Senate Budget and Fiscal Review

Subcommittee No. 1 2011 Agendas

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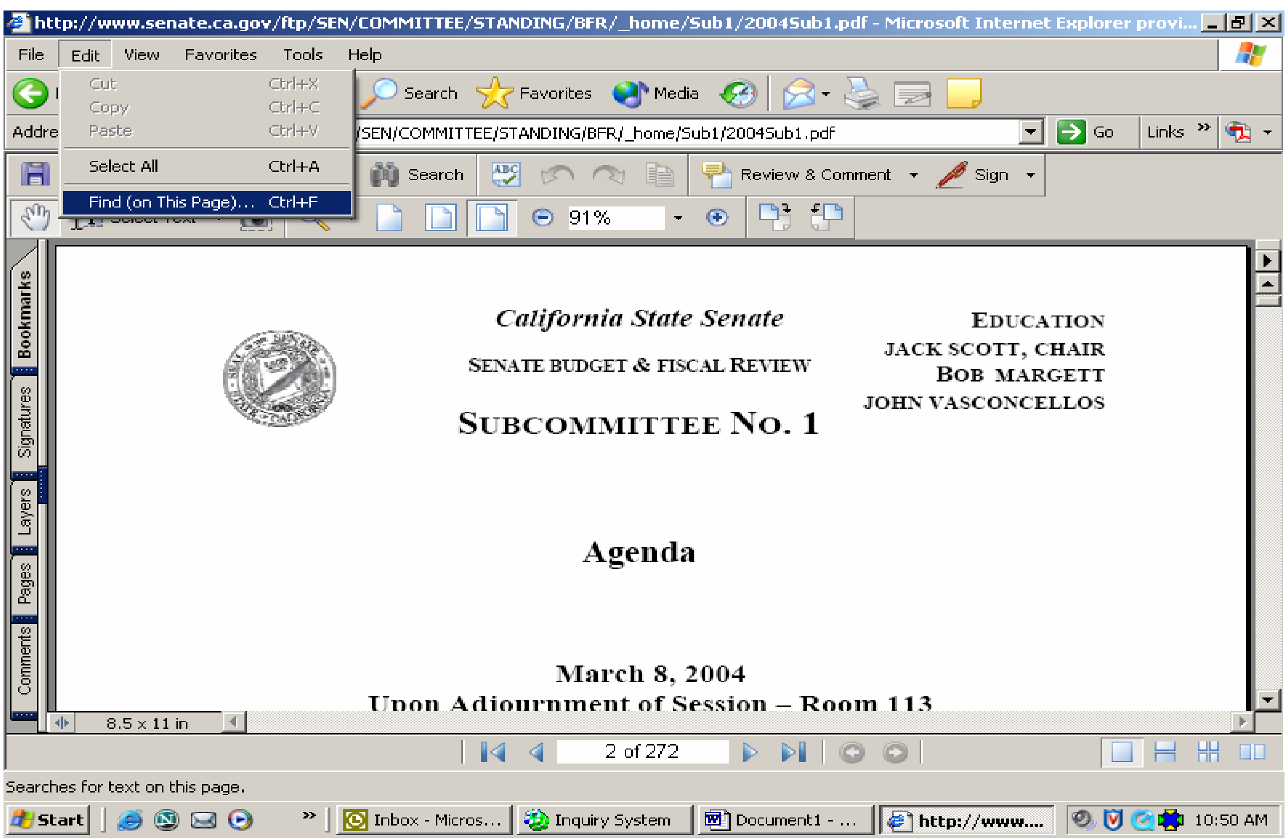

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Monday, January 24, 2011
2:30 p.m. or Upon Adjournment of Session
Room 3191, State Capitol

Overview of the Governor's P-98 and K-12 Education Budget – Department of Finance

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

Comments on the Governor's K-12 Education Budget, Erin Gabel, Department of Education

ISSUE 1: Governor's Budget Proposal - Student Attendance Adjustments

DESCRIPTION: The Governor's Budget provides a funding increase of **$81.4 million** in 2011-12 to reflect K-12 student attendance growth for revenue limit programs and two categorical programs subject to statutory growth adjustments. This action reflects Department of Finance (DOF) estimates that predict the number of students attending K-12 schools in 2011-12 will increase by 0.22 percent above 2010-11 revised levels.

The Governor also provides an increase of **$357.5 million** to reflect K-12 student attendance growth for revenue limit programs in 2010-11, thereby revising funding above the level provided in the 2010-11 budget act.

BACKGROUND:

Attendance Estimates. The number of students attending K-12 schools, which is measured by average daily attendance (ADA), is estimated by DOF to increase by 12,974 in 2011-12, an increase of 0.22 percent above the revised 2010-11 level. This attendance increase will bring total K-12 (ADA) from 5,951,826 in 2010-11 to 5,964,800 in 2011-12. While enrollment rates were declining in many years since 2005-06, this increase reflects the second year of positive attendance growth for K-12 schools.

K-12 attendance growth declined for four out of five years between 2005-06 and 2009-10. These declines reflected the loss of children born to "baby-boomers" who are aging out of the K-12 schools – particularly high schools -- and a decline in birth rates beginning in the 1990s. However, K-12 attendance is projected to increase in 2010-11 and 2011-12, and will likely continue in coming years, due to increasing population for elementary grade students.

Student Numbers	2005/6	2006/7	2007/8	2008/9	2009/10	20010/11	20011/12
Student ADA*	5,965,701	5,953,147	5,947,758	5,957,790	5,933,761	5,951,826	5,964,800

**Average Daily Attendance.*

Student enrollment changes play out quite differently for elementary schools and high schools than reflected by statewide trends overall. Enrollment trends also differ greatly among school districts. The latest data available (2009-10) indicates that 550 districts statewide are currently experiencing declining enrollment; another 416 districts are not in decline.

Attendance Growth Rates. Most K-12 education programs – revenue limits and categoricals – are subject to annual statutory growth adjustments. Per statute, revenue limit and several categorical programs require adjustments based upon the ADA growth rates; other categorical programs have more specialized growth rates Categorical programs typically receive