil Formula beginning in 2012-13.

   CDE Comments: According to CDE, the $367,000 in funds proposed for elimination are currently used for administrative costs and staff salaries. To provide the same level of academic assistance, direct services would have to be cut and fewer students would be served.

2. **Advancement Via Individual Determination (AVID).** The AVID program began in 1980 and is authorized in the annual budget act. According to CDE, AVID is a teacher-inspired, research-based classroom innovation that helps disadvantaged and underachieving students graduate from high school and complete the preparation necessary to successfully access "four-year" colleges and universities.

   CDE allocates state funds in the form of grants to 11 county offices of education that house AVID "regional centers" via a subvention contract with the non-profit AVID Center of San Diego, which carries out statewide coordination activities to support AVID implementation. State funding supports regional and statewide coordination activities, professional development, instructional materials, school site certifications (quality reviews), and a data collection and reporting system. Student activities are funded with local school site dollars.

   Since 2008-09, a total of $8.1 million in non-Proposition 98 General Funds has been appropriated annually in local assistance funding to CDE to support AVID implementation on a regional and statewide basis. Of the $8.1 million appropriated in 2011-12 budget, $6.9 million was provided for 11 regional center grants statewide, and $1.2 million was provided for the state AVID Center contract in San Diego.

   Governor's Proposal. The Governor's budget proposes to eliminate the **$8.131 million** in non-Proposition 98 General Fund provided to support the AVID program.

   CDE Comments: According to CDE, if these funds were eliminated, local education agencies that wanted to continue to run an AVID program would need to pay for membership and licensing fees to participate in the national program. It is estimated these fees would be about $3,300 per school site. They would also lose the benefit of the various statewide coordinated support activities.

3. **Vocational Education Leadership Program**. According to CDE, this program funding distributes funds to the Career Technical Student Organizations (CTSO's) and the California Association of Student Councils (CASC) through contracts to support the operation of leadership programs for students studying career and technical education or involved in student government. CTSO's chartered in California are Cal-HOSA for Health Career students; Future Farmers of America (FFA) for students studying agriculture, and its related careers; FBLA which is comprised of students enrolled in business courses; FHA-HERO for students interested in home economics and related occupations; DECA for students engaged in marketing programs; and SkillsUSA which encompasses students in transportation, arts, media, entertainment, engineering, and construction.

   None of the funds are allocated to individual schools but are contracted with the respective non-profit governing boards who oversee each of these programs. The funds from this item are used to provide for student leadership training conferences and workshops, advisor training leadership development and organization operation, student officer travel for leadership development delivery and organizational business and leadership meetings, fiscal management and oversight, membership services management, instructional materials, leadership conference and workshop curriculum development, and communications and information dissemination to students and advisors. These events, activities, resources, and services are provided on a statewide basis to students and advisors at local, district, and state levels.

Governor's Proposal. The Governor's budget proposes to eliminate the **$514,000** in non-Proposition 98 General Fund the state provides for this program in 2012-13. The Governor proposes to continue Proposition 98 funding for several stand-alone vocational education programs in 2012-13 including Apprenticeship Programs ($15.7 million), Agricultural Vocational Education Programs ($4.1 million), and Partnership Academies ($21.4 million) in 2012-13. The Governor also proposes to continue funding for the Student Leadership/ California Association of Student Councils ($26,000) in 2012-13, although these funds are included in the categorical flexibility program.

CDE Comments: According to CDE, elimination of these funds would have significant negative effect on providing leadership development to student leaders in almost every secondary school in the State and greatly reduce statewide coordination of this component of career and technical education instruction. CDE also notes that these funds have been supporting student leadership development since 1983 with no increase in funding level.

Proposition 98 Programs:

4. **Early Mental Health Initiative.** The Early Mental Health Initiative (EMHI) program was statutorily enacted through Chapter 757, Statutes of 1991 (AB 1650). The EMHI program provides three-year, competitive grants to state and local education agencies to support prevention and early intervention services for students experiencing mild-to-moderate school adjustment difficulty. Services are targeted to students in Kindergarten through third grade (K–3) in California's publicly-funded elementary schools.

   The 2011-12 budget appropriated $15.0 million in Proposition 98 funds to the Department of Mental Health (DMH) to administer the competitive grant program to county offices of education, school districts, and state special schools. Approximately one third of the funds—$4.6 million—funds new EMHI programs each year, providing an average of 50 new grants. The remaining two-thirds of the funds are used to continue grants from previous cycles. Currently there are 152 grants in three grant cycles.

   Grant recipients are required to provide a 50 percent match to state EMHI dollars. The matching requirement can be met through in-kind services in collaboration with a community mental health agency.

   Governor's Proposal. The Governor's proposes to eliminate all $15.0 million in Proposition 98 funding for the EMHI program in 2012-13 and redirect these funds to other K-12 education purposes.

   Since the Department of Mental Health is proposed for elimination in 2012-13, the Administration proposes to transfer "close out" of the remaining grant cycles to CDE;

however, the Governor’s budget does not propose any state operations funding for this purpose. [1]

LAO RECOMMENDATIONS:

- **Indian Education Centers, AVID, and Vocational Education Leadership Program Funding**. Approve the Governor's proposal to reduce non-Proposition 98 General Fund support for select education programs by a total **$19.4 million** given the state's fiscal shortfall.

- **Re-Establish Remaining Indian Education Program as Separate Program.** Remove the American Indian Education Centers program from the categorical flexibility provisions enacted in 2009, and reinstate the program as a stand-alone categorical program to allow for much stronger accountability.

- **Early Mental Health Initiative.** Adopt Governor's January budget proposal to eliminate the EMHI program given school districts can use funding flexibility to provide early mental health services if they are a local priority.

STAFF COMMENTS:

LAO District Survey Findings on Elimination of Programs. The LAO school finance report (*Year-Three Survey: Update on School District Finance in California),* as -presented earlier in this Subcommittee agenda, indicates that more than 70 percent of school districts surveyed support the elimination of the AVID categorical program.

STAFF RECOMMENDATIONS: Staff supports the LAO’s recommendations, but recommends that the Subcommittee hold these items open until May Revise.

[1] The Governor's budget proposes to eliminate the Department of Mental Health (DMH), establish the Department of State Hospitals to provide long-term care and services to individuals with mental illness at state hospitals, and redirect funding and positions for all remaining mental health services to other departments.

Attachment A

May 10, 2012 Education Agenda

First Interim Status Report, FY 2011-12

Listing of local educational agencies receiving negative and qualified certifications for fiscal year 2011-12 first interim.

List of Negative and Qualified Certifications
Local Educational Agencies
2011-12 First Interim Report

NEGATIVE CERTIFICATION

A negative certification is assigned to a local educational agency when it is determined that, based upon current projections, the local educational agency will not meet its financial obligations for fiscal year 2011-12 or 2012-13.

Number	County	Local Educational Agency	Total Budget ($) in millions
1	Imperial	Calexico Unified	81.3
2	Los Angeles	Inglewood Unified	103.6
3	Monterey	South Monterey County Joint Union High	18.5
4	San Luis Obispo	Paso Robles Joint Unified	55.0
5	Solano	Travis Unified	41.0
6	Solano	Vallejo City Unified	135.2
7	Sonoma	Cotati-Rohnert Park Unified	45.9

QUALIFIED CERTIFICATION

A qualified certification is assigned to a local educational agency when it is determined that, based upon current projections, the local educational agency may not meet its financial obligations for fiscal year 2011-12, 2012-13, or 2013-14.

Number	County	Local Educational Agency	Total Budget ($) in millions
1	Alameda	Emery Unified	11.6
2	Alameda	Hayward Unified	189.2
3	Alameda	Oakland Unified	420.3
4	Amador	Amador County Office of Education	9.0
5	Amador	Amador County Unified	28.7
6	Contra Costa	John Swett Unified	14.3
7	Contra Costa	Mt. Diablo Unified	292.9
8	El Dorado	Black Oak Mine Unified	12.6
9	Fresno	Orange Center (Elementary)	2.6
10	Humboldt	Eureka City Schools (Unified)	35.4
11	Humboldt	Loleta Union Elementary	0.9

12	Humboldt	Scotia Union Elementary	1.8
13	Humboldt	South Bay Union Elementary	4.0
14	Imperial	El Centro Elementary	39.7
15	Imperial	Imperial Unified	26.4
16	Kern	Caliente Union Elementary	0.8
17	Kern	El Tejon Unified	8.6
18	Kern	Muroc Joint Unified	18.2
19	Kern	Panama-Buena Vista Union	125.0
20	Kern	Taft City (Elementary)	18.8
21	Kern	Tehachapi Unified	35.8
22	Lake	Kelseyville Unified	14.7
23	Lake	Konocti Unified	28.3
24	Lassen	Shaffer Union Elementary	1.8
25	Los Angeles	Antelope Valley Union High	227.5
26	Los Angeles	Bassett Unified	41.8
27	Los Angeles	Compton Unified	248.3
28	Los Angeles	Eastside Union Elementary	26.4
29	Los Angeles	El Rancho Unified	89.8
30	Los Angeles	Hawthorne (Elementary)	70.8
31	Los Angeles	Los Angeles Unified	5992.4
32	Los Angeles	Montebello Unified	266.3
33	Los Angeles	Norwalk-La Mirada Unified	176.6
34	Los Angeles	Pomona Unified	256.1
35	Los Angeles	Saugus Union (Elementary)	84.2
36	Mariposa	Mariposa County Unified	17.7
37	Merced	Dos Palos Oro Loma Joint Unified	21.5
38	Mendocino	Anderson Unified	6.3
39	Mendocino	Laytonville Unified	4.8
40	Mendocino	Round Valley Unified	5.7
41	Mendocino	Willits Unified	16.2
42	Nevada	Nevada City Elementary	7.9
43	Nevada	Union Hill Elementary	4.5
44	Orange	Anaheim City (Elementary)	163.8
45	Orange	Capistrano Unified	381.8
46	Orange	Centralia Elementary	35.1
47	Orange	Fullerton Elementary	109.8
48	Orange	Fullerton Joint Union High	137.2
49	Orange	Garden Grove Unified	459.8
50	Orange	La Habra City Elementary	42.4
51	Orange	Santa Ana Unified	515.8
52	Orange	Westminster Elementary	77.0
53	Placer	Auburn Union Elementary	14.3
54	Placer	Placer Hills Union Elementary	5.7
55	Plumas	Plumas Unified	27.7
56	Riverside	Alvord Unified	144.4
57	Riverside	Banning Unified	37.7

58	Riverside	Coachella Valley Unified	174.1
59	Riverside	Desert Sands Unified	236.7
60	Riverside	Jurupa Unified	162.8
61	Riverside	Nuview Union (Elementary)	12.7
62	Riverside	Palo Verde Unified	30.1
63	Riverside	Perris Union High	81.0
64	Riverside	Riverside Unified	341.4
65	Sacramento	Center Joint Unified	35.1
66	Sacramento	Elk Grove Unified	471.4
67	Sacramento	Folsom-Cordova Unified	138.4
68	Sacramento	Galt Joint Union High	18.9
69	Sacramento	Natomas Unified	67.7
70	Sacramento	Sacramento City Unified	415.7
71	Sacramento	San Juan Unified	342.7
72	Sacramento	Twin Rivers Unified	260.3
73	San Benito	Hollister (Elementary)	41.6
74	San Bernardino	Bear Valley Unified	21.7
75	San Bernardino	Chino Valley Unified	227.9
76	San Bernardino	Colton Joint Unified	183.5
77	San Bernardino	Mountain View Elementary	17.4
78	San Bernardino	Trona Joint Unified	5.4
79	San Bernardino	Victor Elementary	72.4
80	San Bernardino	Victor Valley Union High	89.6
81	San Bernardino	Yucaipa-Calimesa Joint Unified	71.4
82	San Diego	Borrego Springs Unified	5.4
83	San Diego	Carlsbad Unified	83.1
84	San Diego	Fallbrook Union High	27.1
85	San Diego	Grossmont Union High	185.5
86	San Diego	National Elementary	52.0
87	San Diego	Ramona City Unified	53.2
88	San Diego	San Marcos Unified	145.7
89	San Luis Obispo	Atascadero Unified	38.5
90	San Luis Obispo	Lucia Mar Unified	83.4
91	San Luis Obispo	San Miguel Joint Union (Elementary)	5.4
92	San Luis Obispo	Shandon Joint Unified	3.6
93	Santa Barbara	Buellton Union Elementary	3.9
94	Santa Clara	Alum Rock Union Elementary	110.3
95	Santa Clara	Gilroy Unified	84.6
96	Santa Cruz	Pajaro Valley Unified	88.1
97	Santa Cruz	Santa Cruz City Elementary	42.6
98	Santa Cruz	Santa Cruz City High	*
99	Shasta	Anderson Union High	16.9
100	Shasta	Cascade Union Elementary	12.1
101	Shasta	Cottonwood Union Elementary	7.7
102	Shasta	Oak Run Elementary	0.4
103	Shasta	Pacheco Union Elementary	4.7

104	Solano	Dixon Unified	27.5
105	Solano	Fairfield-Suisun Unified	156.3
106	Sonoma	Geyserville Unified	3.1
107	Sonoma	Healdsburg Unified	16.8
108	Sonoma	Sebastopol Union Elementary	5.5
109	Sonoma	West Sonoma County Union High	21.7
110	Stanislaus	Denair Unified	10.1
111	Stanislaus	Knights Ferry Elementary	1.2
112	Stanislaus	La Grange Elementary	0.3
113	Stanislaus	Modesto City Elementary	264.7
114	Stanislaus	Modesto City High	*
115	Stanislaus	Riverbank Unified	24.0
116	Stanislaus	Waterford Unified	18.3
117	Tehama	Red Bluff Union Elementary	16.0
118	Tulare	Hot Springs Elementary	0.5
119	Ventura	Oak Park Unified	30.0
120	Yuba	Wheatland Union High	6.1

* Santa Cruz City Elementary and Santa Cruz City High School Districts are two districts with joint administration and fiscal reporting. Modesto City Elementary and Modesto City High are two districts with joint administration and fiscal reporting. The amount shown in the column is the combined budget.

California Department of Education
1430 N Street
Sacramento, CA 95814

Attachment B

May 10, 2012 Education Agenda

CALIFORNIA STATE EMERGENCY LOANS TO SCHOOL DISTRICTS, 1991 to 2011 **July 1, 2011**

District	Tenure of State Administrators and State Trustees	Legal Authority (in addition to AB 1200)	Date of Issue	Amount of State Loan	Interest Rate	Date/Amount of I –Bank Refinance & Remaining General Fund Loan	Outstanding Balance of I-Bank and General Fund Loans	Amount of Annual Loan Payment; Due Date	Amount Paid By District Including Principal & Interest	Pay Off Date
King City Joint Union High/ South Monterey County Joint Union High	Administrator 7/23/09 – Present	SB 130 Ch 20/09	7/22/09 3/11/10 4/14/10	$2,000,000 $3,000,000 $8,000,000 $13,000,000	5.44%	4/14/10 I-Bank refinanced $5 million GF loan, plus provided additional $8 million (total I-bank loan of $14,395,000 including principal, accrued interest, and expenses)	$14,125,000 as of 8/15/11 (Bond debt service payments due February and August each year, through 2029.)	I-Bank: $1.2 million total due during the period July through October, 2010-2028.	$1,253,088	October 2028 I-bank
Vallejo City Unified	Administrator 6/22/04 – Present Trustee 7/13/07 - Present	SB 1190, Ch 53/04	6/23/04 8/13/07	$50,000,000 $10,000,000 $60,000,000	1.500%	12/1/05 $20,642,992 refinanced by sale of I-Bank bonds of $21,205,000 (principal and accrued interest) $25,000,000 – GF 8/13/07 2nd draw of $10,000,000 - GF	$42,385,055 as of 7/1/11	I-Bank: $1.3 million total due during the period July through January, 2006-2024; GF: $1.6 million due each June, 2007 – 2024; GF: $670,797 due each August, 2008- 2024	$22,270,211	January 2024 I-bank 8/13/24 GF
Oakland Unified	Administrator 6/16/03 – 6/28/09 Trustee 7/1/08 - Present	SB 39, Ch 14/03	6/4/03 6/28/06	$65,000,000 $35,000,000 $100,000,000	1.778%	12/1/05 $50,830,859 refinanced by sale of I-Bank bonds of $59,565,000 (principal and accrued interest) 6/28/06 2nd draw of $35,000,000 – GF	$69,080,771 as of 7/1/11	I-Bank: $3.8 million total due during the period July through January, 2006-2023; GF: $2.1 million due each June, 2007-2026	$41,598,787	January 2023 I-bank 6/29/26 GF
West Fresno Elementary	Administrator 3/19/03 – 6/30/11 Trustee 8/26/08 – 12/4/09	AB 38, Ch 1/03	12/29/03	$1,300,000 ($2,000,000 authorized)	1.93%	N/a	-0-	N/a	$1,425,773	12/31/10 GF
Emery Unified	Administrator 8/7/01-6/30/04; Trustee 7/1/04 – 7/29/11	AB 96, Ch 135/01	9/21/01	$1,300,000 ($2,300,000 authorized)	4.19%	N/a	-0-	N/a	$1,742,501	6/20/11 GF
Compton Unified	Administrators 7/93-12/10/01 Trustee 12/11/01-6/2/03	AB 657, Ch 78/93 AB 1708, Ch 924/93	7/19/93 10/14/93 6/29/94	$3,500,000 7,000,000 9,451,259 $19,951,259	4.40% 4.313% 4.387%	N/a	-0-	N/a	$24,358,061	6/30/01 GF
Coachella Valley Unified	Administrators 5/26/92-9/30/96 Trustee 10/1/96-12/20/01	SB 1278, Ch 59/92	6/16/92 1/26/93	$5,130,708 2,169,292 $7,300,000	5.338% 4.493%	N/a	-0-	N/a	$9,271,830	12/20/01 GF
Richmond/ West Contra Costa Unified	Pre-AB 1200 Trustee 7/1/90 – 5/1/91; Administrator 5/2/91-5/3/92; Trustee 5/4/92-Present	AB 1202, Ch 171/90 Superior Court Order	8/1/90 1/1/91 7/1/91	$2,000,000 7,525,000 19,000,000 $28,525,000	1.532% 2004 refi rate	12/1/05 $15,475,263 refinanced by sale of $15,735,000 in I-Bank bonds (principal plus accrued interest)	$9,368,387 as of 7/1/11	$1.4 million total due during the period July through January, 2006-2018	$38,136,411	January 2018 I-bank

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Thursday, May 17, 2012
9:30 a.m. or Upon Adjournment of Session
Room 3191, State Capitol

May Revise Budget Overview Hearing – Governor's Major Education Finance Proposals

I. Governor's K-14 Mandate Proposal

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

II. Governor's K-12 Weighted Student Formula Proposal

Department of Finance
Legislative Analyst's Office
California Department of Education

Public Comment

Attachment:
Weighted Student Formula, Department of Finance, May 2012.

Attachment

Department of Finance May 2012

Weighted Student Formula

Overview of the Concept:

- The Weighted Student Formula will be implemented in concert with the Governor's revenue initiative, which will provide an over $14 billion in funding increases for K-12 education (a $2,500 increase per student) by 2015-16.

- Under the Weighted Student Formula proposal, all of this additional funding, along with most existing funding will be flexible and can be spent based on local priorities.

- The existing deficit factor will be fully restored, COLA will be provided on both revenue limits and the new formula, and the formula base grants will be equated to curretnt revenue limit levels.

Summary of Modifications to the Proposal:

- **Equate the Base Grant to Revenue Limits.** The base grant portion of the weighted student formula will be set equal to or slightly higher than the current average deficited revenue limit for unified school districts (which is $5,203).

- **Restore Deficit Factor on Existing Revenue Limits.** The current revenue limit deficit factor will be fully restored during the phase-in of the weighted student formula, but the formula will not be fully implemented until the existing deficit factor has been fully restored. Language will be added to statute to freeze implementation of the formula at 80 percent of school funding until the existing deficit factor has not been restored. The formula grant will be increased by the same proportion that revenue limits are increased as COLA adjustments are provided and the deficit factor is restored.

- **Pay Off Deferrals**. In 2012-13, new K-12 funding will used to fund enrollment growth and pay down deferrals. In 2013-14 and ongoing, new funding will first be used to fund enrollment growth, and then half of the remaining new funding will pay COLA and restore the deficit factor and the other half will pay down deferrals. After the deficit factor has been fully restored and deferrals eliminated, future new K-12 funding will be used to provide enrollment growth, fund COLA and grow the formula grants (including the base, supplemental and concentration grants).

- **Adjust for Grade Spans.** Grade span adjustments will be made to the formula grants (including the base, supplemental and concentration grants). The grade spans will be K-3, 4-6, 7-8 and 9-12, and the adjustment to each grade span will be equivalent to the current charter school grade span adjustment (which is based on revenue limit averages for districts with those grade spans).

- **Target K-3 Class Size Reduction Dollars to K-3 Classrooms.** This program will be eliminated; however, an adjustment will be made to the K-3 grade span (including the base, supplemental and concentration grants) to ensure the funding currently going into K-3 Class Size Reduction will continue to be allocated for the students in those grades. Schools will not be required to spend these funds on class size reduction.

- **Adjust for Targeted Instructional Improvement Block Grant and Home-to-School Transportation Dollars.** These programs will also be eliminated, but districts will continue to receive the same amount of money they currently receive for these programs as a permanent add-on to their formula grant. They will be allowed to spend these funds for any educational purpose.

- **Reduce the Formula Grant Weights.** In response to critiques from the education community and researchers that the weights initially proposed may be too high, lower weights will be proposed for the supplemental and concentration grants. Districts will receive a supplemental grant equal to 20 percent of the base grant for each unduplicated free and reduced price lunch or English learner student. The Governor's Budget included a 37 percent grant adjustment for these students. A corresponding adjustment will be made to the concentration grant calculation. Districts with at least 50 percent of their students receiving free and reduced price lunches or English learners will receive a concentration grant for each of these students up to a maximum of 20 percent of the base grant for districts with 100 percent of their students receiving free and reduced price lunches or English learners. No charter school will receive a higher concentration factor than the school district in which it resides. In addition, the English learner and free and reduced price meal eligibility data will be based on an average of the three most recent years for which student level data is available.

- **Improve Data Accuracy.** Commencing with the 2013-14 fiscal year, County Offices of Education (COEs) will be required to review school district English learner and free and reduced price meal eligibility data to ensure the data is collected and reported accurately. COEs will also verify that the school districts and charter schools are accurately accounting for English learners and free and reduced price meal eligible students.

- **Extend the Phase in Period.** The weighted student formula will be phased in over a seven year period. In 2012-13, schools will receive 95 percent of their funding based on revenue limit formulas and current categorical allocations and 5 percent of their funding based on the new formula. The proportion based on the new formula will increase over the next six years as follows: 10 percent, 20 percent, 40 percent, 60 percent, 80 percent, and 100 percent.

- **Add Conditional Implementation Provisions.** Implementation of the formula in 2012-13 will be triggered off if the Governor's revenue initiative fails and Proposition 98 funding for K-12 is reduced as a result. Furthermore, implementation in future years will be delayed if Proposition 98 funding for K-12 does not meet predetermined growth thresholds each year.

- **Protect Low-Income and English Learner Students and Strengthen Accountability.** Funding provided by the supplemental and concentration grants will be required to be spent for the benefit of the low-income and English learner students for which the district received the funding. The Administration and the State Board of Education are reviewing the existing accountability, reporting and transparency requirements. The State's current broad-based academic and fiscal accountability system, which includes the Academic Performance Index, the annual School Accountability Report Cards (which report over 30 metrics, including all of the Williams compliance items related to the sufficiency of instructional materials, teacher quality and the conditions of school facilities) and school review processes such as accreditation visits and comprehensive annual financial audits, is a good starting point. Instead of adding another layer of requirements, the existing requirements will be streamlined and reported concurrently in a transparent fashion. Further implementation of the formula in 2013-14 will be contingent on legislation to identify additional indicators of district and school success such as professional development opportunities for teachers, college going and employment rates for students, and provision of the necessary conditions for learning, which will be linked to incentive funding.

Detailed Proposal

California’s school finance system has become too complex, administratively costly and imbalanced. There are many different funding streams, each with its own allocation formula and spending restrictions. Many program allocations have been frozen and no longer reflect demographic and other changes. Furthermore, the fiscal flexibility that has recently been provided to schools is time-limited and excludes some significant programs. To remedy this, the Budget proposes a weighted pupil funding formula that will provide significant and permanent additional flexibility to local districts by consolidating the vast majority of categorical programs (excluding federally required programs such as special education) and revenue limit funding into a single source of funding. The formula will distribute these combined resources to schools based on weighted factors that account for the variability in costs of educating specific student populations, thereby ensuring that funds will continue to be targeted to schools with large populations of disadvantaged pupils.

The Administration’s proposed weighted pupil funding formula will entitle every school district and charter school to a per pupil base grant that varies based on grade span, multiplied by average daily attendance (ADA). The base grants will be set at a level which is slightly higher than the average revenue limit for a unified school district and the grade span adjustments will be based on revenue limit averages for districts with those grade spans. These adjustments reflect increased costs for middle school and high school classes. An adjustment will also be made to the K-3 grade span to ensure the funding currently going into K-3 Class Size Reduction will continue to be allocated for the students in those grades. However, schools will not be required to spend these funds on class size reduction.

Scholarly research and practical experience indicate that low-income students and English learners come to school with unique challenges and often require supplemental instruction and other supports in order to be successful in school. Furthermore, these challenges are most extreme in communities with high concentrations of poverty and non-English speakers. So, the Administration’s proposed formula will provide every school district or charter school additional grants to support the overall cost of educating English learners and low-income students, as measured by those receiving free or reduced price lunches (FRPL). The funding provided by these grants will be required to be spent for the benefit of the low-income and English learner students for which the district received the funding.

The supplemental grant will be equal to 20 percent of the base grant for each student who is either a FRPL or an EL student. Then an additional concentration grant equal to 4 percent of the base grant is added per FRPL or EL student for each 10 percentage points that a district’s population of FRPL and EL students exceeds 50 percent of its total student population. So, at 60 percent, 4 percent of the base grant is added, which grows to 8 percent of the base grant at 70 percent, and 12 percent at 80 percent, and so on. However, no charter school will receive a higher concentration factor than the school district in which it resides. In addition, the English learner and free and reduced price meal eligibility data will be based on an average of the three most recent years for which student level data is available.

Commencing with the 2013-14 fiscal year, County Offices of Education (COEs) will be required to review school district English learner and free and reduced price meal eligibility data to ensure the data is collected and reported accurately. COEs will also verify that the school districts and charter schools are accurately accounting for English learners and free and reduced price meal eligible students.

Finally, an adjustment will be made for school districts currently receiving Targeted Instructional Improvement Block Grant and Home-to-School Transportation dollars. These programs will be eliminated, but districts will continue to receive the same amount of money they currently receive for these programs as a permanent add-on to their formula grant. They will be allowed to spend these funds for any educational purpose.

Mathematically, the formula will be as follows:

Base Grant = $5,466 for K-3, $4,934 for 4-6, $5,081 for 7-8 and $5,887 for 9-12 * ADA
Plus
Supplemental Grant = base grant * 0.20 * FRPL or EL ADA
Plus
Concentration Factor = base grant * 2 * 0.20 * FRPL or EL ADA * the percentage points that the FRPL or EL percentage is above 50%, or 0 if the FRPL or EL percentage is equal to or less than 50%.
Plus
Targeted Instructional Improvement Block Grant and Home-to-School Transportation Add Ons

The Administration proposes a 7-year phase-in with 5 percent of total school funding allocated based on this formula in 2012-13, growing to 10 percent in 2013-14, 20 percent in 2014-15, and by an additional 20 percent each year thereafter until completely implemented in 2018-19. Implementation of the formula in 2012-13 will be triggered off if the Governor's revenue initiative fails and Proposition 98 funding for K-12 is reduced as a result. Furthermore, implementation in future years will be delayed if Proposition 98 funding for K-12 does not meet predetermined growth thresholds each year.

For 2012-13 only, no district will receive less than it received per pupil from the programs included in the formula and Home-to-School Transportation in 2011-12. All funding not allocated based on the formula will be allocated in proportion to the amount each school district received per unit of average daily attendance 2011-12. However, all of the programs that will be replaced by the formula will immediately be made completely flexible for use in supporting any locally determined educational purpose. This includes K-3 Class Size Reduction and Economic Impact Aid, which are not included in the current flexibility.

The current revenue limit deficit factor will be fully restored during the phase-in of the weighted student formula, but the formula will not be fully implemented before the existing revenue limit deficit factor has been fully restored. Language will be added to statute to freeze implementation of the formula at 80 percent of school funding if the existing deficit factor has not been restored. The formula grant will be increased by the same proportion that revenue limits are increased as COLA adjustments are provided and the deficit factor is restored to ensure that the base grant is equal to or greater than revenue limits before it is fully implemented. In 2013-14 and ongoing, new funding will first be used to fund enrollment growth, and then half of the remaining new funding will pay COLA and restore the deficit factor and the other half will pay down deferrals.

Beginning in 2013-14, incentive funding equal to 2.5 percent of the base grant will be provided to school districts and charter schools which meet accountability metrics established by the State Board of Education. The Administration and the State Board of Education are reviewing the existing accountability, reporting and transparency requirements. The State's current broad-based academic and fiscal accountability system, which includes the Academic Performance Index, the annual School Accountability Report Cards (which report over 30 metrics, including all of the Williams compliance items related to the sufficiency of instructional materials, teacher quality and the conditions of school facilities) and school review processes such as accreditation visits and comprehensive annual financial audits, is a good starting point. Instead of adding another layer of requirements, the existing requirements will be streamlined and reported concurrently in a transparent fashion. Further implementation of the formula in 2013-14 will be contingent on legislation to identify additional indicators of district and school success such as professional development opportunities for teachers, college going and employment rates for students, and provision of the necessary conditions for learning, which will be linked to the incentive funding.

Current program funding that will be included in the weighted formula and fully flexed are:

Apprentice Programs
Summer School Programs
ROC/Ps
Grade 7-12 Counseling
Specialized Secondary Program Grants
Gifted and Talented
Economic Impact Aid
Prof. Development Institutes for Math and English
Principal Training
Adult Education
Adults in Correctional Facilities
Partnership Academies
Agricultural Vocational Education
Educational Technology
Deferred Maintenance
Instructional Materials Block Grant
Staff Development
National Board Certification
California School Age Families Ed. Program
California High School Exit Exam
Civic Education
Teacher Dismissal Apportionments
Charter Schools Block Grant
Community Based English Tutoring
School Safety Block Grant
High School Class Size Reduction
K-3 CSR
Advanced Placement Grant Programs
Student Leadership/CA Assoc. of Student Councils
Pupil Retention Block Grant
Teacher Credentialing Block Grant
Professional Development Block Grant
School and Library Improvement Block Grant
School Safety Competitive Grant
Physical Education Block Grant
Arts and Music Block Grant
Certificated Staff Mentoring
Oral Health Assessments
Alternative Credentialing
District and COE Revenue Limits

The only major programs excluded are as follows:

- Special Education, because of federal program requirements and maintenance of effort issues.
- School Nutrition (funding for school lunches), because of federal accounting and maintenance of effort issues.
- After-school Programs, because Proposition 49 requires a ballot initiative approved by the voters to make any changes to afterschool funding.
- Quality Education Investment Act (QEIA), because this is part of a legal settlement.
- Pre-school, because it is not a K-12 program.
- Necessary Small Schools, because this funding is necessary to maintain schools in sparsely populated areas.

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Tuesday, May 22, 2012
9:00 a.m.
Room 3191, State Capitol

Overview Hearing

Governor's May Revise Proposals -- Proposition 98 Funding for K-14 Education

I. **Governor's Major K-14 Proposition 98 Proposals**

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges
- California Department of Education
- Public Comment

Attachment: *Proposition 98: May Revision Overview,* Legislative Analyst's Office, May 23, 2012.

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May 22, 2012

Proposition 98: May Revision Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Subcommittee No. 1 on Education

Hon. Carol Liu, Chair

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Governor's Proposed Changes to Proposition 98 Funding Levels

Changes in Proposition 98 Minimum Guarantee

(In Millions)

	January	May	Change
2011-12 minimum guarantee	$48,288	$47,024	-$1,264
2012-13 minimum guarantee	52,527	53,735	1,208

☑ In 2011-12, minimum guarantee decreases by $1.3 billion, primarily due to drop in baseline revenues.

☑ In 2012-13, minimum guarantee *increases* by $1.2 billion.

☑ Despite estimated *drop* in revenues in both current and budget years, the year-to-year growth in General Fund revenues increases—resulting in a *higher* Proposition 98 minimum guarantee.

☑ Higher minimum guarantee driven by maintenance factor provisions.

☑ Problem magnified by Governor's interpretation of maintenance factor payments (increases minimum guarantee by $1.7 billion in 2012-13).

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Governor Uses Questionable Maintenance Factor Assumption

- ☑ Governor's application fundamentally delinks maintenance factor creation from maintenance factor payment.

- ☑ Governor's application produces irrational outcomes.
  - Does not always create maintenance factor in years when funding grows slower than the economy (such as 2011-12).
  - Virtually all revenue growth can go to schools with the rest of the budget not benefitting at all from economic recoveries or tax increases.
  - Proposition 98 funding restored to a long-term spending level higher than if no maintenance factor had been created.

- ☑ Legislature could apply reasonable maintenance factor approach.
  - Retains the link between the creation and payment of maintenance factor.
  - Creates maintenance factor whenever state revenues grow slower than the economy.
  - Makes maintenance factor payment to increase funding corresponding with earlier shortfalls.

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Concerns With Governor's Rebenchings

Inconsistency in Rebenching Adjustments

	Rebenching Method Used:		
	2011-12 Budget Act	January	May
Shift:			
ERAF and triple flip	1986-87	1986-87	1986-87
Ongoing redevelopment-related revenues	Current-year	1986-87	1986-87
One-time redevelopment-related revenues	Not applicable	Not applicable	Current-year
Gas tax swap	Current-year	None	None
Child care	Current-year	1986-87	Current-year
Student mental health services	Current-year	1986-87	Current-year
Debt-service payments[a]	Not applicable	1986-87	1986-87
Early Start[a]	Not applicable	Not applicable	None

[a] Applicable only under Governor's trigger plan.
ERAF = Educational Revenue Augmentation Fund.

- ☑ Using different rebenching methods across years and among program calls into question the meaningfulness of the Proposition 98 minimum guarantee.
- ☑ Recommend using "current-year" approach for all adjustments.
- ☑ Current-year approach ensures that shifts result in dollar-for-dollar effect.

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2011-12 Major Spending Changes

2011-12 Proposition 98 Spending Changes

(In Millions)

Baseline Adjustments:	
Restore HTST reduction	$248
Make revenue limit technical adjustments	188
Make other technical adjustments	22
Reduce revenue limits to conform to HTST restoration	-275
Subtotal	($183)
Accounting Changes:[a]	
Designate as Quality Education Investment Act payment	-450
Designate as settle-up payment	-335
Subtotal	(-$785)
Total May Revision Adjustments	**-$603**

[a] Rather than counting as Proposition 98 spending, designates spending toward related prior-year obligations. Does not reflect programmatic reductions.

HTST = Home-to-School Transportation.

☑ Increased spending of $183 million, primarily due to revenue limit cost increases.

☑ Makes $785 million in accounting adjustments to reduce spending that counts toward Proposition 98 minimum guarantee.

- Designates $450 million in spending as a payment relating to Quality Education Investment Act (QEIA). This generates comparable budget-year savings.
- Designates $335 million in spending as a “settle-up” payment (associated with unmet prior-year Proposition 98 obligations).

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2012-13 Major Spending Changes

Changes in 2012-13 Proposition 98 Spending

(In Millions)

	January	May	Change
Baseline adjustments	$2,775	$2,333	-$442
Pay down K-14 deferrals	2,369	2,815	446
Create K-14 mandate block grants[a]	110	110	—
Do not initiate Transitional Kindergarten	-224	-92	132
Modify preschool funding	-58	33	92
Swap with one-time funds	-57	-112	-55
Eliminate Early Mental Health Initiative	-15	-15	—
Restore Home-to-School Transportation[b]	—	496	496
Fund QEIA program	—	450	450
Hold harmless for weighted student formula[b]	—	90	90
Total Changes	**$4,900**	**$6,108**	**$1,208**

[a] Proposes no change in overall spending but shifts $11 million from schools to community colleges.
[b] Reflects proposals the administration made shortly after releasing the January budget.
QEIA = Quality Education Investment Act.

- ☑ Increases K-14 deferral pay-downs by $446 million.
- ☑ Reduces estimated savings from not initiating Transitional Kindergarten program.
- ☑ Increases preschool funding for an additional 7,900 slots (and rescinds earlier proposed reductions).
- ☑ Recognizes restoration of Home-to-School Transportation funding and provides $90 million to hold districts harmless from proposed shift to weighted student formula.
- ☑ Funds QEIA program within Proposition 98.

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K-14 District Redevelopment Funds

Administration Estimates:
K-14 District Redevelopment Funds

(In Millions)

	2011-12	2012-13	Totals
Property Tax	**$818**	**$991**	**$1,809**
Proposition 98 offset	(818)	(981)	(1,799)
Not an offset		(10)	(10)
Assets	**—**	**$1,478**	**$1,478**
Proposition 98 offset	—	(1,405)	(1,405)
Not an offset	—	(74)	(74)
Totals	**$818**	**$2,469**	**$3,287**
Proposition 98 offset	(818)	(2,386)	(3,204)
Not an offset	—	(84)	(84)

Detail does not add due to rounding.

- ☑ Governor assumes $1.8 billion ongoing and $1.5 billion in one-time redevelopment-related property tax revenues are available for school districts and community colleges across the two-year period.

- ☑ Redevelopment revenues overstated.
  - We estimate only $200 million in ongoing redevelopment-related property tax revenues will materialize in 2011-12 and $700 million will materialize in 2012-13—$900 million lower than Governor's estimate over the two-year period.
  - Significant risk to cash asset revenue assumption. Revenues may materialize but may take several years to be available for distribution to local agencies.

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Governor's Trigger Plan

Changes to Governor's Proposition 98 Trigger Plan

(In Millions)

	January	May
Changes in 2012-13 Minimum Guarantee		
Revenue drop due to measure failing	-$2,444	-$2,907
Rebench for debt-service payments	200	194
Eliminate rebenching for student mental health services	—	-103
Total Changes	**-$2,244**	**-$2,815[a]**
Changes in 2012-13 Proposition 98 Spending		
Accommodate debt-service payments	$2,593	$2,551[b]
Accommodate Early Start program	—	238
Rescind deferral pay downs	-2,369	-2,815
Reduce general purpose funding	-2,468	-2,789[c]
Total Changes	**-$2,244**	**-$2,815**

[a] As estimated in the May Revision, the Proposition 98 minimum guarantee would drop from $53.7 billion to $50.9 billion.
[b] Reflects updated amounts. The May Revision had relied on earlier point-in-time estimates.
[c] Reflects updated general purpose reduction assuming administration wants to fund at minimum guarantee.

☑ Minimum guarantee decreases by $2.8 billion.

- If ballot measure fails, minimum guarantee drops by $2.9 billion. Governor also proposes to rebench for K-14 debt service ($194 million) but not rebench for additional mental health services shift (-$103 million).

☑ Spending decreases by $2.8 billion.

- Would no longer pay down outstanding deferrals and would make programmatic reduction.
- Would pay for K-14 debt service and Early Start within guarantee.

Alternative Proposition 98 Package

- ☑ Package contains alternatives to Governor's basic plan and trigger plan. Both assume reasonable maintenance factor approach and current-year rebenching methodology.

- ☑ Alternative to Governor's basic plan:
  - Has little to no programmatic effect on schools (has a smaller deferral pay-down).
  - Funds the guarantee.
  - Frees up $1.9 billion for rest of budget.

- ☑ Alternative trigger plan:
  - Contains smaller programmatic reduction than Governor.
  - Funds the guarantee without any new rebenchings.
  - Spreads pain of trigger cuts ($1.3 billion more in nonschool cuts).

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Side-by-Side: Governor and Alternative Packages

Comparing Governor and Alternative Proposition 98 Spending Plans

(In Millions)

	Governor	Alternative	Difference
Basic Plans			
Baseline adjustments	$2,333	$2,333	—
Pay down K-14 deferrals	2,815	1,525	-$1,290
Restore Home-to-School Transportation funding	496	496	—
Fund Quality Education Investment Act program	450	328	-122
Create K-14 mandate block grants	110	110	—
Hold harmless for weighted student formula	90	90	—
Modify preschool funding	33	—	-33
Use unspent prior-year Economic Impact Aid monies	—	-350	-350
Swap one-time funds	-112	-186	-73
Do not initiate Transitional Kindergarten program	-92	-75	17
Eliminate Early Mental Health Initiative	-15	-15	—
Total Augmentation	**$6,108**	**$4,257**	**-$1,851**
Proposition 98 Spending	$53,736	$51,885	-$1,851
K-14 debt service[a]	$2,551	$2,551	—
Early Start Program[a]	238	238	—
Total Related Spending	**$56,525**	**$54,674**	**-$1,851**
Trigger Plans[a]			
Rescind deferral pay downs	-$2,815	-$1,525	$1,290
Reduce general purpose programmatic funding	-2,789	-975	1,814
Total Reductions	**-$5,604**	**-$2,500**	**$3,104**
Total Related Spending	**$50,921**	**$52,174**	**$1,253**

[a] Both the Governor and the alternative fund both of these activities under both the basic and trigger plans. Under the Governor's trigger plan, activities are funding within the Proposition 98 guarantee.

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Wednesday, May 23, 2012
1:30 p.m.
Room 4203, State Capitol

Governor's May Revise & Open Issues: Department of Education

Child Care & Early Childhood Education Overview:

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-651-1505. Requests should be made one week in advance whenever possible.

1. Various K-12 State Operations and Local Assistance Adjustments (Vote Only)

DESCRIPTION: The Governor proposes the following amendments to and addition of various K-12 state operations (support) and local assistance budget items for the Department of Education in 2012-13. As proposed by the Governor's May Revise and Department of Finance (DOF) April Letter, these adjustments – as listed below – are considered technical adjustments, mostly to update federal budget appropriation levels so they match the latest estimates and utilize funds consistent with current programs and policies.

GOVERNOR'S MAY REVISE PROPOSALS:

Federal Funds Adjustments

1. **Item 6110-112-0890, Local Assistance, Public Charter Schools Grant Program (PCSGP) (Issue 326).** It is requested that this item be increased by $25,000 Federal Trust Fund to reflect an increase in the federal grant award for the PCSGP. The increase is due to fluctuation in the number of charter schools that are eligible for the PCSGP, which provides each newly approved charter school between $250,000 and $575,000 to support planning and initial implementation.

2. **Item 6110-113-0890, Local Assistance, Federal Title VI Funds for Student Assessment Program (Issue 147).** It is requested that Schedule (2) of this item be decreased by $2,460,000 to align the appropriation with the anticipated federal grant. Federal funds for state assessments are provided for costs associated with the development and administration of the Standardized Testing and Reporting program, the English Language Development Test, and the California High School Exit Exam.

3. **Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 086 and 087)—**It is requested that Schedule (1) of this item be decreased by $261,000 federal Title I Migrant Education Program funds to align with the available federal grant award. Local educational agencies (LEAs) use these funds for educational support services to meet the needs of highly-mobile children.

   It is also requested that Schedule (2) of this item be decreased by $3,334,000 federal Title III English Language Acquisition funds to align with the available federal grant award. LEAs use these funds for services to help students attain English proficiency and meet grade level academic standards.

4. **Item 6110-128-0001, Local Assistance, Amend Economic Impact Aid Program Budget Bill Language (Issue 083).** It is requested that provisional language be amended to change the due date for a required Economic Impact Aid (EIA) report from March 31 to September 15 of each year. As a condition of receiving EIA funds, juvenile county court schools are required to report on the use of funds and the number of pupils served. The September due date would allow data to be reported after the completed fiscal year and would provide more accurate information for budget development.

The EIA is a categorical program that provides Proposition 98 General Fund to school districts for the purpose of providing educational services to disadvantaged and English learner pupils.

It is further requested that Provision 1 of this item be amended to conform to this action as follows:

> "1. Of the funds appropriated in this item, up to $3,100,000 is available pursuant to Section 54021.2 of the Education Code for Juvenile County Court Schools that have Economic Impact Aid eligibility. As a condition of receipt of funds, Juvenile County Court Schools receiving the funds are required to report on the use of funds and the number of pupils served no later than ~~March 31, 2013.~~ September 15, of each year."

5. **Item 6110-134-0890, Local Assistance, Federal Title I Set Aside Funds for LEA Corrective Action Program (Issue 149).** It is requested that Schedule (2) of this item be decreased by $8,954,000 federal Title I Set Aside funds to align the appropriation with the estimated program costs. The program provides funding for technical assistance to LEAs entering federal Corrective Action. Fifty-eight LEAs are expected to be eligible for the program in the budget year, at a cost of $31,904,000. The funding requested for the program is based on the State Board of Education's past practices. We further propose to shift the $8,954,000 to Schedule (4) of this item, consistent with federal law and guidance, to provide additional funding to schools and LEAs at a time of limited General Fund resources. (See related Issue 151.)

6. **Item 6110-134-0890, Local Assistance, Federal Title I Funds for School Improvement Grant Program (Issue 150).** It is requested that Schedule (3) of this item be increased by $2,949,000 federal Title I funds to align the appropriation with the anticipated federal grant. SDE awards school improvement grants to LEAs with the persistently lowest-achieving Title I schools to implement evidence-based strategies for improving student achievement.

7. **Item 6110-134-0890, Local Assistance, Federal Title I Basic Elementary and Secondary Education Act Program (Issue 097).** It is requested that Schedule (4) of this item be increased by $13,033,000 federal Title I funds for the Title I Basic Elementary and Secondary Education Act to reflect an increase of $12,281,000 in the available federal grant award and $752,000 in one-time carryover funds. LEAs use these funds to support services that assist low-achieving students enrolled in the highest poverty schools.

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

   > X. Of the funds appropriated in Schedule (4), $752,000 is provided in one-time Title I Basic Program carryover funds to support the existing program.

8. **Item 6110-134-0890, Local Assistance, Shift of Federal Title I Set Aside Funds to Title I, Part A Basic Program (Issue 151).** It is requested that Schedule (4) of this item be increased by $32,625,000 federal Title I Set Aside funds for allocation to all Title I LEAs and schools using the state's standard Title I, Part A Basic Program distribution methodology. Of

this amount, $8,954,000 would be shifted from Schedule (2) due to a decrease in the estimated costs of the LEA Corrective Action program, as compared to the Governor's Budget estimate. (See related Issue 149.) In addition, $23,671,000 federal Title I Set Aside funds are available due to an increase in the anticipated federal grant. Distributing these funds to all Title I schools and LEAs is consistent with federal law and guidance and would provide additional funding to these schools and LEAs at a time of limited General Fund resources.

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

> X. Of the funds appropriated in Schedule (4), $32,625,000 is provided in one-time Title I Set Aside funds for allocation to all Title I local educational agencies and schools using the state's standard distribution methodology for the federal Title I, Part A Basic Program.

9. **Item 6110-136-0890, Local Assistance, McKinney-Vento Homeless Children Education Program (Issue 088).** It is requested that Schedule (1) of this item be increased by $534,000 federal Title I McKinney-Vento Homeless Children Education funds. This adjustment includes an increase of $284,000 to align with the available federal grant award and $250,000 in one-time carryover funds. LEAs use these funds to provide services to homeless students.

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

   > X. Of the funds appropriated in Schedule (1), $250,000 is provided in one-time carryover funds to support the existing program.

10. **Item 6110-137-0890, Local Assistance, Rural and Low-Income School Program (Issue 089).** It is requested that this item be increased by $216,000 federal Title VI, Part C, Rural and Low-Income School Program funds to reflect an increase of $131,000 in the available federal grant award and $85,000 in one-time carryover funds. This program provides financial assistance to rural districts to help them meet federal accountability requirements and to conduct activities of the federal Elementary and Secondary Education Act program.

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

    > X. Of the funds appropriated in this item, $85,000 is provided in one-time carryover funds to support the existing program.

11. **Item 6110-156-0890, Local Assistance, Adult Education Program (Issue 090).** It is requested that this item be increased by $6,737,000 federal Title II funds for the Adult Education Program to reflect an increase of $1,143,000 in the available federal grant award and $5,594,000 in one-time carryover funds. This program provides resources to support the Adult Basic Education, English as a Second Language, and Adult Secondary Education programs.

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

X. Of the funds appropriated in this item, $5,594,000 is provided in one-time carryover funds to support the existing program.

12. **Item 6110-161-0890, Local Assistance, Special Education Individuals with Disabilities Education Act (IDEA) 611 Grant Awards (Issue 643)**. It is requested that Provision 1 of this item be amended to align future IDEA 611 grant awards with the amended allocation table provided by the federal government. This request would provide the SDE with flexibility so that in instances where IDEA 611 amended grant awards received are lower than the initial grant award, reductions can be made according to the intent set forth by the federal Office of Special Education Programs.

    ~~"1. If the funds for Part B of the federal Individuals with Disabilities Education Act (20 U.S.C. Sec. 1400 et seq.) (IDEA) that are actually received by the state exceed $1,237,042,000, at least 95 percent of the funds received in excess of that amount shall be allocated for local entitlements and to state agencies with approved local plans. Up to 5 percent of the amount received in excess of $1,237,042,000 may be used for state administrative expenses upon approval of the Department of Finance. If the funds for Part B of the IDEA that are actually received by the state are less than $1,237,042,000, the reduction shall be taken in other state-level activities, unless otherwise specified in the amended grant award."~~

13. **Item 6110-161-0890, Local Assistance, Special Education (Issue 648).** It is requested that this item be decreased by ~~$12,538,000~~ $14,084,000 in federal special education funds. This adjustment includes a decrease of ~~$12,381,000~~ $12,382,000 in Schedule (1), ~~and~~ a decrease of ~~$157,000~~ $1,698,000 in Schedule (5), and a decrease of $4,000 to Schedule (6) to align appropriations with the anticipated federal Individuals with Disabilities Education Act, Part B, grant award for fiscal year 2012-13.

14. **Item 6110-166-0890, Local Assistance, Vocational Education Program (Issue 091).** It is requested that this item be increased by $9,869,000 federal Title I funds for the Vocational Education Program to reflect an anticipated increase of $2,909,000 in the federal grant award and $6,960,000 in one-time carryover funds. This program develops the academic, vocational, and technical skill of students in high school, community colleges, and regional occupational centers and programs.

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

    X. Of the funds appropriated in this item, $6,960,000 is provided in one-time carryover funds to support the existing program.

15. **Item 6110-183-0890, Local Assistance, Safe and Supportive Schools (Issue 822).** It is requested that this item be increased by $475,000 Federal Trust Fund to reflect the availability of one-time carryover funds for the Safe and Supportive Schools program, which supports statewide measurement of school climate and helps participating high schools improve conditions such as school safety, bullying, and substance abuse.

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

X. Of the funds appropriated in this item, $475,000 is provided in one-time carryover funds to support the existing program.

16. **Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issue 092).** It is requested that this item be decreased by $818,000 federal Title II funds to reflect a decrease of $2,518,000 in the federal grant award and $1.7 million in one-time carryover funds. The Mathematics and Science Partnership Program provides competitive grants to partnerships of low-performing schools and institutions of higher education to provide staff development and curriculum support to mathematics and science teachers.

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

    X. Of the funds appropriated in this item, $1,700,000 is provided in one-time carryover funds to support the existing program.

17. **Item 6110-195-0890, Local Assistance, Improving Teacher Quality—Local Grants (Issues 093 and 094).** It is requested that Schedule (1) of this item be decreased by $656,000 federal Title II funds to align with the federal grant award. The Improving Teacher Quality Grant Program provides funds to LEAs on a formula basis for professional development activities focused on preparing, training, and recruiting highly-qualified teachers.

    It is also requested that Schedule (4) of this item be decreased by $1,506,000 federal Title II funds to align with the available federal grant award. The Improving Teacher Quality Higher Education Grant Program provides funds on a competitive basis to support academic partnerships between institutes of higher education and high-need K-12 LEAs for projects that focus on professional development for teachers and administrators.

18. **Item 6110-201-0890, Local Assistance, Federal Child Nutrition Program (Issue 821).** It is requested that Schedule (1) of this item be increased by $107,263,000 Federal Trust Fund due to the anticipated increase in meals served through the Child Nutrition Program. Sponsors of this federal entitlement program include public and private nonprofit schools; local, municipal, county, or tribal governments; residential camps; and private nonprofit organizations.

19. **Item 6110-240-0890, Local Assistance, Advanced Placement (AP) Fee Waiver Program (Issues 823 and 827).** It is requested that this item be increased by $3,138,000 Federal Trust Fund to reflect the availability of $32,000 in one-time carryover funds and an anticipated $3,106,000 increase in the federal grant for the AP Fee Waiver program, which reimburses school districts for specified costs of AP, International Baccalaureate, and Cambridge test fees paid on behalf of eligible students. These programs allow students to pursue college-level course work while still in secondary school.

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

X. Of the funds appropriated in this item, $32,000 is provided in one-time carryover funds to support the existing program.

20. 6110-001-001 and 6110-001-0890, Support, State Department of Education. Amend California Longitudinal Pupil Achievement Data System (CALPADS) Budget Bill Language (Issue 324). It is requested that Provision 26 of Item 6110-001-0890 be amended to allow greater flexibility for the SDE to administer the CALPADS. Currently, the provisional language for the CALPADS restricts the funds for specific purposes, including systems maintenance and vendor costs. In fiscal year 2012-13, the SDE projects increased costs from the Office of Technology Services (OTech) for data storage and a one-time cost to update older software versions no longer supported by the OTech, which the SDE would not be able to fund due to the proscriptive nature of the amount in the Budget Bill language. The proposed changes will provide the flexibility necessary for the SDE to absorb the cost increases and successfully administer the CALPADS.

Specifically, it is requested that Provision 26 of 6110-001-0890 be amended as follows:

"26. Of the funds appropriated in this item, $6,636,000 is for the California Longitudinal Pupil Achievement Data System (CALPADS), which is to meet the requirements of the federal No Child Left Behind Act of 2001 (20 U.S.C. Sec. 6301 et seq.) and Chapter 1002 of the Statutes of 2002. These funds are payable from the Federal Trust Fund to the State Department of Education (SDE). Of this amount, $5,641,000 is federal Title VI funds and $995,000 is federal Title II funds. These funds are provided for the following purposes: $~~2,457,000~~3,254,000 for systems housing and maintenance provided by the Office of Technology Services (OTECH); $~~1,491,000~~908,000 for ~~vendor~~ costs associated with necessary system~~s integration and improvement~~ activities; $790,000 for SDE staff~~, including a technical lead, to work on the system; $251,000 for system software costs; $134,000 for an independent project oversight consultant and independent validation and verification costs; $45,000 for system hardware costs; $8,000 for Department of General Services charges;~~ and $~~486,000~~710,000 for various other costs, including hardware and software costs, indirect charges, Department of General Services charges~~ OTECH charges~~, and operating expenses and equipment. As a condition of receiving these funds, SDE shall ensure the following work has been completed prior to making final vendor payments: a Systems Operations Manual, as specified in the most current contract, has been delivered to SDE and all needed documentation and knowledge transfer of the system has occurred; all known software defects have been corrected; the system is able to receive and transfer data reliably between the state and local educational agencies within timeframes specified in the most current contract; system audits assessing data quality, validity, and reliability are operational for all data elements in the system; and SDE is able to operate and maintain CALPADS over time. As a further condition of receiving these funds, the SDE shall not add additional data elements to CALPADS, require local educational agencies to use the data collected through the CALPADS for any purpose, or otherwise expand or enhance the system beyond the data elements and functionalities that are identified in the most current approved Feasibility Study and Special Project Reports and the CALPADS Data Guide v1.2. In addition, $974,000 is for

SDE data management staff responsible for fulfilling certain federal requirements not directly associated with CALPADS."

Other Adjustments

21. **Item 6110-102-0231, Local Assistance, Tobacco-Use Prevention Education Program (Issue 828).** It is requested that this item be decreased by $629,000 in Health Education Account funds to reflect decreased 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.

STAFF RECOMMENDATION (VOTE ONLY): Staff recommends approval of all of the May Revise and DOF April Letter issues listed above (Items 1-21), including highlighted technical amendments. No issues have been raised for any of these items.

OUTCOME:

Child Care Vote Only Calendar

2. Child Care Federal Funds - Technical Adjustments

Background. Federal funds along with General Fund (Proposition 98 and non-Proposition 98) are one of the primary funding sources for child care programs. The exact amount available to fund child care programs in any one year is dependent upon allocations from the federal government and available carryover of unspent prior year allocations.

May Revision Letter. The May Revision makes adjustments to the base assumptions in the January budget about the amount of federal funds available to offset GF expenditures. The May Revision letter indicates that there are **$768,000 additional federal funds ongoing** and **$1 million in one-time federal funds** available from prior years.

Staff Recommendation. Staff recommends that the Subcommittee approve this technical adjustment.

3. 21st Century Community Learning Centers – Technical Adjustments

Background. The 21st Century Community Learning Center program is a federal grant program that 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 helps students meet state and local student standards in core academic subjects; offers students a broad array of enrichment activities; and offers literacy and other educational services to the families of participating children.

May Revision Letter. The May Revision letter indicates that federal funds are expected to be **$12.3 million** higher in the budget year for the 21st Century Community Learning Center program. This is a result of $10 million in fewer ongoing funds offset by $22.4 million additional one-time carryover funds.

Staff Recommendation. Staff recommends that the Subcommittee approve this technical adjustment.

Child Care and Early Childhood Education

Background and Previous Subcommittee Meetings. There are many different programs that invest in child care and early childhood education. Direct child care and early childhood education services are currently funded by every level of government (federal, state, and local), including local school districts and the First 5 County Commissions. These programs have developed through separate efforts to achieve a variety of goals, including but not limited to, providing the child care necessary so that parents can work, and providing an educational environment that helps prepare young children for success in school.

These programs and the Governor's proposals to balance the budget have been discussed at length at the March 1, 2012 meeting of the Senate Budget and Fiscal Review Committee and the April 12, 2012 meeting of Budget Subcommittee #1 on Education. For additional background information on these programs please reference the agendas from those hearings.

4. Caseload Adjustments

Background. The child care and early childhood education programs funded by the State are generally capped programs. This means that funding is not provided for every qualifying family or child, but instead funding is provided for a fixed amount of slots or vouchers. The exception is the CalWORKs child care program (Stages 1 and 2), which are entitlement programs in statute. In general Stage 1 child care is provided to families on cash assistance until they are "stabilized". After families are stabilized they are transferred to Stage 2, where they are entitled to child care while on aid and for two additional years after they leave aid. Stage 3 has been for those families that have exhausted their Stage 2 entitlement.

Historically caseload projections have generally been funded for Stages 1, 2, and 3 in their entirety – even though, technically speaking, Stage 3 is not an entitlement or caseload driven program. There has been considerable turmoil in the Stage 3 program since Governor Schwarzenegger first vetoed all of the funding for Stage 3 in 2010. Last year the program was effectively capped and CDE was required to provide instructions to the field on how to dis-enroll families.

May Revision. The May Revision typically updates caseload funding. These adjustments are made based on current law and do not reflect policy changes that would reduce the program. The revised baseline caseload assumptions for Stages 2 and 3 are an increase of **$3.2 million** and **$14.5 million**, respectively. Stage 1 caseload is down slightly.

Staff Comments. Staff finds that the Administration has continued to build the Stage 3 caseload as if it is an entitlement, even though it is currently operating as a capped program. Given the magnitude of other reductions being made in this budget to child care programs, the Legislature may wish to weigh the tradeoffs related to expanding Stage 3 beyond the current capped level and the other budget reductions being considered.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open.

5. Budget Reductions

Previous Subcommittee Meeting. At the March 1, 2012 Senate Budget and Fiscal Review Committee and the April 12, 2012 Budget Subcommittee #1 hearing considerable testimony was taken on the impacts of the Governor's proposed reductions to the child care programs. There was considerable concern voiced about the loss of 62,000 child care slots, which is the expected impact of the Governor's January budget proposals to reduce General Fund spending on child care programs by $450 million or approximately 20 percent of the total program when compared to 2011-12. Testimony was received that indicate that this level of cut could actually reduce slots further than the 62,000 estimated given the compounding nature of the reductions and the relative fragility of local child care markets. Specifically, we heard considerable testimony from the Title 5 community about the devastating impact of the State Reimbursement Rate (SRR) cut on the ability to sustain programs that meet Title 5 criteria.

In summary the Governor's January budget proposals discussed were as follows:

- **Stricter Work Requirements and Reduced Time Limits for CalWORKs Recipients -** $293.6 million in savings in non-Proposition 98 General Fund by reducing time limits on CalWORKs for adults not meeting work participation requirements and applying stricter work participation requirements for all families receiving child care services. Specifically, single parent families with older children would be required to work 30 hours per week. New eligibility criteria would not provide subsidized child care for training and education activities. This reduction would have eliminated about 46,300 child care slots.

- **Reduce Income Eligibility -** $43.9 million in non-Proposition 98 General Fund savings and $24.1 million in Proposition 98 General Fund savings by reducing the income eligibility ceilings from 70 percent of the state median income to 200 percent of the federal poverty level or 62 percent of state median income (SMI). This level equates to a reduction in the income ceiling for a family of three from $42,216 to $37,060. This reduction will eliminate about 8,400 child care slots and 7,300 state preschool slots.

  The Administration has indicated that this reduction would make the income eligibility consistent with the federal maximum for receiving TANF-funded services. Furthermore, the Administration proposes to offer a food stamp benefit of $50 to subsidized child care recipients in an effort to improve the State's Work Participation Rate (WPR). Currently, California does not meet federal benchmarks related to the WPR.

- **Reduce Provider Payments.** The Governor has several proposals that would have the effect of reducing the payments to providers of child care and early childhood education services. These reductions include the following:

  ✓ **Eliminate COLA -** $29.9 million in non-Proposition 98 General Fund savings and $11.7 million in Proposition 98 General Fund savings by eliminating the statutory COLA for capped non-CalWORKs child care programs.

  ✓ **Reduce Reimbursement Market Rate (RMR) Ceilings and Update Survey Data -** $11.8 million in non-Proposition 98 General Fund savings by reducing the reimbursement rate ceilings for voucher-based programs from the 85th percentile of the private pay market, based on 2005 market survey data, to the 50th percentile based on

2009 survey data. Per the Administration, to preserve parental choice under lower reimbursement ceilings, rates for license-exempt providers will remain comparable to current levels, and these providers will be required to meet certain health and safety standards as a condition of receiving reimbursement. (A corresponding $5.3 million General Fund decrease is made to Stage 1 in the Department of Social Services budget to reflect the lower RMR rate.)

✓ **Reduce State Reimbursement Rate (SRR) for Title 5 Contracts -** $67.8 million in non-Proposition 98 General Fund savings and $34.1 million in Proposition 98 General Fund savings by reducing the standard reimbursement rate for direct-contracted Title 5 centers and homes by 10 percent.

The LAO also offered several alternative reduction options for the Legislature to consider, as follows:

- **Work Requirements.** The LAO has offered an alternate way to limit eligibility for budget savings of approximately **$50 million**. Instead of the Governor's strict work requirements, the LAO has suggested that the Legislature could limit education/training to two years. The CDE has indicated that it would need to modify their data collection requirements in order to fully implement this sort of eligibility change. Staff notes that there are numerous variations to limit eligibility that could be explored to achieve savings.

- **Income Eligibility.** The LAO has offered an alternative for additional budget savings by lowering income ceilings below the Governor's level to 50 percent of State Median Income (SMI) for savings of an additional **$100 million**. The LAO reviewed income eligibility in other states and found that only California and ten other states set maximum income eligibility for child care at or above 70 percent of SMI. In contrast, over half of all states set income ceilings at or below 62 percent of SMI.

  Furthermore, the LAO points out that 62 percent of SMI is the maximum amount a family can earn to receive TANF-funded (Temporary Assistance for Needy Families) services. This harmonization of the income eligibility of the child care program with federal TANF-funded programs would aid in the implementation of a new WINS Plus (Work Incentive Nutritional Supplement) program the Administration is proposing to implement. WINS Plus is a new $50 a month food stamp benefit that would be made available to families receiving subsidized child care that are not in the CalWORKs program or receiving CalFresh food stamp benefits.

  This new WINS Plus benefit would allow the State to count child care recipients in the calculation of the State's Work Participation Rate (WPR). Currently, the State is likely to fall short of its federal WPR by as much as 20 to 25 percentage points. The LAO has indicated that the implementation of an additional WINS basic benefit provided to current CalFresh families that are not in the CalWORKs program could result in a 10 percentage point improvement in the State's WPR. The implementation of the WINS Plus program could further improve the WPR.

- **Provider Payments.** The LAO has surveyed many other states and has found that the Governor's proposal on RMR voucher rates are comparable and in some cases exceed reimbursement rates for providers in other states. The LAO also proposes as an option further lowering license exempt rates to 60 percent of the new lowered voucher rate for licensed providers for savings of about **$20 million**. The LAO goes on to reject the Governor's SRR rate reduction since Title 5 centers have more stringent operations requirements and in some cases are currently provided a lower rate than the RMR for voucher-based centers. Furthermore, current law surrounding Title 5 operations leaves providers with few opportunities to achieve these savings because providers are prohibited from collecting fees from parents and also are required to maintain prescriptive staffing ratios.

- **Age Limits.** The LAO has offered, as an alternative, eliminating child care for older school-age children during traditional hours because there are more supervision options available for school-age children. Furthermore, child care for infants and toddlers is generally more costly and more difficult to find. The LAO estimates that prioritizing child care for children under the age of 11 would generate savings of **$65 million**. The LAO indicates that an additional **$50 million** could be saved if child care is prioritized for children under the age of 10. The State is currently required to spend approximately $550 million on the After School Education and Safety (ASES) that was approved by the voters in 2002 (Proposition 49). Furthermore, an additional $130 million in federal funds are provided annually for 21st Century Community Learning Centers. There are also additional resources in some communities provided through non-profit organizations such as the Boys and Girls Club that provide other alternatives for school-age youth.

- **Parent Fees.** The LAO has offered a menu of options for changing the current parent fee structures that could generate **tens of millions** in savings depending on the ultimate structure. Specifically, the Legislature could (1) reduce income level at which parents must begin paying a fee; (2) increase the amount of fee required for families at each existing income level; and/or (3) charge fees per child rather than per family. The LAO indicates that cross comparison of California's family fees are difficult with other states because states structure fees in various ways. However, the LAO points out that California's current sliding scale seems generally lower than most other states.

- **Time Limits.** The LAO has provided as an option for the Legislature to consider for achieving budget savings implementing overall time limits for the child care benefit. The LAO estimates that implementing a time limit of six years could ultimately generate approximately **$100 million** in savings. However, the LAO points out that the data collection efforts of CDE would need to be enhanced to fully implement this option. A time limit would enable families on waiting lists to access care quicker since a time limit would free up slots currently used by families that have been receiving subsidized care for many years.

The Subcommittee also discussed at the April 12, 2012 meeting, the idea of implementing an across-the-board reduction. Last year an 11 percent across the board reduction was implemented to the Alternative Payment (AP) programs (including Stage 3) and Title 5 centers. The Subcommittee has heard from numerous representatives in the child care community that an across-the-board reduction is preferred to other policy change because it provides the field with some flexibility to meet the reductions and can minimize disruptions in the provision of child care services.

May Revision. The May Revision proposes approximately the same total budget savings **($452.5 million GF**) from non-Proposition 98 savings as was proposed in January. The Governor makes two major modifications to change the mix of cuts proposed in January. The Governor indicates that the modifications to the mix of cuts will result in retaining over 25,000 slots that would have been lost under the January proposal. The major modifications are as follows:

- **Loosens Work Eligibility Requirements.** Consistent with the Governor's May Revision proposal for CalWORKs, the Governor has also loosened the work eligibility requirements for recipients of child care subsidies. Under the Governor's revised proposal, parents pursuing education or training may receive child care subsidies for up to two years. Parents could continue to receive child care subsidies, but would have to be meeting work requirements (30 hours per week or 20 hours per week for families with young children). The Administration has indicated that only full-time students that are not otherwise working would be time limited. Part-time students that also work part-time would not be time limited as long as they were meeting work requirements and income requirements of the program. This policy change requires the Governor to **restore $180 million GF** to the January budget proposal.
- **Reduces Voucher Rates.** The Governor's May Revision also takes the proposed rate reductions to the Regional Market Rate (RMR) to the 40^{th} percentile of the 2005 RMR survey. The Governor's May Revision proposal would also reduce the license exempt rate to 71 percent of the lowered RMR rate. This proposal would result in **$190 million GF savings** ($61 million GF savings from Stage 1). The January budget had also proposed reducing the RMR, but had proposed to reduce rates to the 50^{th} percentile of the 2009 RMR survey for $17.1 million in GF savings ($5.3 million GF related to Stage 1). The January budget had also proposed to hold steady payments made to licensed exempt providers.

The May Revision continues to **reduce the income eligibility** for child care programs from 70 percent of SMI to 200 percent of the federal poverty level. However, May Revision estimates show that this proposal will **save $4.1 million GF less** than original expected. Revised savings related to reducing income eligibility are now estimated to be $39.8 million GF.

In addition to the reduced voucher rates described above, the Governor also proposes to continue to **eliminate the COLA** for non-Proposition 98 programs, thereby saving $30.4 million GF in the budget year. This estimate has been revised upward by **$537,000 GF** in the May Revision. The Governor also continues to pursue the **10 percent SRR reduction** on Title 5 contracts for $67.5 million in savings. This estimate is **$269,000 GF** less than was projected in the May Revision.

LAO Review. The LAO's initial review of the May Revision proposal finds that the Governor's proposal related to the RMR reduction is too harsh. The LAO finds that the Governor's proposal would cut RMR rates by at least one-third and given a reduction of this magnitude would likely severely limit access to families. The LAO's review finds that the proposed rate level is well below the policies adopted in other states and has been further complicated by the fact that the state does not currently maintain RMR survey data down to the 40^{th} percentile. The lack of data would make it very difficult for the Administration to calculate specific rates for each county in time to implement the rate reduction.

Staff Comments. Staff finds that the Governor's proposal to allow for up to two years of full time school or training is a significant amendment to the January proposal. The changes to the work requirements in the January proposal were of the harshest reductions that would have resulted in 46,000 children losing child care immediately. The Governor's current proposal, while better than the January proposal, will still result in the reduction of some slots. However, previously the LAO had estimated that the savings from going to a two-year limit on education would only result in about $50 million in savings. The LAO also indicated that there may need to be changes made to current reporting requirements from the APs and Title 5 contractors to CDE to implement this change.

The Administration assumes that there will be no loss of slots from the RMR reduction. As pointed out by the LAO this is not how it is likely to play out in real life. A 30 percent reduction to current rates is likely to significantly restrict access to licensed providers for voucher clients. Furthermore, a rate reduction of this magnitude would also lead to the closure of many centers and family daycare homes. This will further constrict the child care market.

As has been discussed earlier in this Subcommittee, there are no cut scenarios in which $450 million in budget savings is achieved in the child care program area that does not have a significant impact on the number of available child care slots. This continues to be the case even under the Governor's revised proposal.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open and direct staff to build different scenarios for achieving solutions, with an emphasis on preserving slots.

6. State Preschool

Background. The California State Preschool Program provides center-based, early childhood education programs to low-income children, generally ages three and four years. Until recently, all funding for this program came from Proposition 98 funds. However, in 2011-12, most all funding for child care and development programs – except part-day preschool funding -- was shifted to state General Fund. As a result, the 2011-12 budget act provides two separate budget act appropriations and funding sources for the State Preschool Program. The Department of Education administers both of these program appropriations -- as follows -- through direct state contracts with local providers:

- **Part-Day Preschool Program (Proposition 98 Funds).** Item 6110-196-0001 of the Budget Act appropriates **$368 million** in Proposition 98 Funds for part day/part-year preschool services for low-income three and four year olds.

- **General Child Care Program (State General Fund).** Item 61109-194-0001 of the Budget Act appropriates $675 million in state General Fund for the General Child Care program, which provides center based child care services to low-income children from working families ages birth to 12 years. Following enactment of Chapter 208 in 2008, local providers can utilize these funds -- together with part-day preschool funds -- to provide part-day/part-year preschool programs or full-day/full-year preschool programs for three and four year olds to improve coverage for working families. The Legislative Analyst's Office estimates that roughly **$400 million** of total General Child Care funds (about 60 percent) were being provided for preschool services for three and four year olds.

According to the LAO, data from CDE suggest that in 2011-12, local providers "blended" the **$368 million** in Proposition 98 funds for part-day preschool with about **$400 million** in state General Fund for General Child Care to offer State Preschool Program services to approximately **145,000 low-income preschool age children**. Of these, two-thirds were served in part-day programs and one-third in full-day programs.

State Preschool Program Funding in 2011-12	**Funding Appropriations**	**Funded Slots**
Part Day Preschool (Proposition 98 Funding)	$368 million	100,000
General Child Care – Preschool Expenditures (State General Fund)	$400 million (Estimated)	45,000 (Estimated)
Total	**$768 million**	**145,000**

Governor's May Revise Proposals for Part-Day Preschool.

Overall, the Governor's May Revise proposes a net increase of **$33 million** for the Proposition 98 portion of the State Preschool Program in 2012-13. In contrast, the Governor's January budget proposed a **$58 million** reduction in 2012-13, as summarized below:

Proposition 98 Funded Preschool Program (Dollars in Millions)	**January**	**May Revise**	**Change**
Revised 2011-12 Budget	**$368**	**$368**	**--**
Reduce Standard Reimbursement Rate	-$34	--	$34
Reduce income eligibility threshold	-$24	$-24	--
Increase preschool slots	--	$57	$57
Technical adjustments			
Total Adjustments,	**(-$58)**	**($33)**	**($91)**
Proposed 2012-13 Budget	**$310**	**$400**	**$90**

More specifically, the May Revise proposes the following adjustments to the state preschool program in 2012-13:

- **Restores Provider Rate Reductions. (Issue 409).** The Governor requests that **$34,082,000**, which reflects a portion of the savings from elimination of Transitional Kindergarten requirements, be redirected to restore the 10 percent reduction to the Standard Reimbursement Rate (SRR) proposed in January. This request would retain the part-day per-child SRR at $21.22 for state preschool programs.

- **Increases Preschool Slots. (Issue 407).** The Governor requests that **$57,485,000** in remaining savings from elimination of Transitional Kindergarten requirements be redirected to expand access to part-day preschool for **15,500 children** from low-income families. Enrollment priority would be given to children from income eligible families who have their fifth birthday after November 1 and will no longer be eligible for Kindergarten in 2012-13.

- **Preschool Growth Adjustment**. **(Issue 480).** The Governor requests a decrease of **$1,507,000** to reflect updated growth estimates for the population of zero to four year old children.

- **Family Income Eligibility Ceiling Continued with Technical Adjustment (Issue 410).** Consistent with the Governor's savings proposals for other child care programs, the May Revise continues to reduce program eligibility criteria by lowering the amount a family can earn and still participate in the program. The May Revise proposes a relatively small increase of **$98,000** to reflect a revised estimate of savings associated with this reduction. Under the Governor's continuing proposal, the maximum monthly income threshold would drop from 70 percent of the State median income (SMI), which equates to $3,518 per month for a family of three, to 200 percent of the federal poverty level, which equates to about 62 percent of SMI, or $3,090 per month. The Governor would achieve **$24 million** in Proposition 98 savings from this change by defunding the estimated number of part-day preschool slots currently associated with children from families that exceed the new eligibility threshold – about **7,300 slots.**

The May Revise also continues the Governor's January proposal not to fund a statutory cost-of-living adjustment (COLA) increase for part-day preschool, which would have resulted in additional Proposition 98 costs of **$11.7 million** in 2012-13.

LAO Comments. The LAO offered the following comments on the Governor's preschool proposals from its recent budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012): The following issues still apply to the Governor's May Revise:

- **In 2013-14, Governor Proposes to Revert to Part-Day/Part-Year Preschool Program.** As part of his proposed changes for non-Proposition 98 funded child care, beginning in 2013-14, the Governor would eliminate the existing General Child Care program and shift the associated funding to a child care voucher system to be administered by county welfare departments. This would abolish the blended State Preschool Program and revert the state's direct-funded center-based preschool program to only a Proposition 98 funded part-day/part-year program for about **91,000 children** (a reduction of roughly **54,000 children** compared to how many children were served in the State Preschool Program in 2011-12).

  Preschool providers' ability to serve additional children or offer full-day/full-year services to meet the needs of working families would depend upon how many enrolled families could afford to pay out of pocket or obtain a state-subsidized voucher from the county welfare department. (Under the Governor's proposal, low-income families not receiving CalWORKs cash assistance would have more limited access to these vouchers).

- **Governor's Proposal for 2013-14 Ignores Reality of State's Current Preschool Program.** The Governor's proposal for 2013-14 treats the Proposition 98 preschool budget item and General Child Care budget item as two separate programs – preserving one and eliminating the other. However, in reality these funding sources have been supporting one uniform preschool program. **By redirecting all General Child Care funding into vouchers, the Governor's proposal would reduce the existing State Preschool Program by roughly 40 percent.** Moreover, the dismantling of the blended State Preschool Program would notably limit local providers' ability to provide a full-day/full-year preschool program, which is often the only way children from working low-income families are able to access services.

LAO Recommendations. The LAO offers the following recommendations to the Legislature:

1. **Support Elimination of Reduction to Reimbursement Rates**. The LAO supports the Governor's May Revise proposal to rescind the 10 percent reduction in the SRR in 2012-13 – and associated savings of $34.1 million – proposed by the Governor in January.

2. **Reject Proposal to Lower Family Income Thresholds and Instead Eliminate Slots.** The LAO recommends that the Legislature reject the Governor's proposal to lower income eligibility thresholds from 70 percent of the state median income (SMI) to 200 percent of the federal poverty level (about 62 percent of SMI) and eliminate associated slots, for savings of

$24 million in 2012-13. If reductions are needed, the LAO recommends that the Legislature eliminate preschool slots, as enrollment priority already is reserved for the lowest income applicants. (Providers already are required to select first from the families furthest below the existing ceiling of 70 percent of the SMI.)

3. **Recommend Funding All Preschool Slots in Proposition 98**. The LAO believes that the Governor's May Revise proposal continues to treat preschool programs inconsistently drawing false distinctions between Proposition 98 and non-Proposition 98 funded services. For this reason, the LAO continues to recommend funding all preschool slots within Proposition 98.

4. **Prioritize Preschool Funding for Four Year Olds No Longer Eligible for Kindergarten During Transition Period**. The LAO recommends that the Legislature adopt the Governor's proposal to prioritize slots in the state preschool program for low-income children affected by the change in the Kindergarten start date during the transition years. (See following issue on Transitional Kindergarten.)

STAFF RECOMMENDATION: Staff recommends that the Subcommittee hold these issues open to conform to the child care and Proposition 98 budget packages.

7. Transitional Kindergarten

Background.

Kindergarten Eligibility. Kindergarten is not compulsory in California. Per current law, parents and guardians are not required to enroll children in Kindergarten (EC Section 48200). If parents choose to enroll their children, schools must admit children who are of legal age (EC Section 48000). School districts must admit age eligible children at the beginning of the school year or whenever the student moves into the districts.

In 2011-12, students are eligible for Kindergarten if they turn five years old on or before December 2nd. However, Chapter 705, Statutes of 2010, will raise the Kindergarten entrance age by one month each year over a three year period commencing in 2012-13. More specifically, students will need to be five-years old by November 1st in 2012-13, by October 1st in 2013-14, and by September 1st in 2014-15 in order to be eligible for Kindergarten.

Local Options for Under-Age Children. Current law allows school districts to admit children to Kindergarten who are not age eligible – essentially through a local waiver process. However, the child may only attend, and school districts only receive funding, for the part of the year the child is five years old. According to the Department of Education, this is a rarely utilized process, and districts that admit these children to kindergarten prior to the time they turn five "jeopardize their apportionments, as auditors may take fiscal sanctions through an audit process." The Department of Education further states that "districts that base early admissions on test results, maturity of the child, or preschool records may risk being challenged by parents/guardians whose children are denied admission."

Kindergarten Continuance. According to the Department of Education, continuance is defined as more than one school year in Kindergarten. Current law requires a child who has completed a year of Kindergarten to be promoted to first grade, unless the parent or guardian and the school district agree that the child may continue Kindergarten for not more than one additional year. (EC 48011) If agreement is reached, parents or guardians must sign the Kindergarten Continuance Form. Per the Department, failure to have signed forms on file may jeopardize audit findings and result in loss of apportionment.

The Department of Education reports that a total of 22,894 Kindergarten students were enrolled in a second year of Kindergarten statewide in 2011-12. This represents about 4.7 percent of the 487,446 Kindergarten students enrolled statewide in 2011-12.

Transitional Kindergarten. Chapter 705 requires local school districts - as a condition of funding – to provide a new Transitional Kindergarten (TK) program for students who are no longer eligible for regular (or traditional) Kindergarten beginning in 2012-13. On fully implemented, this new program will offer an additional year of public school for children with birthdays between September 1st and December 2nd of each year.

According to the Department of Education, "Transitional Kindergarten is the first year of a two-year Kindergarten program that uses a modified Kindergarten curriculum that is age and developmentally appropriate." Per the Department, "each elementary or unified school district must offer Transitional Kindergarten classes for all children eligible to attend. A child who completes one year in a Transitional Kindergarten program, shall continue in a Kindergarten program for one additional year."

Unlike other early childhood programs, funding for the Transition Kindergarten program would not be needs-based. For example, funding would not be targeted on the basis of income, as is the case with most other publicly funded child development programs, such as state preschool. Instead, program funding would be provided to serve all children with birthdays that fall within a three month range.

Governor's May Revise Proposals:

1. **Continues to Eliminate New Transitional Kindergarten Program.** According to the Administration, the Governor believes this is a time for reinvestment and reform of core programs, not for program expansions. As such, the Governor's January 10 budget proposed to eliminate the new, two-year Transitional Kindergarten -- pursuant to Chapter 705.

   The Governor's most recent proposal – reflected in proposed trailer bill language -- would still eliminate the new Transitional Kindergarten program. And the May Revise continues earlier revisions that would expand existing law to authorize full-year funding for children who are not eligible for Kindergarten when they enter school if the district authorizes early admittance with a waiver. Coupled with current law that allows up to one additional year of Kindergarten, the May Revise would also authorize a full two years of Kindergarten for districts that choose to admit children who are not age-eligible for Kindergarten.

2. **Revises Savings Estimates Associated with Elimination of Transitional Kindergarten (Issue 251).** The Governor's January budget estimated **$224 million** in Proposition 98 savings associated with the proposals to eliminate Transitional Kindergarten in 2012-13. In February, the Department of Finance revised its savings estimates to **$124 million** to reflect savings offsets for school districts with declining enrollment, and additional costs resulting from districts that grant early admission "waivers" to children who do not meet the new age requirements when they enter school. The May Revise further lowers the savings estimate to **$92 million** in 2012-13 due to erosions associated with declining enrollment and increased attendance projected by expanding the waiver process.

3. **Continues to Extend Preschool to Children No Longer Eligible for Kindergarten.** The Governor continues additional trailer bill language to increase the eligibility age for the part-day State Preschool program in order to cover four-year old children who are no longer eligible for Kindergarten due to the eligibility age rollback, but who turn five years old by December 2. (Current law limits eligibility for state preschool funding to children who turn three and four years old by December 2.) In sharp contrast to his January proposal, the Governor's May Revise proposes an increase of **$57 million** in Proposition 98 funding to

fund an additional **15,500 preschool slots** to give eligible five-year olds first priority for part-day State Preschool funding.

LAO Comments. The LAO offers the following comments on the Governor's Transitional Kindergarten (TK) proposal from its budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012). The following issues still apply to the May Revise proposals:

- **Governor's Proposal Not to Initiate New TK Program Is Reasonable for Budgetary Reasons.** Given the major funding and programmatic reductions school districts have experienced in recent years—and the potential for additional reductions if the November election does not result in new state revenue—the LAO agrees with the Governor's assessment that now is not the time to initiate major new programs. Budget reductions and unfunded COLAs mean districts currently are increasing class sizes, shortening the school year, and cutting many activities that have long been part of the school program. The LAO does not believe that offering a 14th year of public education to a limited pool of children—and dedicating resources to develop new curricula and train teachers—at the expense of funding existing K-12 services makes sense.

- **Governor Would Make Slight Modification to Existing Waiver Process for Underage Kindergarteners.** As under current law, parents of children born after the cutoff could request a waiver to have their children begin kindergarten early. The Governor is proposing to modify current law, however, so these children could begin kindergarten at the beginning of the school year, rather than waiting to enter in the middle of the year after they turn five. The Administration clarifies that as under current law, the waiver option would continue to pertain to early admittance to traditional kindergarten programs, as TK programs would no longer be funded. Districts could choose to admit four-year old children to kindergarten early on a case-by-case basis if they believed it was in the best interest of the child. To the extent many parents request and districts grant these waivers, it would increase the 2012-13 kindergarten cohort, thereby reducing the amount of savings generated by the change in cutoff date.

- **…And for Policy Reasons.** The LAO also has fundamental policy concerns with the design of the TK program. While receiving an additional year of public school likely would benefit many four-year olds born between September and December, the LAO questions why these children are more deserving of this benefit than children born in the other nine months of the year. This preferential treatment is particularly questionable since the eligibility date change will render children born between September and December the oldest of their kindergarten cohorts, arguably an advantage over their peers. Moreover, the TK program would provide an additional year of public school to age-eligible children regardless of need. This includes children from high and middle-income families who already benefit from well-educated parents and high-quality preschool programs. The LAO believes focusing resources on providing preschool services for low-income four-year olds—regardless of their exact birth month—likely would have a greater effect on improving school readiness and reducing the achievement gap.

LAO Recommendations. Overall, the LAO recommends that the Legislature immediately adopt the Governor's proposal to eliminate the new TK program and focus limited state resources on serving four year olds who could most benefit from state subsidized education programs. The LAO also makes recommendations to smooth the transition to the new Kindergarten cutoff dates pursuant to Chapter 705. More specifically, the LAO recommends that the Legislature:

1. Immediately adopt the Governor's January budget proposal to cancel initiation of the new Transitional Kindergarten program, because it is costly and poorly designed. According to the LAO's May Revise Proposition 98 Alternative Plan, this would result in a savings of between of **$75 million** in 2012-13, instead of the **$92 million** estimated by the Governor's May Revise.

2. Modify the Governor's waiver proposal to focus on students born close to cutoff dates.

3. Adopt the Governor's proposal to prioritize preschool access for low-income children affected by the Kindergarten date change, but only for the transition years.

STAFF COMMENTS: On April 12, 2012, the Subcommittee voted to reject the Governor's Transitional Kindergarten proposal.

8. Child Care Program Redesign and Restructuring

Previous Full Budget Committee Hearing. On March 1, 2012 the Senate Budget and Fiscal Review Committee held a hearing to fully evaluate the Governor's proposed redesign and restructuring of CalWORKs program and child care system. There was significant testimony at this hearing in opposition to the Governor's proposed restructuring of the child care system. Specifically, there has been considerable concern raised about the delinking of child care programs from education. The Superintendent of Public Instruction has also vigorously opposed this restructuring proposal.

In review, the Governor proposed to restructure the administration of child care over a two-year period. The Administration proposes to replace the three-stage child care system for current and former CalWORKs recipients and programs serving low-income working parents and centralize eligibility with county welfare departments starting in 2013-14. The Governor is proposing a two year process to implement these changes.

- **Year 1—2012-13 Structure.** The Governor proposes to consolidate all funding for Stages 2, 3 and non-CalWORKs Alternative Payment (AP) programs into one block grant to the AP contractors. First priority for this block grant would be child care for families whose children are recipients of child protective services, or at risk of being abused, neglected or exploited, and cash-aided families meeting work requirements. However, other income eligible families meeting the new work requirements would also be eligible for the subsidy regardless of whether they had ever been on cash aid. Priority would be based on income and the previously listed factors.

  In Year 1, CDE would continue to contract directly with Title 5 centers and Title 5 family child care homes, which comprise the State Preschool program and General Child Care program. They would also continue to contract for the smaller Migrant and Severely Handicapped Programs. The counties would also continue to administer Stage 1 contracts for CalWORKs. The diagram on the next page illustrates the changes proposed to the child care structure in 2012-13.

Proposed Child Care Structure for 2012-13

DSS**: CalWORKs Child Care Stage 1** will continue to be administered by County Welfare Directors subject to the new work participation requirements. Program funding of $442 million to support 60,313 slots.

CDE: **CalWORKs Child Care Stage 2** is an entitlement for families for two years after the family stops receiving aid.

CDE: **CalWORKs Child Care Stage 3** is for families that have exhausted the time limit in Stage 2 and are otherwise eligible for child care. Stage 3 is a capped program.

CDE: **Alternative Payment Programs** provide low income families with vouchers for care in a licensed center, family child care home, or by a licensed-exempt provider.

CDE: **New consolidated block grant** to the Alternative Payment contractors to provide vouchers to serve eligible families with priority given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, cash-aided families meeting work requirements, and other income eligible families meeting work requirements. Program funding of $571 million to support 82,834 slots.

CDE: Administration of the **General Child Care** program which funds Title 5 centers through direct contracts with the State would not change in the budget year, except for the reduction in income eligibility and reimbursement rate, which would reduce the size of this program considerably. Program funding of $470 million to support 52,809 slots.

- **Year 2—2013-14 Structure.** In Year 2 of the redesign, larger fundamental changes occur regarding the oversight and management of the child care programs. In Year 2 all of the child care funding at CDE (except part-day Preschool) would be consolidated with Stage 1 (administered by Department of Social Services) to provide a new consolidated block grant to the counties. Furthermore, the January proposal would have convert the contracts with Title 5 centers to vouchers.

  The Administration has indicated that in Year 2 the county will be responsible for eligibility (currently the AP does eligibility for some programs), but the AP would continue to be responsible for administering and paying the network of child care providers.

Proposed Child Care Structure 2013-14

DSS: **CalWORKs Child Care Stage 1**

CDE: **New Consolidated block grant** (formerly CalWORKs Stages 2 and 3 and Alternative Payment Programs)

CDE: **General Child Care** program.

DSS/Counties: **Consolidated child care block grant** to serve eligible families with priority given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, and cash-aided families meeting work requirements, and other income eligible families meeting work requirements. Counties would have authority to continue to contract with Alternative Payment contractors locally like 27 counties currently do with the Stage 1 program. The DSS would oversee this consolidated program, including the federal Child Care Development Funds.

May Revision. The May Revision proposes several changes to the restructuring proposal, including many that respond to concerns raised in committee hearings. The changes are outlined below:

- **Create Separate Block Grant.** Requires the creation of a separate child care block grant, to ensure eligible low-income working families continue to have access to child care services. In January, the Governor's budget was not specific about how child care monies would be allocated to the counties and there was some concern that the child care monies would be added to the County Single Allocation for the CalWORKs program and would not ultimately be expended on child care. Under the revised proposal, Stage 1 would continue to be funded as part of the Single Allocation block grant to the counties, but Stages 2 and 3, the AP programs, the Migrant programs, and funding for the Title 5 programs would all be placed in a block grant dedicated to child care.

- **Preserves Title 5 Infrastructure.** Requires that county welfare departments will contract with Title 5 centers for three years for the same number of slots that will be funded under the General Child Care program in 2012-13. The May Revision proposal would also provide counties with flexibility to deviate from this allocation up to 10 percent and after three years, counties would be able to adjust contracts with Title 5 centers including canceling contracts and shifting more resources to voucher-based providers within the county to better align service needs with available resources. The Title 5 designation will continue to be maintained by CDE through the annual submission of an assessment of the education program at the center. Counties would also be given flexibility to pay the higher of the RMR and SRR to maintain the Title 5 infrastructure. In some parts of the state the SRR is currently lower than the RMR voucher rate.

- **Clarifications on Transition.** The May Revision proposal indicates that some funding (up to 30 percent of GF and federal funds) would be shifted from CDE to the DSS to fund state operations costs associated with the transition of child care services to county welfare departments. It would also require that county welfare departments put together plans on how they would implement child care and provide the potential for a mid-year transfer of child care funding and responsibilities in 2012-13 if counties are ready to assume responsibilities early. This provides for a more aggressive transition of child care activities than contemplated in the January proposal. The Administration indicates that there are some counties that are interested in taking over these responsibilities in the budget year.

- **Revised Funding for County Administration.** The May Revision includes $26.5 million (mainly from federal funds) to counties so they can ramp up to take over child care eligibility in 2013-14. This is less than the $35 million proposed in January for this purpose. The Administration indicates that there is significant work that would need to be done to fully transition the administration of child care to the counties because under the Governor's proposal the APs and Title 5 centers would no longer manage eligibility and instead eligibility would be centralized at the county. Given this, there should be some adjustments to the administrative overhead of the APs.

- **Quality Activities.** There are also proposed changes to the quality activities, but those changes are detailed in the next item.

- **Stakeholder Workgroup**. The May Revision also proposes trailer bill language that requires the Department of Social Services to convene a stakeholder work group to include, county social services agencies, the State Department of Education, alternative payment providers, Title 5 child care centers, labor organizations, other child care and program integrity experts, and legal advocacy organizations representing consumers. This workgroup will make public recommendations no later than January 15, 2013 on a variety of issues, including consistent due process for parents, consistent mechanisms for dispute resolution, the equitable treatment of consumers of subsidized child care, best practices, and a consistent approach to fraud and overpayments.

LAO Supports Restructuring Plan. The LAO, for the most part, recommends that the Legislature adopt the Governor's proposed restructuring plan. They find that a streamlined system would treat similar families and similar providers similarly and hold all to the same set of requirements. Furthermore, they find that the proposal offers opportunities for child care to become part of a coordinated and integrated system of local services as counties oversee eligibility for most other social and health services that support low income families. The LAO also recommends that the Legislature fully recognize the state preschool budget that is currently budgeted in the General Child Care program that would otherwise be realigned to the counties under the Governor's proposal. More specifically, the LAO recommends that the Legislature fund all preschool slots within Proposition 98. The Governor's revised restructuring proposal addresses many of the concerns raised by the LAO, including placing child care funding in a separate block grant and the difficulties in converting all funding to vouchers and the impacts on Title 5 centers.

Staff Comments. There has been considerable opposition to the Governor's proposal to restructure child care to county-centered administration. However, it is important to note that the vast majority of the voucher programs are currently run by locally based Alternative Payment agencies and in 27 counties the Alternative Payment agency also manages the Stage 1 contract for child care, which is currently allocated to the counties by DSS. There are also five counties that are also Alternative Payment agencies. So there are considerable relationships that already exist between the Alternative Payment agencies and counties.

Staff finds that many of the topics of the stakeholder workgroup are topics that have been discussed at length at CDE for many years without resolution.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open.

9. Child Care Quality Improvement Plan Activities

Previous Subcommittee Meeting. At the April 12, 2012 meeting of the Subcommittee there was discussion about the expenditure of the child care quality improvement funds. These funds are the 4 percent of the federal Child Care and Development Fund (CCDF) monies required to be used for activities to improve the quality of child care. The Governor's budget included $72 million in federal funds for 27 quality improvement projects. The State is required to submit a plan every two years detailing how these quality improvement funds will be allocated and expended. The most recent plan was submitted to the federal government in May of 2011. This plan covers the period October 1, 2011 through September 30, 2013. The quality improvement projects generally fall into one of the major categories as follows:

- Support for the Resource and Referral Network and Agencies.
- Support for the Local Child Care and Development Planning Councils.
- License Enforcement for Child Care Programs (State Support).
- Training and Professional Development for Early Child Care Professionals.
- Grants, stipends, and other financial incentives to encourage professional development and licensure.
- Early Childhood Education Curriculum Development.

At the Subcommittee meeting we learned that some of the contracts are multi-year contracts and others are renewed annually. For the most part, many of these contracts have been renewed annually or biannually with the same contractor since their inception and many of them were started in 1998. At the Subcommittee meeting we also learned that there are not regular reviews of these contracts.

We also discussed the recently awarded $53 million federal Race to the Top Early Learning Challenge Grant to develop locally based quality rating systems for child care and development programs. This grant will be expended over four years. The LAO recommended regular reports to the Legislature related to the implementation of this grant.

The Governor's January budget proposed the shift of administration of all quality funds from the State Department of Education to the Department of Social Services with the funds to be expended per a joint plan developed by CDE and DSS. The LAO recommended that the Legislature also have a role in the development and oversight of a plan. The Governor also proposed shifting the administration of the Race to the Top grant from CDE to DSS, as well.

May Revision. The Governor's May Revision includes several proposals related to quality, as follows:

- **Technical Adjustment.** The May Revision includes a technical adjustment to adjust for fewer one-time federal funds by adjusting federal funds downward by **$437,000**.
- **Race to the Top Grant.** The May Revision also includes the funding to reflect the receipt of the Race to the Top Grant. This includes **$5.3 million for state supported activities** related to the grant and provisional language that makes approval contingent on an approved expenditure plan for state activities. The May Revision also **includes $11.9**

million to support local quality improvement activities, including $10.1 million that will be allocated to the Regional Leadership Consortia.

- **Amendments to Restructuring Proposal on Quality.** The May Revision indicates that the quality projects will continue to be funded by CDE in the budget year. However, in 2012-13 DSS will develop a plan in consultation with CDE that outlines how the quality funding will be expended in 2013-14. The plan would require that DSS conduct programs that promote health and safety of children in care and CDE retain programs and activities that promote early learning and readiness for school, including Resource and Referral programs. The plan would also reflect an allocation to county welfare departments to target quality funds to local needs and priorities. The May Revision includes amendments to provisional budget bill language to accomplish these changes.

Staff Comments. Staff finds that the budget year is the second year of the two-year expenditure plan for the quality improvement money that was already submitted and approved by the federal government. Therefore, maintaining management of the quality funds with CDE makes sense in the budget year. If a shift should occur, it would make more sense to make that shift at the beginning of a new two year cycle. Staff also finds that the Administration has attempted to provide guidance related to how they would reallocate the quality improvement funds based on core competencies. Clearly CDE is the leader in school readiness and early learning curricula; DSS currently has responsibilities related to regulating health and safety of children. The big change would be the role of the counties in allocating monies to target local priorities.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve technical adjustment.
- Approve Race to the Top Funding and trailer bill language to set up annual reporting to the Legislature on expenditure of the grant.
- Hold open amendments to restructuring proposal.

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Wednesday, May 23, 2012
1:30 p.m.
Room 4203, State Capitol
OUTCOMES

Governor's May Revise & Open Issues: Department of Education

Child Care & Early Childhood Education Overview:

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-651-1505. Requests should be made one week in advance whenever possible.

1. Various K-12 State Operations and Local Assistance Adjustments (Vote Only)

DESCRIPTION: The Governor proposes the following amendments to and addition of various K-12 state operations (support) and local assistance budget items for the Department of Education in 2012-13. As proposed by the Governor's May Revise and Department of Finance (DOF) April Letter, these adjustments – as listed below – are considered technical adjustments, mostly to update federal budget appropriation levels so they match the latest estimates and utilize funds consistent with current programs and policies.

GOVERNOR'S MAY REVISE PROPOSALS:

Federal Funds Adjustments

1. **Item 6110-112-0890, Local Assistance, Public Charter Schools Grant Program (PCSGP) (Issue 326).** It is requested that this item be increased by $25,000 Federal Trust Fund to reflect an increase in the federal grant award for the PCSGP. The increase is due to fluctuation in the number of charter schools that are eligible for the PCSGP, which provides each newly approved charter school between $250,000 and $575,000 to support planning and initial implementation.

2. **Item 6110-113-0890, Local Assistance, Federal Title VI Funds for Student Assessment Program (Issue 147).** It is requested that Schedule (2) of this item be decreased by $2,460,000 to align the appropriation with the anticipated federal grant. Federal funds for state assessments are provided for costs associated with the development and administration of the Standardized Testing and Reporting program, the English Language Development Test, and the California High School Exit Exam.

3. **Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 086 and 087)—**It is requested that Schedule (1) of this item be decreased by $261,000 federal Title I Migrant Education Program funds to align with the available federal grant award. Local educational agencies (LEAs) use these funds for educational support services to meet the needs of highly-mobile children.

   It is also requested that Schedule (2) of this item be decreased by $3,334,000 federal Title III English Language Acquisition funds to align with the available federal grant award. LEAs use these funds for services to help students attain English proficiency and meet grade level academic standards.

4. **Item 6110-128-0001, Local Assistance, Amend Economic Impact Aid Program Budget Bill Language (Issue 083).** It is requested that provisional language be amended to change the due date for a required Economic Impact Aid (EIA) report from March 31 to September 15 of each year. As a condition of receiving EIA funds, juvenile county court schools are required to report on the use of funds and the number of pupils served. The September due date would allow data to be reported after the completed fiscal year and would provide more accurate information for budget development.

The EIA is a categorical program that provides Proposition 98 General Fund to school districts for the purpose of providing educational services to disadvantaged and English learner pupils.

It is further requested that Provision 1 of this item be amended to conform to this action as follows:

> "1. Of the funds appropriated in this item, up to $3,100,000 is available pursuant to Section 54021.2 of the Education Code for Juvenile County Court Schools that have Economic Impact Aid eligibility. As a condition of receipt of funds, Juvenile County Court Schools receiving the funds are required to report on the use of funds and the number of pupils served no later than ~~March 31, 2013.~~ September 15, of each year."

5. **Item 6110-134-0890, Local Assistance, Federal Title I Set Aside Funds for LEA Corrective Action Program (Issue 149).** It is requested that Schedule (2) of this item be decreased by $8,954,000 federal Title I Set Aside funds to align the appropriation with the estimated program costs. The program provides funding for technical assistance to LEAs entering federal Corrective Action. Fifty-eight LEAs are expected to be eligible for the program in the budget year, at a cost of $31,904,000. The funding requested for the program is based on the State Board of Education's past practices. We further propose to shift the $8,954,000 to Schedule (4) of this item, consistent with federal law and guidance, to provide additional funding to schools and LEAs at a time of limited General Fund resources. (See related Issue 151.)

6. **Item 6110-134-0890, Local Assistance, Federal Title I Funds for School Improvement Grant Program (Issue 150).** It is requested that Schedule (3) of this item be increased by $2,949,000 federal Title I funds to align the appropriation with the anticipated federal grant. SDE awards school improvement grants to LEAs with the persistently lowest-achieving Title I schools to implement evidence-based strategies for improving student achievement.

7. **Item 6110-134-0890, Local Assistance, Federal Title I Basic Elementary and Secondary Education Act Program (Issue 097).** It is requested that Schedule (4) of this item be increased by $13,033,000 federal Title I funds for the Title I Basic Elementary and Secondary Education Act to reflect an increase of $12,281,000 in the available federal grant award and $752,000 in one-time carryover funds. LEAs use these funds to support services that assist low-achieving students enrolled in the highest poverty schools.

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

   > X. Of the funds appropriated in Schedule (4), $752,000 is provided in one-time Title I Basic Program carryover funds to support the existing program.

8. **Item 6110-134-0890, Local Assistance, Shift of Federal Title I Set Aside Funds to Title I, Part A Basic Program (Issue 151).** It is requested that Schedule (4) of this item be increased by $32,625,000 federal Title I Set Aside funds for allocation to all Title I LEAs and schools using the state's standard Title I, Part A Basic Program distribution methodology. Of

this amount, $8,954,000 would be shifted from Schedule (2) due to a decrease in the estimated costs of the LEA Corrective Action program, as compared to the Governor's Budget estimate. (See related Issue 149.) In addition, $23,671,000 federal Title I Set Aside funds are available due to an increase in the anticipated federal grant. Distributing these funds to all Title I schools and LEAs is consistent with federal law and guidance and would provide additional funding to these schools and LEAs at a time of limited General Fund resources.

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

X. Of the funds appropriated in Schedule (4), $32,625,000 is provided in one-time Title I Set Aside funds for allocation to all Title I local educational agencies and schools using the state's standard distribution methodology for the federal Title I, Part A Basic Program.

9. **Item 6110-136-0890, Local Assistance, McKinney-Vento Homeless Children Education Program (Issue 088).** It is requested that Schedule (1) of this item be increased by $534,000 federal Title I McKinney-Vento Homeless Children Education funds. This adjustment includes an increase of $284,000 to align with the available federal grant award and $250,000 in one-time carryover funds. LEAs use these funds to provide services to homeless students.

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

   X. Of the funds appropriated in Schedule (1), $250,000 is provided in one-time carryover funds to support the existing program.

10. **Item 6110-137-0890, Local Assistance, Rural and Low-Income School Program (Issue 089).** It is requested that this item be increased by $216,000 federal Title VI, Part C, Rural and Low-Income School Program funds to reflect an increase of $131,000 in the available federal grant award and $85,000 in one-time carryover funds. This program provides financial assistance to rural districts to help them meet federal accountability requirements and to conduct activities of the federal Elementary and Secondary Education Act program.

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

    X. Of the funds appropriated in this item, $85,000 is provided in one-time carryover funds to support the existing program.

11. **Item 6110-156-0890, Local Assistance, Adult Education Program (Issue 090).** It is requested that this item be increased by $6,737,000 federal Title II funds for the Adult Education Program to reflect an increase of $1,143,000 in the available federal grant award and $5,594,000 in one-time carryover funds. This program provides resources to support the Adult Basic Education, English as a Second Language, and Adult Secondary Education programs.

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

X. Of the funds appropriated in this item, $5,594,000 is provided in one-time carryover funds to support the existing program.

12. **Item 6110-161-0890, Local Assistance, Special Education Individuals with Disabilities Education Act (IDEA) 611 Grant Awards (Issue 643)**. It is requested that Provision 1 of this item be amended to align future IDEA 611 grant awards with the amended allocation table provided by the federal government. This request would provide the SDE with flexibility so that in instances where IDEA 611 amended grant awards received are lower than the initial grant award, reductions can be made according to the intent set forth by the federal Office of Special Education Programs.

~~"1. If the funds for Part B of the federal Individuals with Disabilities Education Act (20 U.S.C. Sec. 1400 et seq.) (IDEA) that are actually received by the state exceed $1,237,042,000, at least 95 percent of the funds received in excess of that amount shall be allocated for local entitlements and to state agencies with approved local plans. Up to 5 percent of the amount received in excess of $1,237,042,000 may be used for state administrative expenses upon approval of the Department of Finance. If the funds for Part B of the IDEA that are actually received by the state are less than $1,237,042,000, the reduction shall be taken in other state-level activities, unless otherwise specified in the amended grant award."~~

13. **Item 6110-161-0890, Local Assistance, Special Education (Issue 648).** It is requested that this item be decreased by ~~$12,538,000~~ $14,084,000 in federal special education funds. This adjustment includes a decrease of ~~$12,381,000~~ $12,382,000 in Schedule (1), ~~and~~ a decrease of ~~$157,000~~ $1,698,000 in Schedule (5), and a decrease of $4,000 to Schedule (6) to align appropriations with the anticipated federal Individuals with Disabilities Education Act, Part B, grant award for fiscal year 2012-13.

14. **Item 6110-166-0890, Local Assistance, Vocational Education Program (Issue 091).** It is requested that this item be increased by $9,869,000 federal Title I funds for the Vocational Education Program to reflect an anticipated increase of $2,909,000 in the federal grant award and $6,960,000 in one-time carryover funds. This program develops the academic, vocational, and technical skill of students in high school, community colleges, and regional occupational centers and programs.

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

    X. Of the funds appropriated in this item, $6,960,000 is provided in one-time carryover funds to support the existing program.

15. **Item 6110-183-0890, Local Assistance, Safe and Supportive Schools (Issue 822).** It is requested that this item be increased by $475,000 Federal Trust Fund to reflect the availability of one-time carryover funds for the Safe and Supportive Schools program, which supports statewide measurement of school climate and helps participating high schools improve conditions such as school safety, bullying, and substance abuse.

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

> X. Of the funds appropriated in this item, $475,000 is provided in one-time carryover funds to support the existing program.

16. **Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issue 092).** It is requested that this item be decreased by $818,000 federal Title II funds to reflect a decrease of $2,518,000 in the federal grant award and $1.7 million in one-time carryover funds. The Mathematics and Science Partnership Program provides competitive grants to partnerships of low-performing schools and institutions of higher education to provide staff development and curriculum support to mathematics and science teachers.

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

    > X. Of the funds appropriated in this item, $1,700,000 is provided in one-time carryover funds to support the existing program.

17. **Item 6110-195-0890, Local Assistance, Improving Teacher Quality—Local Grants (Issues 093 and 094).** It is requested that Schedule (1) of this item be decreased by $656,000 federal Title II funds to align with the federal grant award. The Improving Teacher Quality Grant Program provides funds to LEAs on a formula basis for professional development activities focused on preparing, training, and recruiting highly-qualified teachers.

    It is also requested that Schedule (4) of this item be decreased by $1,506,000 federal Title II funds to align with the available federal grant award. The Improving Teacher Quality Higher Education Grant Program provides funds on a competitive basis to support academic partnerships between institutes of higher education and high-need K-12 LEAs for projects that focus on professional development for teachers and administrators.

18. **Item 6110-201-0890, Local Assistance, Federal Child Nutrition Program (Issue 821).** It is requested that Schedule (1) of this item be increased by $107,263,000 Federal Trust Fund due to the anticipated increase in meals served through the Child Nutrition Program. Sponsors of this federal entitlement program include public and private nonprofit schools; local, municipal, county, or tribal governments; residential camps; and private nonprofit organizations.

19. **Item 6110-240-0890, Local Assistance, Advanced Placement (AP) Fee Waiver Program (Issues 823 and 827).** It is requested that this item be increased by $3,138,000 Federal Trust Fund to reflect the availability of $32,000 in one-time carryover funds and an anticipated $3,106,000 increase in the federal grant for the AP Fee Waiver program, which reimburses school districts for specified costs of AP, International Baccalaureate, and Cambridge test fees paid on behalf of eligible students. These programs allow students to pursue college-level course work while still in secondary school.

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

X. Of the funds appropriated in this item, $32,000 is provided in one-time carryover funds to support the existing program.

20. 6110-001-001 and 6110-001-0890, Support, State Department of Education. Amend California Longitudinal Pupil Achievement Data System (CALPADS) Budget Bill Language (Issue 324). It is requested that Provision 26 of Item 6110-001-0890 be amended to allow greater flexibility for the SDE to administer the CALPADS. Currently, the provisional language for the CALPADS restricts the funds for specific purposes, including systems maintenance and vendor costs. In fiscal year 2012-13, the SDE projects increased costs from the Office of Technology Services (OTech) for data storage and a one-time cost to update older software versions no longer supported by the OTech, which the SDE would not be able to fund due to the proscriptive nature of the amount in the Budget Bill language. The proposed changes will provide the flexibility necessary for the SDE to absorb the cost increases and successfully administer the CALPADS.

Specifically, it is requested that Provision 26 of 6110-001-0890 be amended as follows:

"26. Of the funds appropriated in this item, $6,636,000 is for the California Longitudinal Pupil Achievement Data System (CALPADS), which is to meet the requirements of the federal No Child Left Behind Act of 2001 (20 U.S.C. Sec. 6301 et seq.) and Chapter 1002 of the Statutes of 2002. These funds are payable from the Federal Trust Fund to the State Department of Education (SDE). Of this amount, $5,641,000 is federal Title VI funds and $995,000 is federal Title II funds. These funds are provided for the following purposes: $~~2,457,000~~3,254,000 for systems housing and maintenance provided by the Office of Technology Services (OTECH); $~~1,491,000~~908,000 for ~~vendor~~ costs associated with necessary system~~s~~ ~~integration and improvement~~ activities; $790,000 for SDE staff~~, including a technical lead, to work on the system; $251,000 for system software costs; $134,000 for an independent project oversight consultant and independent validation and verification costs; $45,000 for system hardware costs; $8,000 for Department of General Services charges;~~ and $~~486,000~~710,000 for various other costs, including hardware and software costs, indirect charges, Department of General Services charges~~, OTECH charges~~, and operating expenses and equipment. As a condition of receiving these funds, SDE shall ensure the following work has been completed prior to making final vendor payments: a Systems Operations Manual, as specified in the most current contract, has been delivered to SDE and all needed documentation and knowledge transfer of the system has occurred; all known software defects have been corrected; the system is able to receive and transfer data reliably between the state and local educational agencies within timeframes specified in the most current contract; system audits assessing data quality, validity, and reliability are operational for all data elements in the system; and SDE is able to operate and maintain CALPADS over time. As a further condition of receiving these funds, the SDE shall not add additional data elements to CALPADS, require local educational agencies to use the data collected through the CALPADS for any purpose, or otherwise expand or enhance the system beyond the data elements and functionalities that are identified in the most current approved Feasibility Study and Special Project Reports and the CALPADS Data Guide v1.2. In addition, $974,000 is for

SDE data management staff responsible for fulfilling certain federal requirements not directly associated with CALPADS."

Other Adjustments

21. **Item 6110-102-0231, Local Assistance, Tobacco-Use Prevention Education Program (Issue 828).** It is requested that this item be decreased by $629,000 in Health Education Account funds to reflect decreased 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.

STAFF RECOMMENDATION (VOTE ONLY): Staff recommends approval of all of the May Revise and DOF April Letter issues listed above (Items 1-21), including highlighted technical amendments. No issues have been raised for any of these items.

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

Child Care Vote Only Calendar

2. Child Care Federal Funds - Technical Adjustments

Background. Federal funds along with General Fund (Proposition 98 and non-Proposition 98) are one of the primary funding sources for child care programs. The exact amount available to fund child care programs in any one year is dependent upon allocations from the federal government and available carryover of unspent prior year allocations.

May Revision Letter. The May Revision makes adjustments to the base assumptions in the January budget about the amount of federal funds available to offset GF expenditures. The May Revision letter indicates that there are **$768,000 additional federal funds ongoing** and **$1 million in one-time federal funds** available from prior years.

Staff Recommendation. Staff recommends that the Subcommittee approve this technical adjustment.

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

3. 21st Century Community Learning Centers – Technical Adjustments

Background. The 21st Century Community Learning Center program is a federal grant program that 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 helps students meet state and local student standards in core academic subjects; offers students a broad array of enrichment activities; and offers literacy and other educational services to the families of participating children.

May Revision Letter. The May Revision letter indicates that federal funds are expected to be **$12.3 million** higher in the budget year for the 21st Century Community Learning Center program. This is a result of $10 million in fewer ongoing funds offset by $22.4 million additional one-time carryover funds.

Staff Recommendation. Staff recommends that the Subcommittee approve this technical adjustment.

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

Child Care and Early Childhood Education

Background and Previous Subcommittee Meetings. There are many different programs that invest in child care and early childhood education. Direct child care and early childhood education services are currently funded by every level of government (federal, state, and local), including local school districts and the First 5 County Commissions. These programs have developed through separate efforts to achieve a variety of goals, including but not limited to, providing the child care necessary so that parents can work, and providing an educational environment that helps prepare young children for success in school.

These programs and the Governor's proposals to balance the budget have been discussed at length at the March 1, 2012 meeting of the Senate Budget and Fiscal Review Committee and the April 12, 2012 meeting of Budget Subcommittee #1 on Education. For additional background information on these programs please reference the agendas from those hearings.

4. Caseload Adjustments

Background. The child care and early childhood education programs funded by the State are generally capped programs. This means that funding is not provided for every qualifying family or child, but instead funding is provided for a fixed amount of slots or vouchers. The exception is the CalWORKs child care program (Stages 1 and 2), which are entitlement programs in statute. In general Stage 1 child care is provided to families on cash assistance until they are "stabilized". After families are stabilized they are transferred to Stage 2, where they are entitled to child care while on aid and for two additional years after they leave aid. Stage 3 has been for those families that have exhausted their Stage 2 entitlement.

Historically caseload projections have generally been funded for Stages 1, 2, and 3 in their entirety – even though, technically speaking, Stage 3 is not an entitlement or caseload driven program. There has been considerable turmoil in the Stage 3 program since Governor Schwarzenegger first vetoed all of the funding for Stage 3 in 2010. Last year the program was effectively capped and CDE was required to provide instructions to the field on how to dis-enroll families.

May Revision. The May Revision typically updates caseload funding. These adjustments are made based on current law and do not reflect policy changes that would reduce the program. The revised baseline caseload assumptions for Stages 2 and 3 are an increase of **$3.2 million** and **$14.5 million**, respectively. Stage 1 caseload is down slightly.

Staff Comments. Staff finds that the Administration has continued to build the Stage 3 caseload as if it is an entitlement, even though it is currently operating as a capped program. Given the magnitude of other reductions being made in this budget to child care programs, the Legislature may wish to weigh the tradeoffs related to expanding Stage 3 beyond the current capped level and the other budget reductions being considered.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open.

5. Budget Reductions

Previous Subcommittee Meeting. At the March 1, 2012 Senate Budget and Fiscal Review Committee and the April 12, 2012 Budget Subcommittee #1 hearing considerable testimony was taken on the impacts of the Governor's proposed reductions to the child care programs. There was considerable concern voiced about the loss of 62,000 child care slots, which is the expected impact of the Governor's January budget proposals to reduce General Fund spending on child care programs by $450 million or approximately 20 percent of the total program when compared to 2011-12. Testimony was received that indicate that this level of cut could actually reduce slots further than the 62,000 estimated given the compounding nature of the reductions and the relative fragility of local child care markets. Specifically, we heard considerable testimony from the Title 5 community about the devastating impact of the State Reimbursement Rate (SRR) cut on the ability to sustain programs that meet Title 5 criteria.

In summary the Governor's January budget proposals discussed were as follows:

- **Stricter Work Requirements and Reduced Time Limits for CalWORKs Recipients -** $293.6 million in savings in non-Proposition 98 General Fund by reducing time limits on CalWORKs for adults not meeting work participation requirements and applying stricter work participation requirements for all families receiving child care services. Specifically, single parent families with older children would be required to work 30 hours per week. New eligibility criteria would not provide subsidized child care for training and education activities. This reduction would have eliminated about 46,300 child care slots.

- **Reduce Income Eligibility -** $43.9 million in non-Proposition 98 General Fund savings and $24.1 million in Proposition 98 General Fund savings by reducing the income eligibility ceilings from 70 percent of the state median income to 200 percent of the federal poverty level or 62 percent of state median income (SMI). This level equates to a reduction in the income ceiling for a family of three from $42,216 to $37,060. This reduction will eliminate about 8,400 child care slots and 7,300 state preschool slots.

  The Administration has indicated that this reduction would make the income eligibility consistent with the federal maximum for receiving TANF-funded services. Furthermore, the Administration proposes to offer a food stamp benefit of $50 to subsidized child care recipients in an effort to improve the State's Work Participation Rate (WPR). Currently, California does not meet federal benchmarks related to the WPR.

- **Reduce Provider Payments.** The Governor has several proposals that would have the effect of reducing the payments to providers of child care and early childhood education services. These reductions include the following:

  - ✓ **Eliminate COLA -** $29.9 million in non-Proposition 98 General Fund savings and $11.7 million in Proposition 98 General Fund savings by eliminating the statutory COLA for capped non-CalWORKs child care programs.

  - ✓ **Reduce Reimbursement Market Rate (RMR) Ceilings and Update Survey Data -** $11.8 million in non-Proposition 98 General Fund savings by reducing the reimbursement rate ceilings for voucher-based programs from the 85^{th} percentile of the private pay market, based on 2005 market survey data, to the 50^{th} percentile based on

2009 survey data. Per the Administration, to preserve parental choice under lower reimbursement ceilings, rates for license-exempt providers will remain comparable to current levels, and these providers will be required to meet certain health and safety standards as a condition of receiving reimbursement. (A corresponding $5.3 million General Fund decrease is made to Stage 1 in the Department of Social Services budget to reflect the lower RMR rate.)

✓ **Reduce State Reimbursement Rate (SRR) for Title 5 Contracts -** $67.8 million in non-Proposition 98 General Fund savings and $34.1 million in Proposition 98 General Fund savings by reducing the standard reimbursement rate for direct-contracted Title 5 centers and homes by 10 percent.

The LAO also offered several alternative reduction options for the Legislature to consider, as follows:

- **Work Requirements.** The LAO has offered an alternate way to limit eligibility for budget savings of approximately **$50 million**. Instead of the Governor's strict work requirements, the LAO has suggested that the Legislature could limit education/training to two years. The CDE has indicated that it would need to modify their data collection requirements in order to fully implement this sort of eligibility change. Staff notes that there are numerous variations to limit eligibility that could be explored to achieve savings.

- **Income Eligibility.** The LAO has offered an alternative for additional budget savings by lowering income ceilings below the Governor's level to 50 percent of State Median Income (SMI) for savings of an additional **$100 million**. The LAO reviewed income eligibility in other states and found that only California and ten other states set maximum income eligibility for child care at or above 70 percent of SMI. In contrast, over half of all states set income ceilings at or below 62 percent of SMI.

  Furthermore, the LAO points out that 62 percent of SMI is the maximum amount a family can earn to receive TANF-funded (Temporary Assistance for Needy Families) services. This harmonization of the income eligibility of the child care program with federal TANF-funded programs would aid in the implementation of a new WINS Plus (Work Incentive Nutritional Supplement) program the Administration is proposing to implement. WINS Plus is a new $50 a month food stamp benefit that would be made available to families receiving subsidized child care that are not in the CalWORKs program or receiving CalFresh food stamp benefits.

  This new WINS Plus benefit would allow the State to count child care recipients in the calculation of the State's Work Participation Rate (WPR). Currently, the State is likely to fall short of its federal WPR by as much as 20 to 25 percentage points. The LAO has indicated that the implementation of an additional WINS basic benefit provided to current CalFresh families that are not in the CalWORKs program could result in a 10 percentage point improvement in the State's WPR. The implementation of the WINS Plus program could further improve the WPR.

- **Provider Payments.** The LAO has surveyed many other states and has found that the Governor's proposal on RMR voucher rates are comparable and in some cases exceed reimbursement rates for providers in other states. The LAO also proposes as an option further lowering license exempt rates to 60 percent of the new lowered voucher rate for licensed providers for savings of about **$20 million**. The LAO goes on to reject the Governor's SRR rate reduction since Title 5 centers have more stringent operations requirements and in some cases are currently provided a lower rate than the RMR for voucher-based centers. Furthermore, current law surrounding Title 5 operations leaves providers with few opportunities to achieve these savings because providers are prohibited from collecting fees from parents and also are required to maintain prescriptive staffing ratios.

- **Age Limits.** The LAO has offered, as an alternative, eliminating child care for older school-age children during traditional hours because there are more supervision options available for school-age children. Furthermore, child care for infants and toddlers is generally more costly and more difficult to find. The LAO estimates that prioritizing child care for children under the age of 11 would generate savings of **$65 million**. The LAO indicates that an additional **$50 million** could be saved if child care is prioritized for children under the age of 10. The State is currently required to spend approximately $550 million on the After School Education and Safety (ASES) that was approved by the voters in 2002 (Proposition 49). Furthermore, an additional $130 million in federal funds are provided annually for 21st Century Community Learning Centers. There are also additional resources in some communities provided through non-profit organizations such as the Boys and Girls Club that provide other alternatives for school-age youth.

- **Parent Fees.** The LAO has offered a menu of options for changing the current parent fee structures that could generate **tens of millions** in savings depending on the ultimate structure. Specifically, the Legislature could (1) reduce income level at which parents must begin paying a fee; (2) increase the amount of fee required for families at each existing income level; and/or (3) charge fees per child rather than per family. The LAO indicates that cross comparison of California's family fees are difficult with other states because states structure fees in various ways. However, the LAO points out that California's current sliding scale seems generally lower than most other states.

- **Time Limits.** The LAO has provided as an option for the Legislature to consider for achieving budget savings implementing overall time limits for the child care benefit. The LAO estimates that implementing a time limit of six years could ultimately generate approximately **$100 million** in savings. However, the LAO points out that the data collection efforts of CDE would need to be enhanced to fully implement this option. A time limit would enable families on waiting lists to access care quicker since a time limit would free up slots currently used by families that have been receiving subsidized care for many years.

The Subcommittee also discussed at the April 12, 2012 meeting, the idea of implementing an across-the-board reduction. Last year an 11 percent across the board reduction was implemented to the Alternative Payment (AP) programs (including Stage 3) and Title 5 centers. The Subcommittee has heard from numerous representatives in the child care community that an across-the-board reduction is preferred to other policy change because it provides the field with some flexibility to meet the reductions and can minimize disruptions in the provision of child care services.

May Revision. The May Revision proposes approximately the same total budget savings **($452.5 million GF**) from non-Proposition 98 savings as was proposed in January. The Governor makes two major modifications to change the mix of cuts proposed in January. The Governor indicates that the modifications to the mix of cuts will result in retaining over 25,000 slots that would have been lost under the January proposal. The major modifications are as follows:

- **Loosens Work Eligibility Requirements.** Consistent with the Governor's May Revision proposal for CalWORKs, the Governor has also loosened the work eligibility requirements for recipients of child care subsidies. Under the Governor's revised proposal, parents pursuing education or training may receive child care subsidies for up to two years. Parents could continue to receive child care subsidies, but would have to be meeting work requirements (30 hours per week or 20 hours per week for families with young children). The Administration has indicated that only full-time students that are not otherwise working would be time limited. Part-time students that also work part-time would not be time limited as long as they were meeting work requirements and income requirements of the program. This policy change requires the Governor to **restore $180 million GF** to the January budget proposal.
- **Reduces Voucher Rates.** The Governor's May Revision also takes the proposed rate reductions to the Regional Market Rate (RMR) to the 40th percentile of the 2005 RMR survey. The Governor's May Revision proposal would also reduce the license exempt rate to 71 percent of the lowered RMR rate. This proposal would result in **$190 million GF savings** ($61 million GF savings from Stage 1). The January budget had also proposed reducing the RMR, but had proposed to reduce rates to the 50th percentile of the 2009 RMR survey for $17.1 million in GF savings ($5.3 million GF related to Stage 1). The January budget had also proposed to hold steady payments made to licensed exempt providers.

The May Revision continues to **reduce the income eligibility** for child care programs from 70 percent of SMI to 200 percent of the federal poverty level. However, May Revision estimates show that this proposal will **save $4.1 million GF less** than original expected. Revised savings related to reducing income eligibility are now estimated to be $39.8 million GF.

In addition to the reduced voucher rates described above, the Governor also proposes to continue to **eliminate the COLA** for non-Proposition 98 programs, thereby saving $30.4 million GF in the budget year. This estimate has been revised upward by **$537,000 GF** in the May Revision. The Governor also continues to pursue the **10 percent SRR reduction** on Title 5 contracts for $67.5 million in savings. This estimate is **$269,000 GF** less than was projected in the May Revision.

LAO Review. The LAO's initial review of the May Revision proposal finds that the Governor's proposal related to the RMR reduction is too harsh. The LAO finds that the Governor's proposal would cut RMR rates by at least one-third and given a reduction of this magnitude would likely severely limit access to families. The LAO's review finds that the proposed rate level is well below the policies adopted in other states and has been further complicated by the fact that the state does not currently maintain RMR survey data down to the 40^{th} percentile. The lack of data would make it very difficult for the Administration to calculate specific rates for each county in time to implement the rate reduction.

Staff Comments. Staff finds that the Governor's proposal to allow for up to two years of full time school or training is a significant amendment to the January proposal. The changes to the work requirements in the January proposal were of the harshest reductions that would have resulted in 46,000 children losing child care immediately. The Governor's current proposal, while better than the January proposal, will still result in the reduction of some slots. However, previously the LAO had estimated that the savings from going to a two-year limit on education would only result in about $50 million in savings. The LAO also indicated that there may need to be changes made to current reporting requirements from the APs and Title 5 contractors to CDE to implement this change.

The Administration assumes that there will be no loss of slots from the RMR reduction. As pointed out by the LAO this is not how it is likely to play out in real life. A 30 percent reduction to current rates is likely to significantly restrict access to licensed providers for voucher clients. Furthermore, a rate reduction of this magnitude would also lead to the closure of many centers and family daycare homes. This will further constrict the child care market.

As has been discussed earlier in this Subcommittee, there are no cut scenarios in which $450 million in budget savings is achieved in the child care program area that does not have a significant impact on the number of available child care slots. This continues to be the case even under the Governor's revised proposal.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open and direct staff to build different scenarios for achieving solutions, with an emphasis on preserving slots.

6. State Preschool

Background. The California State Preschool Program provides center-based, early childhood education programs to low-income children, generally ages three and four years. Until recently, all funding for this program came from Proposition 98 funds. However, in 2011-12, most all funding for child care and development programs – except part-day preschool funding -- was shifted to state General Fund. As a result, the 2011-12 budget act provides two separate budget act appropriations and funding sources for the State Preschool Program. The Department of Education administers both of these program appropriations -- as follows -- through direct state contracts with local providers:

- **Part-Day Preschool Program (Proposition 98 Funds).** Item 6110-196-0001 of the Budget Act appropriates **$368 million** in Proposition 98 Funds for part day/part-year preschool services for low-income three and four year olds.

- **General Child Care Program (State General Fund).** Item 61109-194-0001 of the Budget Act appropriates $675 million in state General Fund for the General Child Care program, which provides center based child care services to low-income children from working families ages birth to 12 years. Following enactment of Chapter 208 in 2008, local providers can utilize these funds -- together with part-day preschool funds -- to provide part-day/part-year preschool programs or full-day/full-year preschool programs for three and four year olds to improve coverage for working families. The Legislative Analyst's Office estimates that roughly **$400 million** of total General Child Care funds (about 60 percent) were being provided for preschool services for three and four year olds.

According to the LAO, data from CDE suggest that in 2011-12, local providers "blended" the **$368 million** in Proposition 98 funds for part-day preschool with about **$400 million** in state General Fund for General Child Care to offer State Preschool Program services to approximately **145,000 low-income preschool age children**. Of these, two-thirds were served in part-day programs and one-third in full-day programs.

State Preschool Program Funding in 2011-12	**Funding Appropriations**	**Funded Slots**
Part Day Preschool (Proposition 98 Funding)	$368 million	100,000
General Child Care – Preschool Expenditures (State General Fund)	$400 million (Estimated)	45,000 (Estimated)
Total	**$768 million**	**145,000**

Governor's May Revise Proposals for Part-Day Preschool.

Overall, the Governor's May Revise proposes a net increase of **$33 million** for the Proposition 98 portion of the State Preschool Program in 2012-13. In contrast, the Governor's January budget proposed a **$58 million** reduction in 2012-13, as summarized below:

Proposition 98 Funded Preschool Program (Dollars in Millions)	**January**	**May Revise**	**Change**
Revised 2011-12 Budget	**$368**	**$368**	**--**
Reduce Standard Reimbursement Rate	-$34	--	$34
Reduce income eligibility threshold	-$24	$-24	--
Increase preschool slots	--	$57	$57
Technical adjustments			
Total Adjustments,	**(-$58)**	**($33)**	**($91)**
Proposed 2012-13 Budget	**$310**	**$400**	**$90**

More specifically, the May Revise proposes the following adjustments to the state preschool program in 2012-13:

- **Restores Provider Rate Reductions. (Issue 409).** The Governor requests that **$34,082,000**, which reflects a portion of the savings from elimination of Transitional Kindergarten requirements, be redirected to restore the 10 percent reduction to the Standard Reimbursement Rate (SRR) proposed in January. This request would retain the part-day per-child SRR at $21.22 for state preschool programs.

- **Increases Preschool Slots. (Issue 407).** The Governor requests that **$57,485,000** in remaining savings from elimination of Transitional Kindergarten requirements be redirected to expand access to part-day preschool for **15,500 children** from low-income families. Enrollment priority would be given to children from income eligible families who have their fifth birthday after November 1 and will no longer be eligible for Kindergarten in 2012-13.

- **Preschool Growth Adjustment**. **(Issue 480).** The Governor requests a decrease of **$1,507,000** to reflect updated growth estimates for the population of zero to four year old children.

- **Family Income Eligibility Ceiling Continued with Technical Adjustment (Issue 410).** Consistent with the Governor's savings proposals for other child care programs, the May Revise continues to reduce program eligibility criteria by lowering the amount a family can earn and still participate in the program. The May Revise proposes a relatively small increase of **$98,000** to reflect a revised estimate of savings associated with this reduction. Under the Governor's continuing proposal, the maximum monthly income threshold would drop from 70 percent of the State median income (SMI), which equates to $3,518 per month for a family of three, to 200 percent of the federal poverty level, which equates to about 62 percent of SMI, or $3,090 per month. The Governor would achieve **$24 million** in Proposition 98 savings from this change by defunding the estimated number of part-day preschool slots currently associated with children from families that exceed the new eligibility threshold – about **7,300 slots.**

The May Revise also continues the Governor's January proposal not to fund a statutory cost-of-living adjustment (COLA) increase for part-day preschool, which would have resulted in additional Proposition 98 costs of **$11.7 million** in 2012-13.

LAO Comments. The LAO offered the following comments on the Governor's preschool proposals from its recent budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012): The following issues still apply to the Governor's May Revise:

- **In 2013-14, Governor Proposes to Revert to Part-Day/Part-Year Preschool Program.** As part of his proposed changes for non-Proposition 98 funded child care, beginning in 2013-14, the Governor would eliminate the existing General Child Care program and shift the associated funding to a child care voucher system to be administered by county welfare departments. This would abolish the blended State Preschool Program and revert the state's direct-funded center-based preschool program to only a Proposition 98 funded part-day/part-year program for about **91,000 children** (a reduction of roughly **54,000 children** compared to how many children were served in the State Preschool Program in 2011-12).

  Preschool providers' ability to serve additional children or offer full-day/full-year services to meet the needs of working families would depend upon how many enrolled families could afford to pay out of pocket or obtain a state-subsidized voucher from the county welfare department. (Under the Governor's proposal, low-income families not receiving CalWORKs cash assistance would have more limited access to these vouchers).

- **Governor's Proposal for 2013-14 Ignores Reality of State's Current Preschool Program.** The Governor's proposal for 2013-14 treats the Proposition 98 preschool budget item and General Child Care budget item as two separate programs – preserving one and eliminating the other. However, in reality these funding sources have been supporting one uniform preschool program. **By redirecting all General Child Care funding into vouchers, the Governor's proposal would reduce the existing State Preschool Program by roughly 40 percent.** Moreover, the dismantling of the blended State Preschool Program would notably limit local providers' ability to provide a full-day/full-year preschool program, which is often the only way children from working low-income families are able to access services.

LAO Recommendations. The LAO offers the following recommendations to the Legislature:

1. **Support Elimination of Reduction to Reimbursement Rates**. The LAO supports the Governor's May Revise proposal to rescind the 10 percent reduction in the SRR in 2012-13 – and associated savings of $34.1 million – proposed by the Governor in January.

2. **Reject Proposal to Lower Family Income Thresholds and Instead Eliminate Slots.** The LAO recommends that the Legislature reject the Governor's proposal to lower income eligibility thresholds from 70 percent of the state median income (SMI) to 200 percent of the federal poverty level (about 62 percent of SMI) and eliminate associated slots, for savings of

$24 million in 2012-13. If reductions are needed, the LAO recommends that the Legislature eliminate preschool slots, as enrollment priority already is reserved for the lowest income applicants. (Providers already are required to select first from the families furthest below the existing ceiling of 70 percent of the SMI.)

3. **Recommend Funding All Preschool Slots in Proposition 98**. The LAO believes that the Governor's May Revise proposal continues to treat preschool programs inconsistently drawing false distinctions between Proposition 98 and non-Proposition 98 funded services. For this reason, the LAO continues to recommend funding all preschool slots within Proposition 98.

4. **Prioritize Preschool Funding for Four Year Olds No Longer Eligible for Kindergarten During Transition Period**. The LAO recommends that the Legislature adopt the Governor's proposal to prioritize slots in the state preschool program for low-income children affected by the change in the Kindergarten start date during the transition years. (See following issue on Transitional Kindergarten.)

STAFF RECOMMENDATION: Staff recommends that the Subcommittee hold these issues open to conform to the child care and Proposition 98 budget packages.

7. Transitional Kindergarten

Background.

Kindergarten Eligibility. Kindergarten is not compulsory in California. Per current law, parents and guardians are not required to enroll children in Kindergarten (EC Section 48200). If parents choose to enroll their children, schools must admit children who are of legal age (EC Section 48000). School districts must admit age eligible children at the beginning of the school year or whenever the student moves into the districts.

In 2011-12, students are eligible for Kindergarten if they turn five years old on or before December 2nd. However, Chapter 705, Statutes of 2010, will raise the Kindergarten entrance age by one month each year over a three year period commencing in 2012-13. More specifically, students will need to be five-years old by November 1st in 2012-13, by October 1st in 2013-14, and by September 1st in 2014-15 in order to be eligible for Kindergarten.

Local Options for Under-Age Children. Current law allows school districts to admit children to Kindergarten who are not age eligible – essentially through a local waiver process. However, the child may only attend, and school districts only receive funding, for the part of the year the child is five years old. According to the Department of Education, this is a rarely utilized process, and districts that admit these children to kindergarten prior to the time they turn five "jeopardize their apportionments, as auditors may take fiscal sanctions through an audit process." The Department of Education further states that "districts that base early admissions on test results, maturity of the child, or preschool records may risk being challenged by parents/guardians whose children are denied admission."

Kindergarten Continuance. According to the Department of Education, continuance is defined as more than one school year in Kindergarten. Current law requires a child who has completed a year of Kindergarten to be promoted to first grade, unless the parent or guardian and the school district agree that the child may continue Kindergarten for not more than one additional year. (EC 48011) If agreement is reached, parents or guardians must sign the Kindergarten Continuance Form. Per the Department, failure to have signed forms on file may jeopardize audit findings and result in loss of apportionment.

The Department of Education reports that a total of 22,894 Kindergarten students were enrolled in a second year of Kindergarten statewide in 2011-12. This represents about 4.7 percent of the 487,446 Kindergarten students enrolled statewide in 2011-12.

Transitional Kindergarten. Chapter 705 requires local school districts - as a condition of funding – to provide a new Transitional Kindergarten (TK) program for students who are no longer eligible for regular (or traditional) Kindergarten beginning in 2012-13. On fully implemented, this new program will offer an additional year of public school for children with birthdays between September 1st and December 2nd of each year.

According to the Department of Education, "Transitional Kindergarten is the first year of a two-year Kindergarten program that uses a modified Kindergarten curriculum that is age and developmentally appropriate." Per the Department, "each elementary or unified school district must offer Transitional Kindergarten classes for all children eligible to attend. A child who completes one year in a Transitional Kindergarten program, shall continue in a Kindergarten program for one additional year."

Unlike other early childhood programs, funding for the Transition Kindergarten program would not be needs-based. For example, funding would not be targeted on the basis of income, as is the case with most other publicly funded child development programs, such as state preschool. Instead, program funding would be provided to serve all children with birthdays that fall within a three month range.

Governor's May Revise Proposals:

1. **Continues to Eliminate New Transitional Kindergarten Program.** According to the Administration, the Governor believes this is a time for reinvestment and reform of core programs, not for program expansions. As such, the Governor's January 10 budget proposed to eliminate the new, two-year Transitional Kindergarten -- pursuant to Chapter 705.

   The Governor's most recent proposal – reflected in proposed trailer bill language -- would still eliminate the new Transitional Kindergarten program. And the May Revise continues earlier revisions that would expand existing law to authorize full-year funding for children who are not eligible for Kindergarten when they enter school if the district authorizes early admittance with a waiver. Coupled with current law that allows up to one additional year of Kindergarten, the May Revise would also authorize a full two years of Kindergarten for districts that choose to admit children who are not age-eligible for Kindergarten.

2. **Revises Savings Estimates Associated with Elimination of Transitional Kindergarten (Issue 251).** The Governor's January budget estimated **$224 million** in Proposition 98 savings associated with the proposals to eliminate Transitional Kindergarten in 2012-13. In February, the Department of Finance revised its savings estimates to **$124 million** to reflect savings offsets for school districts with declining enrollment, and additional costs resulting from districts that grant early admission "waivers" to children who do not meet the new age requirements when they enter school. The May Revise further lowers the savings estimate to **$92 million** in 2012-13 due to erosions associated with declining enrollment and increased attendance projected by expanding the waiver process.

3. **Continues to Extend Preschool to Children No Longer Eligible for Kindergarten.** The Governor continues additional trailer bill language to increase the eligibility age for the part-day State Preschool program in order to cover four-year old children who are no longer eligible for Kindergarten due to the eligibility age rollback, but who turn five years old by December 2. (Current law limits eligibility for state preschool funding to children who turn three and four years old by December 2.) In sharp contrast to his January proposal, the Governor's May Revise proposes an increase of **$57 million** in Proposition 98 funding to

fund an additional **15,500 preschool slots** to give eligible five-year olds first priority for part-day State Preschool funding.

LAO Comments. The LAO offers the following comments on the Governor's Transitional Kindergarten (TK) proposal from its budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012). The following issues still apply to the May Revise proposals:

- **Governor's Proposal Not to Initiate New TK Program Is Reasonable for Budgetary Reasons.** Given the major funding and programmatic reductions school districts have experienced in recent years—and the potential for additional reductions if the November election does not result in new state revenue—the LAO agrees with the Governor's assessment that now is not the time to initiate major new programs. Budget reductions and unfunded COLAs mean districts currently are increasing class sizes, shortening the school year, and cutting many activities that have long been part of the school program. The LAO does not believe that offering a 14th year of public education to a limited pool of children—and dedicating resources to develop new curricula and train teachers—at the expense of funding existing K-12 services makes sense.

- **Governor Would Make Slight Modification to Existing Waiver Process for Underage Kindergarteners.** As under current law, parents of children born after the cutoff could request a waiver to have their children begin kindergarten early. The Governor is proposing to modify current law, however, so these children could begin kindergarten at the beginning of the school year, rather than waiting to enter in the middle of the year after they turn five. The Administration clarifies that as under current law, the waiver option would continue to pertain to early admittance to traditional kindergarten programs, as TK programs would no longer be funded. Districts could choose to admit four-year old children to kindergarten early on a case-by-case basis if they believed it was in the best interest of the child. To the extent many parents request and districts grant these waivers, it would increase the 2012-13 kindergarten cohort, thereby reducing the amount of savings generated by the change in cutoff date.

- **…And for Policy Reasons.** The LAO also has fundamental policy concerns with the design of the TK program. While receiving an additional year of public school likely would benefit many four-year olds born between September and December, the LAO questions why these children are more deserving of this benefit than children born in the other nine months of the year. This preferential treatment is particularly questionable since the eligibility date change will render children born between September and December the oldest of their kindergarten cohorts, arguably an advantage over their peers. Moreover, the TK program would provide an additional year of public school to age-eligible children regardless of need. This includes children from high and middle-income families who already benefit from well-educated parents and high-quality preschool programs. The LAO believes focusing resources on providing preschool services for low-income four-year olds—regardless of their exact birth month—likely would have a greater effect on improving school readiness and reducing the achievement gap.

LAO Recommendations. Overall, the LAO recommends that the Legislature immediately adopt the Governor's proposal to eliminate the new TK program and focus limited state resources on serving four year olds who could most benefit from state subsidized education programs. The LAO also makes recommendations to smooth the transition to the new Kindergarten cutoff dates pursuant to Chapter 705. More specifically, the LAO recommends that the Legislature:

1. Immediately adopt the Governor's January budget proposal to cancel initiation of the new Transitional Kindergarten program, because it is costly and poorly designed. According to the LAO's May Revise Proposition 98 Alternative Plan, this would result in a savings of between of **$75 million** in 2012-13, instead of the **$92 million** estimated by the Governor's May Revise.

2. Modify the Governor's waiver proposal to focus on students born close to cutoff dates.

3. Adopt the Governor's proposal to prioritize preschool access for low-income children affected by the Kindergarten date change, but only for the transition years.

STAFF COMMENTS: On April 12, 2012, the Subcommittee voted to reject the Governor's Transitional Kindergarten proposal.

8. Child Care Program Redesign and Restructuring

Previous Full Budget Committee Hearing. On March 1, 2012 the Senate Budget and Fiscal Review Committee held a hearing to fully evaluate the Governor's proposed redesign and restructuring of CalWORKs program and child care system. There was significant testimony at this hearing in opposition to the Governor's proposed restructuring of the child care system. Specifically, there has been considerable concern raised about the delinking of child care programs from education. The Superintendent of Public Instruction has also vigorously opposed this restructuring proposal.

In review, the Governor proposed to restructure the administration of child care over a two-year period. The Administration proposes to replace the three-stage child care system for current and former CalWORKs recipients and programs serving low-income working parents and centralize eligibility with county welfare departments starting in 2013-14. The Governor is proposing a two year process to implement these changes.

- **Year 1—2012-13 Structure.** The Governor proposes to consolidate all funding for Stages 2, 3 and non-CalWORKs Alternative Payment (AP) programs into one block grant to the AP contractors. First priority for this block grant would be child care for families whose children are recipients of child protective services, or at risk of being abused, neglected or exploited, and cash-aided families meeting work requirements. However, other income eligible families meeting the new work requirements would also be eligible for the subsidy regardless of whether they had ever been on cash aid. Priority would be based on income and the previously listed factors.

  In Year 1, CDE would continue to contract directly with Title 5 centers and Title 5 family child care homes, which comprise the State Preschool program and General Child Care program. They would also continue to contract for the smaller Migrant and Severely Handicapped Programs. The counties would also continue to administer Stage 1 contracts for CalWORKs. The diagram on the next page illustrates the changes proposed to the child care structure in 2012-13.

Proposed Child Care Structure for 2012-13

DSS**: CalWORKs Child Care Stage 1** will continue to be administered by County Welfare Directors subject to the new work participation requirements. Program funding of $442 million to support 60,313 slots.

CDE: **CalWORKs Child Care Stage 2** is an entitlement for families for two years after the family stops receiving aid.

CDE: **CalWORKs Child Care Stage 3** is for families that have exhausted the time limit in Stage 2 and are otherwise eligible for child care. Stage 3 is a capped program.

CDE: **Alternative Payment Programs** provide low income families with vouchers for care in a licensed center, family child care home, or by a licensed-exempt provider.

CDE: **New consolidated block grant** to the Alternative Payment contractors to provide vouchers to serve eligible families with priority given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, cash-aided families meeting work requirements, and other income eligible families meeting work requirements. Program funding of $571 million to support 82,834 slots.

CDE: Administration of the **General Child Care** program which funds Title 5 centers through direct contracts with the State would not change in the budget year, except for the reduction in income eligibility and reimbursement rate, which would reduce the size of this program considerably. Program funding of $470 million to support 52,809 slots.

- **Year 2—2013-14 Structure.** In Year 2 of the redesign, larger fundamental changes occur regarding the oversight and management of the child care programs. In Year 2 all of the child care funding at CDE (except part-day Preschool) would be consolidated with Stage 1 (administered by Department of Social Services) to provide a new consolidated block grant to the counties. Furthermore, the January proposal would have convert the contracts with Title 5 centers to vouchers.

  The Administration has indicated that in Year 2 the county will be responsible for eligibility (currently the AP does eligibility for some programs), but the AP would continue to be responsible for administering and paying the network of child care providers.

Proposed Child Care Structure 2013-14

DSS: **CalWORKs Child Care Stage 1**

CDE: **New Consolidated block grant** (formerly CalWORKs Stages 2 and 3 and Alternative Payment Programs)

CDE: **General Child Care** program.

DSS/Counties: **Consolidated child care block grant** to serve eligible families with priority given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, and cash-aided families meeting work requirements, and other income eligible families meeting work requirements. Counties would have authority to continue to contract with Alternative Payment contractors locally like 27 counties currently do with the Stage 1 program. The DSS would oversee this consolidated program, including the federal Child Care Development Funds.

May Revision. The May Revision proposes several changes to the restructuring proposal, including many that respond to concerns raised in committee hearings. The changes are outlined below:

- **Create Separate Block Grant.** Requires the creation of a separate child care block grant, to ensure eligible low-income working families continue to have access to child care services. In January, the Governor's budget was not specific about how child care monies would be allocated to the counties and there was some concern that the child care monies would be added to the County Single Allocation for the CalWORKs program and would not ultimately be expended on child care. Under the revised proposal, Stage 1 would continue to be funded as part of the Single Allocation block grant to the counties, but Stages 2 and 3, the AP programs, the Migrant programs, and funding for the Title 5 programs would all be placed in a block grant dedicated to child care.

- **Preserves Title 5 Infrastructure.** Requires that county welfare departments will contract with Title 5 centers for three years for the same number of slots that will be funded under the General Child Care program in 2012-13. The May Revision proposal would also provide counties with flexibility to deviate from this allocation up to 10 percent and after three years, counties would be able to adjust contracts with Title 5 centers including canceling contracts and shifting more resources to voucher-based providers within the county to better align service needs with available resources. The Title 5 designation will continue to be maintained by CDE through the annual submission of an assessment of the education program at the center. Counties would also be given flexibility to pay the higher of the RMR and SRR to maintain the Title 5 infrastructure. In some parts of the state the SRR is currently lower than the RMR voucher rate.

- **Clarifications on Transition.** The May Revision proposal indicates that some funding (up to 30 percent of GF and federal funds) would be shifted from CDE to the DSS to fund state operations costs associated with the transition of child care services to county welfare departments. It would also require that county welfare departments put together plans on how they would implement child care and provide the potential for a mid-year transfer of child care funding and responsibilities in 2012-13 if counties are ready to assume responsibilities early. This provides for a more aggressive transition of child care activities than contemplated in the January proposal. The Administration indicates that there are some counties that are interested in taking over these responsibilities in the budget year.

- **Revised Funding for County Administration.** The May Revision includes $26.5 million (mainly from federal funds) to counties so they can ramp up to take over child care eligibility in 2013-14. This is less than the $35 million proposed in January for this purpose. The Administration indicates that there is significant work that would need to be done to fully transition the administration of child care to the counties because under the Governor's proposal the APs and Title 5 centers would no longer manage eligibility and instead eligibility would be centralized at the county. Given this, there should be some adjustments to the administrative overhead of the APs.

- **Quality Activities.** There are also proposed changes to the quality activities, but those changes are detailed in the next item.

- **Stakeholder Workgroup**. The May Revision also proposes trailer bill language that requires the Department of Social Services to convene a stakeholder work group to include, county social services agencies, the State Department of Education, alternative payment providers, Title 5 child care centers, labor organizations, other child care and program integrity experts, and legal advocacy organizations representing consumers. This workgroup will make public recommendations no later than January 15, 2013 on a variety of issues, including consistent due process for parents, consistent mechanisms for dispute resolution, the equitable treatment of consumers of subsidized child care, best practices, and a consistent approach to fraud and overpayments.

LAO Supports Restructuring Plan. The LAO, for the most part, recommends that the Legislature adopt the Governor's proposed restructuring plan. They find that a streamlined system would treat similar families and similar providers similarly and hold all to the same set of requirements. Furthermore, they find that the proposal offers opportunities for child care to become part of a coordinated and integrated system of local services as counties oversee eligibility for most other social and health services that support low income families. The LAO also recommends that the Legislature fully recognize the state preschool budget that is currently budgeted in the General Child Care program that would otherwise be realigned to the counties under the Governor's proposal. More specifically, the LAO recommends that the Legislature fund all preschool slots within Proposition 98. The Governor's revised restructuring proposal addresses many of the concerns raised by the LAO, including placing child care funding in a separate block grant and the difficulties in converting all funding to vouchers and the impacts on Title 5 centers.

Staff Comments. There has been considerable opposition to the Governor's proposal to restructure child care to county-centered administration. However, it is important to note that the vast majority of the voucher programs are currently run by locally based Alternative Payment agencies and in 27 counties the Alternative Payment agency also manages the Stage 1 contract for child care, which is currently allocated to the counties by DSS. There are also five counties that are also Alternative Payment agencies. So there are considerable relationships that already exist between the Alternative Payment agencies and counties.

Staff finds that many of the topics of the stakeholder workgroup are topics that have been discussed at length at CDE for many years without resolution.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open.

9. Child Care Quality Improvement Plan Activities

Previous Subcommittee Meeting. At the April 12, 2012 meeting of the Subcommittee there was discussion about the expenditure of the child care quality improvement funds. These funds are the 4 percent of the federal Child Care and Development Fund (CCDF) monies required to be used for activities to improve the quality of child care. The Governor's budget included $72 million in federal funds for 27 quality improvement projects. The State is required to submit a plan every two years detailing how these quality improvement funds will be allocated and expended. The most recent plan was submitted to the federal government in May of 2011. This plan covers the period October 1, 2011 through September 30, 2013. The quality improvement projects generally fall into one of the major categories as follows:

- Support for the Resource and Referral Network and Agencies.
- Support for the Local Child Care and Development Planning Councils.
- License Enforcement for Child Care Programs (State Support).
- Training and Professional Development for Early Child Care Professionals.
- Grants, stipends, and other financial incentives to encourage professional development and licensure.
- Early Childhood Education Curriculum Development.

At the Subcommittee meeting we learned that some of the contracts are multi-year contracts and others are renewed annually. For the most part, many of these contracts have been renewed annually or biannually with the same contractor since their inception and many of them were started in 1998. At the Subcommittee meeting we also learned that there are not regular reviews of these contracts.

We also discussed the recently awarded $53 million federal Race to the Top Early Learning Challenge Grant to develop locally based quality rating systems for child care and development programs. This grant will be expended over four years. The LAO recommended regular reports to the Legislature related to the implementation of this grant.

The Governor's January budget proposed the shift of administration of all quality funds from the State Department of Education to the Department of Social Services with the funds to be expended per a joint plan developed by CDE and DSS. The LAO recommended that the Legislature also have a role in the development and oversight of a plan. The Governor also proposed shifting the administration of the Race to the Top grant from CDE to DSS, as well.

May Revision. The Governor's May Revision includes several proposals related to quality, as follows:

- **Technical Adjustment.** The May Revision includes a technical adjustment to adjust for fewer one-time federal funds by adjusting federal funds downward by **$437,000**.
- **Race to the Top Grant.** The May Revision also includes the funding to reflect the receipt of the Race to the Top Grant. This includes **$5.3 million for state supported activities** related to the grant and provisional language that makes approval contingent on an approved expenditure plan for state activities. The May Revision also **includes $11.9**

million to support local quality improvement activities, including $10.1 million that will be allocated to the Regional Leadership Consortia.

- **Amendments to Restructuring Proposal on Quality.** The May Revision indicates that the quality projects will continue to be funded by CDE in the budget year. However, in 2012-13 DSS will develop a plan in consultation with CDE that outlines how the quality funding will be expended in 2013-14. The plan would require that DSS conduct programs that promote health and safety of children in care and CDE retain programs and activities that promote early learning and readiness for school, including Resource and Referral programs. The plan would also reflect an allocation to county welfare departments to target quality funds to local needs and priorities. The May Revision includes amendments to provisional budget bill language to accomplish these changes.

Staff Comments. Staff finds that the budget year is the second year of the two-year expenditure plan for the quality improvement money that was already submitted and approved by the federal government. Therefore, maintaining management of the quality funds with CDE makes sense in the budget year. If a shift should occur, it would make more sense to make that shift at the beginning of a new two year cycle. Staff also finds that the Administration has attempted to provide guidance related to how they would reallocate the quality improvement funds based on core competencies. Clearly CDE is the leader in school readiness and early learning curricula; DSS currently has responsibilities related to regulating health and safety of children. The big change would be the role of the counties in allocating monies to target local priorities.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve technical adjustment.
- Approve Race to the Top Funding and trailer bill language to set up annual reporting to the Legislature on expenditure of the grant.
- Hold open amendments to restructuring proposal.

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

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Friday, May 25, 2012
Upon adjournment of Floor Session
Room 3191, State Capitol

HIGHER EDUCATION: 2012-13 BUDGET MAY REVISION AND OPEN ISSUES

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6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

ITEM 1: BUDGETARY TRIGGERS

Background. The January budget relies on revenue from a temporary tax initiative to be placed before voters in November 2012. In the event voters reject that plan, the January budget proposes a number of automatic reductions ("trigger cuts") to GF appropriations, primarily in the areas of Proposition 98 and the universities, which would take effect January 1, 2013. In March 2012, the Governor introduced a revised temporary tax initiative that includes two temporary tax increases, resulting in additional state revenues estimated by the Administration at $8.5 billion in 2011–12 and 2012–13 combined. The additional revenues from this revised temporary tax initiative were included in the May Revision. This necessitated an updated trigger cut proposal to take effect if voters reject the proposed tax measure in November. For UC and CSU, the May Revision adds $50 million to each trigger, or a total trigger reduction of $250 million each for UC and CSU.

Staff Comment. All of these reductions would come at the end of the fall semester, making the reductions so disruptive that the segments likely would feel compelled to adopt budgets assuming the reductions will happen. This is largely the approach taken in 2011-12; in January 2012, UC and CSU were cut by $100 million each. The segments generally included these “worst case scenario” cuts in their budget planning so as to avoid dramatic mid-year cuts. However, taking this approach in 2012-13 will be even more challenging. After years of reduced state funding, it is appropriate to question what budgetary levers actually remain for planning for further reductions. There are primarily four operational areas where the segments have the requisite flexibility to make fiscal changes: (1) employee compensation and benefits; (2) student services; (3) enrollments; and (4) student tuition fees.

It is also worth noting that of the four operational areas identified above, one serves as a primary driver for the others; i.e., enrollment levels, which are a key driver of costs, as they dictate faculty and staff hiring decisions. However, campuses and departments have only varying degrees of flexibility in making these decisions, depending on tenure rules, collective bargaining, and other factors. There is also a timing consideration in that enrollment decisions are generally made well in advance. These factors make it difficult to accommodate a mid-year trigger cut via an enrollment reduction, yet enrollment serves as a primary driver of costs.

With regard to tuition fees, UC and CSU have the authority to set their own tuition levels. The UC has not yet made a decision on its fall 2012 tuition; CSU approved a 9.1 percent increase effective fall 2012. While there is no strict deadline for approving fall tuition fee levels, many students and their families need to know what costs they face in order to plan accordingly.

LAO Recommendation. Given that a significant portion of the Governor's revenue assumption is subject to voter approval in November, it makes sense to include a contingency plan in the event voters reject the tax proposal. However, the Legislature has choices as to how the contingency plans are structured. For example, the Governor places almost all the trigger cuts in K-14 education and higher education. The Legislature could instead allocate the cuts differently among the state's education and non-education programs. For example, the cuts could be targeted to programs most able to respond to a mid-year reduction, or they could be spread across more programs to reduce their impact on any one program.

In the alternative, the Legislature could instead take the opposite approach: build a budget that does not rely on the Governor's tax package, with contingency augmentations if the tax package is approved. This might mean, for example, appropriating less funding for higher education or other agencies than the Governor proposes. In the event tax increases are approved in November, the Legislature could direct the resulting revenues to critical one-time investments, such as paying down debt or funding deferred facilities maintenance. In this way, the higher education segments would know at the outset what level of GF support to expect for their core programs, thus helping in their planning for the academic year.

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

1. Does UC and CSU budget planning for 2012-13 take into account the possibility of trigger cuts? If so, how? If not, how would the segments accommodate mid-year trigger cuts in January 2013, which are now proposed at $250 million each for UC and CSU?
2. Will spring 2013 enrollments be curtailed? What is the practical effect of these and other enrollment strategies on students?
3. What other levers are UC and CSU considering given the budget uncertainty? Is there any limit to the size of the tuition increase that could be imposed in one year? What about differential tuition fees? What about restricting students after some large number of units have been accumulated?
4. How do UC and CSU prioritize remaining resources among programs? Between graduate and undergraduate instruction? How much total state funding is currently being allocated to the UC Office of the President and the CSU Chancellor’s Office?

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

Item 2: Employment and Retirement Benefits for Active Employees and Retirees

Background. The Governor's January budget sought, as part the Governor's long-term plan for higher education, to provide fiscal incentives to allow UC, CSU, and Hastings to better manage their resources. The May Revision builds on these January proposals, and makes additional changes primarily impacting CSU active employee and retiree health benefits, as displayed in Figure 2 below:

Figure 2: 2012-13 Budget Proposals Related to UC, CSU, and Hastings Employment and Retirement Benefits

Issue	January Budget Proposal	May Revision Proposal
CSU Employer Contribution to CalPERS	No incremental adjustment for 2012-13 CalPERS employer contribution rates and no further adjustments for these purposes. Creates a new budget control section (3.61) to effectuate this change and remove CSU from the statewide retirement control section (CS 3.60). CSU's 2011-12 base budget includes $404 million for these costs.	Increase of $52.5 million GF as an incremental adjustment for 2012-13 CalPERS employer contribution rates. Amendments to CS 3.61 to provide adjustments to CSU's retirement costs related <u>only</u> to unfunded liability costs in 2013-14 and beyond. CSU would be responsible for employer retirement costs related to "normal pension costs" in 2013-14 and beyond.
CSU Retiree Health Benefits	No proposal (similar to 2011-12, CSU costs are included in the statewide 9650 item which reflect state costs of providing health benefits to most retired state workers). These costs are determined by CalPERS, which adopts health premium rates on an annual basis; for 2012-13, it is expected the year-over-year increase in these rates will be ten percent. CSU retirees represent $260.1 million of the total GF costs in the 9650 item.	New budget item (6645) to break CSU costs out of the statewide item. CSU will continue to receive adjustments for these costs in future years. Reduces the amount in the 9650 item by a like amount, so no net increase in GF spending.

CSU Retiree Dental Benefits	Increase of $1.1 million GF as incremental adjustment for dental benefit costs for CSU retirees. No further adjustments for these purposes. CSU determines dental benefits, including premiums, for its employees.	No change to January proposal.
CSU Active Employees Health Premium Rates	No proposal.	Trailer bill language to provide CSU with the authority and flexibility to negotiate or set the rates that current employees pay toward their health benefits similar to authority currently provided to the Department of Personnel Administration (DPA) to negotiate and set these rates for other state employees. Current statute requires that CSU pay 100 percent of the health care premiums for its employees and 90 percent for employees' family members. The DPA has statutory authority to negotiate and set these rates for most state employees. For most state employees, the state currently pays either 80 or 85 percent of employees' health care premiums and 80 percent for employees' family members. CSU currently spends $355 million on these costs.
UC and Hastings Retirees Health and Dental Benefits	Increase of $5.2 million GF and $49,000 GF, respectively, as incremental adjustments for health and dental benefits for UC and Hastings retirees. No further adjustments for these purposes. UC determines health and dental benefits, including premiums, for its and Hastings employees.	No change to January proposal.
UC Base Augmentation	Increase of $90 million GF for base operating costs, which the Administration indicates "can be used to address costs related to retirement program contributions."	Reduces the January budget level by $38 million, to a total of $52 million in 2012-13, and states that the remaining $38 million augmentation is delayed until 2013-14.

Staff Comment. Overall, the Administration's proposals highlight for higher education the same challenge faced by the state as an employer – managing employer and employee health and retirement benefit costs. In sum, the Administration intends for the segments to consider these costs in their budget and fiscal outlooks.

There are substantive differences in approach between UC, CSU, and Hastings, but those differences are generally more a reflection of how these costs have been historically addressed/budgeted, as opposed to providing preferential treatment to one segment over another. For instance, while the state does not bargain with UC and CSU employees, retirement costs have been handled differently. CSU employees are members of the California Public Employees Retirement System (CalPERS), the same retirement system to which most state employees belong. CSU has over $400 million included in its base appropriation for its required employer contribution to the California Public Employees Retirement System. In contrast, UC (and Hastings) employees are members of the University of California Retirement Plan (UCRP), which is separate from CalPERS and under the control of UC. Due to the earlier "super-funded" status of UCRP, a twenty year contribution holiday was enjoyed by UC and state; in April 2010, both UC and its employees resumed contributions to the plan. The state, however, has not provided UC with any additional funding specifically for that purpose. UC projects that annual total state costs would ramp up to approximately $450 million GF.

In the May Revision, the Administration proposes several CSU-specific proposals regarding retirement and health benefits. For those costs the Administration views <u>as under CSU's control</u>, such as the "normal costs" of the employer retirement contribution to CalPERS, the budget responsibility going forward would be transferred to CSU (the January budget proposed base increases for CSU in the future to manage these costs). For those costs the Administration views as <u>not under CSU's control</u>, the May Revision offers different solutions: (1) for health premium rates for active employees, proposed budget trailer bill language would provide CSU with additional authority to negotiate or set the rates that current employees pay for these costs, similar to the authority provided to the Department of Personnel Administration to negotiate and set these rates for other state employees; and (2) for retirement costs related to the unfunded liability, the Administration proposes to continue to provide annual incremental adjustments to CSU's required employer contribution to CalPERS. Finally, the May Revision proposes to alter how the budget displays costs for retiree health benefits. These are also costs the Administration views as <u>not in CSU's control</u>; the proposed May Revision solution is a new budget item to simply provide greater transparency of these costs.

LAO Recommendation. The May Revision addresses some earlier concerns with the proposal. For example, the Governor now proposes to provide future budget adjustments for CSU's retiree health care costs and a portion of CSU's pension costs. Nevertheless, concerns remain that the May Revision proposal does not provide future adjustments for other retirement costs, such as retiree dental and the "normal costs" of pensions. The Governor's rationale for stopping these budget adjustments was that CSU would be given base increases in the future that it could use to manage these costs. However, the Administration still has not presented its "multi-year funding agreement" to the Legislature. It is unclear how this works as a stand-alone proposal. Although the Administration has made notable efforts to modify the proposal so that it only pertains to costs under CSU's control, this does not mean that these costs are somehow fixed and will not change in the future. For this reason, the LAO recommends that Legislature evaluate these cost changes on a year-by-year basis and determine if the funding requested is justified.

For similar reasons, the LAO recommends rejecting the Governor's proposals to curtail adjustments for UC retirement costs. In addition, the LAO finds that the Administration's proposed $52 million increase for UC is just as arbitrary as the proposed $90 million increase in the January budget. The LAO continues to encourage the Legislature to only provide funding for UC's pension costs that is justified. In January, the LAO was provided with information from UC that indicated that its additional costs for pensions in 2012-13 for state GF and tuition-funded employees would be about $78 million (specifically, $36 million is related to GF and $41.5 million related to tuition).

The LAO recommends approval of the May Revision proposal to track CSU retiree health care costs separately. This is a technical issue that will help to improve transparency about CSU's state funding for its retirement costs.

The LAO recommends approval of budget trailer bill language to allow CSU to negotiate its employee health care premiums. Given that DPA is allowed to negotiate health premiums with state workers through collective bargaining, the LAO sees no reasons why CSU should not have similar authority.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to raise the following questions:

1. The Administration's rationale for stopping these budget adjustments was that CSU would be given base increases in the future that it could use to manage these costs. The Administration still has not presented its "multi-year funding agreement" to the Legislature. How do these proposals work on a stand-alone basis and with the potential of a $250 million budget trigger in 2012-13?
2. Due to a host of statutory requirements and legal precedence, the LAO has reported that the only way CSU can reduce its pension costs would be through managing its payroll costs – either by reducing the number of employees or their salaries. Is this an avenue the CSU has pursued or is planning on pursuing?
3. On what basis did the Administration determine that CSU's "normal pension costs" are under its control, while costs associated with the unfunded liability are not?
4. What percentage of UC's payroll is comprised of state GF-funded employees; how many UC employees are state GF-funded?
5. Instead of $90 million, the LAO recommended providing UC with $78 million, of which $36 million is the additional budget-year cost attributable to state GF-funded employees. The remaining $41.5 million is for tuition-funded employees. In the May Revision, the Administration decreased the augmentation to $52 million? What is this number tied to?
6. How could the timing of the Administration's trailer bill proposal related to CSU active employee health premium rate contributions affect current bargaining between CSU and nine of its 12 bargaining units?

7980 CALIFORNIA STUDENT AID COMMISSION

Item 3 – May Revision Updates and Additions to Cal Grant Program Savings Proposals

Background. In the Governor's January budget, the Administration proposed $766 million in fund shifts and $302 million in Cal Grant program reductions. The May Revision recognizes $135 million in additional Cal Grant costs relative to the January proposal, including additional spending to cover the CSU's approved 2012–13 tuition increase, fix an unintended consequence of 2011 legislation limiting student eligibility, and revise January savings estimates for Cal Grant reductions. To offset these higher costs, the May Revision proposes additional fund shifts and two major policy changes, as follows:

- **Two Additional Fund Shifts to Achieve GF Savings**. The Governor's January budget proposed to shift $736.4 million of Cal Grant Program costs from the GF to federal Temporary Assistance for Needy Families (TANF) Program funds available due to proposed reductions in the CalWORKs program and offset $30 million GF due to surplus funds from the Student Loan Operating Fund (SLOF), which receives proceeds from the federal guaranteed student loan program. The May Revision proposes an additional $67.4 million from TANF and another $30 million offset from SLOF funds, for a total of $803.8 million TANF and $60 million SLOF.

- **Tighter Restrictions on Institutional Eligibility.** The Governor's January budget proposed to retain the current cohort default rate allowable at participating institutions at 24.6 percent (under current law it was scheduled to increase to 30 percent in 2012-13). The May Revision replaces this proposal with a new proposal that saves $38.4 million in 2012-13 by: (1) reducing the maximum student loan cohort default rate from 30 percent to 15 percent, which is slightly above the national average for all institution types; and (2) instituting a 30 percent minimum graduation rate standard for all participating institutions. The May Revision will not apply to any participating institution with 40 percent or fewer of its students borrowing federal student loans to attend college.

- **Prorated Cal Grant Award Amounts.** Currently a Cal Grant applicant who meets academic, income, and asset requirements is eligible for a full award equal to the full tuition fee cost at UC and CSU, or an award amount specified in the annual Budget Act for private, for-profit, and non-profit institutions. This results in an "all-or-nothing" award determination. In contrast, the federal Pell Grant award is tailored to the financial need of each student and factors in family income, the cost of attendance, and the expected family contribution. The May Revision proposes budget trailer bill language that will provide the neediest students with maximum award amounts (approximately 63 percent of Cal Grant recipients) while students with lower costs of attendance and/or higher family incomes will receive a reduced Cal Grant award (that would mirror the Pell Grant award). This proposal is applicable to students who apply for grants after July 2012. Cal Grant B access awards, Cal Grant C awards, and all awards to CCC students would not be affected. Students most affected would be Cal Grant A recipients in the high school and transfer entitlement programs. The Administration estimates that savings from this proposal in 2013-14 is estimated at $90 to $100 million, with increasing savings each year thereafter.

LAO Comment and Recommendations. The May Revision proposals address important policy concerns. The proposals collectively would strengthen incentives for institutions to improve their student financial and academic outcomes, eliminate from Cal Grant participation institutions with poor outcomes, and better tailor the size of Cal Grant awards to relative need.

The Administration's focus on institutional performance makes substantially more sense than reducing grant amounts solely based on the type of institution a student attends, as two of the Governor's January budget proposals would do. The general approach merits consideration; however, this proposal overreaches. It could immediately disqualify from Cal Grant participation institutions that currently serve about one-third of Cal Grant students in the proprietary sector, giving neither students nor institutions sufficient time to adjust to new requirements. In addition, the Administration's savings estimates fail to account for the likely movement of students from ineligible schools to eligible ones. As a result, the Administration's savings estimates are likely overstated in the budget year and significantly overstated in out-years. The Legislature should adopt the January proposal to freeze the default rate limit at the current-year level, or an incrementally lower level, and phase in tighter restrictions over a few years.

The Administration's proposal to prorate award amounts, in contrast, does not go far enough. The LAO has recommended a more comprehensive approach to reform of Cal Grant programs that could include adjusting grant amounts based on financial need as well as changes to eligibility determination, maximum award levels, and other features of the programs. The Administration's proposal makes one significant change in isolation, missing the opportunity to improve the operation and performance of the programs more fundamentally. Furthermore, proposing such a major departure from existing policy one month before the budget must be adopted leaves insufficient time for a thorough evaluation of its implications and could result in unintended consequences in the near term. The Legislature should direct an independent study of the state's student financial aid programs with the purpose of addressing reform in a more comprehensive, deliberative way through the policy process in the next legislative session.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to raise the following questions:

1. The May Revision retained the January proposals and added a new savings solution that impacts institutional participation in 2012-13. Beyond controlling costs, what other rationale(s) can the Administration provide for this package of proposals?
2. The LAO has noted that the Administration's savings estimates fail to account for the likely movement of students from ineligible schools to eligible ones. This question was raised at the Subcommittee's April 19 hearing on the January budget proposals. What information can the Administration provide to address this concern? If students instead opt to attend public

institutions, won't the state's costs increase? And if students are not able to switch to another institution, won't access be decreased?

3. Prorating Cal Grant award amounts to the federal Pell Grant would effectively tie Cal Grant award parameters to a federal program, thereby ceding an element of current state authority and decision-making. Is the Administration concerned about this aspect of its proposal? Are there other examples of the state relying on a federal methodology in a state program?
4. Addressing the current "funding cliff" in the Cal Grant program award structure is a legitimate budget and policy question for the Legislature to consider. However, addressing such a major change in the rush of the budget process will likely not allow for adequate time to fully model implications and craft solutions to avoid unintended consequences. What modeling has the Administration done of its proposal that it could share with the Legislature? What alternative methodologies could the state employ to achieve the same goal of mitigating the "cliff" effect?
5. With last year's veto of funding for CPEC, California is without a coordinating and guiding state higher education policy body as well as a robust data system. Does the Administration agree that if the state had such a data system and an entity that spent its time productively, the state would have a much better understanding of institutional performance, which would assist with the development and evaluation of savings proposals? For instance, the state could make distinctions among institutions (for Cal Grant purposes and others) based on more sophisticated measures, like graduation rates for full time and part-time students and track records for moving transfer-ready students to baccalaureate institutions, instead of having to rely on the federal IPEDS data.

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
	CALIFORNIA STATE LIBRARY						
1	6120-011-0001	*May Revision:* Support, California State Library	Technical adjustment to increase funding by $929,000 one-time GF for the Library-Courts Building Renovation to provide sufficient shelving for the project. Design and construction changes made to the building have further limited the amount of existing shelving that can be relocated and reused, necessitating the purchase of additional compact shelving systems. (Issue 203)	Approve	No	929	Update to Governor's January budget request for Year 5 of the Relocation for Infrastructure Renovation at the Library-Courts Building which was heard and approved May 3, 2012.
	CALIFORNIA POSTSECONDARY EDUCATION COMMISSION						
2	6420-001-0001 6420-501-0001	*May Revision:* Support, California Postsecondary Education Commission (CPEC)	Technical adjustments to revise 2011-12 close-out costs for CPEC. The January budget estimated costs of $850,000 GF; the May Revision increases that amount by $51,000, for a total of $901,000. Includes provisional language related to the Department of Education serving as CPEC's fiduciary agent in the CY and BY, and provides authority to DOF to augment additional GF for any significant unforeseen claim. (Issue 401)	Approve with legislative change to BBL to include notification to the JLBC should DOF exercise authority to augment the item beyond $901,000.	Yes, modified BBL	51	New Issue.
	UNIVERSITY OF CALIFORNIA						
3	6440-001-0234	*May Revision:* Support, University of California	Technical adjustment to decrease expenditure authority from Proposition 99 for tobacco research by $2.57 million to correct the 2010-11 carryover amount and to adjust for a slight projected decrease in Proposition 99 revenue in 2012-13. (Issue 427)	Approve	No	(2,570)	New Issue.

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
	CALIFORNIA COMMUNITY COLLEGES						
4	Trailer bill language	*April 1 Finance Letter:* California Community Colleges (CCC)	Budget trailer bill language to increase student fees for qualifying neighboring state students that attend a CCC based on reciprocal state attendance agreements to an amount that is three times the California resident student fee.	Approve per legislative modification to phase-in the fee increase by: (1) using a multiple of two <u>effective with the summer 2012 term</u> and (2) a multiple of three <u>effective with the summer 2013 term</u>.	Yes, TBL		Item previously heard and held open on May 3.
5	6870-002-0890	*May Revision:* State Operations, California Community Colleges	Technical adjustment to increase item by $73,000 federal funds to support the Solar Training Collaborative Program. This grant funding supports the CCC Chancellor's Office efforts to increase the number of community-college trained solar installers. (Issue 143)	Approve	Yes, BBL per May Revision	73	New Issue.
6	6870-101-0890	*May Revision:* Local Assistance, California Community Colleges	Technical adjustment to add $713,000 federal funds for the Solar Training Collaborative Program. These funds will provide professional development training to community college instructors and increase the number of community-college trained solar installers. (Issue 142)	Approve	Yes, BBL per May Revision	713	New Issue.
7	6870-003-0890	*May Revision:* State Operations, California Community Colleges	Technical adjustment to add $56,000 in one-time federal carryover funds to support the State Trade & Export Promotion Project. The funding will be used to close out the project and to provide necessary reports to the U.S. Department of Small Business Administration. The federal grant was intended to increase the number of small business exporters and to increase the value of small business exports. (Issue 141)	Approve	No	56	New Issue.

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
8	6870-103-0890	*May Revision:* Local Assistance, California Community Colleges	Technical adjustment to add $185,000 in one-time federal carryover funds for the Personal Care Training and Certification Program. The funding will be used to develop standardized competency-based curriculum leading to certification for personal and home care aides. (Issue 140)	Approve	No	185	New Issue.
9	6870-001-0001	*May Revision:* State Operations, California Community Colleges	Technical adjustment to increase by $237,000 reimbursements for the Transportation Technologies and Energy Program. The CCC Chancellor's Office will receive funding through an interagency agreement with the California Energy Commission to support efforts that will prepare community college-trained technicians in the alternative fuels and vehicle technology industry. (Issue 145)	Approve	Yes, BBL per May Revision	237	New Issue.
10	6870-111-0001	*May Revision:* Local Assistance, California Community Colleges	Technical adjustment to increase reimbursements by $3 million for the Transportation Technologies and Energy Program. The CCC Chancellor's Office will receive funding through an interagency agreement with the California Energy Commission to implement this program to prepare community college-trained technicians in the alternative fuels and vehicle technology fields. (Issue 144)	Approve	Yes, BBL per May Revision	3,000	New Issue.
11	6870-111-0001	*May Revision:* Local Assistance, California Community Colleges	Technical adjustment to decrease reimbursements by a net $85,000 for various vocational education activities the CCC Chancellor's Ofiice performs through an interagency agreement with the State Department of Education. (Issue 147)	Approve	No	(85)	New Issue.

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
	CALIFORNIA STUDENT AID COMMISSION						
12	7980-101-0001	*January Budget and May Revision:* Local Assistance, California Student Aid Commission	Governor's Budget proposed a shift of $736.4 million of Cal Grant Program costs from GF to federal Temporary Assistance for Needy Families (TANF) program funds available due to proposed reductions in the CalWORKs program. The May Revision increased by $67.392 million the amount of TANF available as offset for Cal Grant Program costs, based on updated projections of the number of Cal Grant recipients who are also TANF eligible. (Issue 027)	Conform to the actions of Subcommittee No. 3 and Senate Budget and Fiscal Review Committee.	Yes, BBL per May Revision	67,382	Item previously heard and held open on April 19.
13	7980-101-0001 7980-101-0784	*January Budget and May Revision:* Local Assistance, California Student Aid Commission	Governor's Budget proposed an offset of $30 million GF due to surplus funds from the Student Loan Operating Fund (SLOF), which receives proceeds from the federal guaranteed student loan program. The May Revision increased the offset by an additional $30 million, for a total offset of $60 million in 2012-13. (Issue 022)	Approve	No	30,000	Item previously heard and held open on April 19.
14	7980-101-0001	*January Budget and May Revision:* Local Assistance, California Student Aid Commission	Governor's January budget did not include an adjustment to 2012-13 Cal Grant program expenditures to account for the CSU nine percent tuition fee increase effective fall 2012. May Revision makes a technical adjustment to increase program expenditures by $31.2 million to account for increased CSU fee tuition. (Issue 016)	Approve	Yes, BBL per May Revision	31,200	New Issue.

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
15	7980-101-0001	*May Revision:* Local Assistance, California Student Aid Commission	Technical adjustment to Governor's January budget to increase item by $26.52 million to reflect increased costs resulting from the Governor's Budget proposal to allow students within the Cal Grant B program to switch to the Cal Grant A program when renewing their award. Includes an increase of $27.65 million in the CY from the Commission's action to reinstate 3,490 students who were no longer deemed eligible to renew their Cal Grant B awards due to a change in their family income. (Issue 017)	Approve	No	26,520	Related TBL heard and adopted on April 19. The TBL proposes the necessary statutory changes to switch Cal Grant B students to Cal Grant A if they qualify for both but exceed the "B" renewal income threshold.
16	7980-101-0001	*May Revision:* Local Assistance, California Student Aid Commission	Technical adjustment to the Governor's January Budget to decrease the item by $19.29 million to account for revised caseload estimates for the Cal Grant program in 2012-13. Also requests a technical adjustment in the CY, decreasing the item by $17.391 million to reflect revised caseload estimates for the Cal Grant program. (Issue 018)	Approve	No	(1,929)	New Issue.
17	7980-101-0001	*May Revision:* Local Assistance, California Student Aid Commission	Technical adjustment to the Governor's January Budget to decrease the item by $5.333 million to account for revised caseload estimates for the Assumption Program of Loans for Education (APLE), Graduate APLE, and State Nursing APLE in 2012-13. Also requests a technical adjustment for the same reasons in the CY, decreasing the item by $5.767 million. (Issue 19)	Approve	No	(5,333)	New Issue.

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
18	7980-001-0001 7980-101-0001	*May Revision:* Support and Local Assistance, California Student Aid Commission	Technical adjustment to decrease reimbursements for state operations and local assistance by $52,000 and $674,000, respectively, to reflect the federal government's reduction of the John R. Justice Program. The program provides repayment assistance for state prosecutors and public defenders. (Issues 020 and 021)	Approve	Yes, BBL per May Revision	(726)	New Issue.

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick Wright

Friday, May 25, 2012
Upon adjournment of Floor Session
Room 3191, State Capitol

HIGHER EDUCATION: 2012-13 BUDGET MAY REVISION AND OPEN ISSUES OUTCOMES

Items 1-3 were heard as overview items. No votes were proposed or taken.

On Item 4, Vote-Only list, Items 1 through 8, 11, and 13-18 approved by a vote of 3-0. Items 9, 10, and 12 approved by a vote of 2-1, with Senator Gaines voting no. There were also two corrections to the Vote-Only list. Page 3, Item 11, the net decrease in reimbursements is "$6,000." Page 5, Item 16, the correct amount is noted in the description, "$19.29 million."

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.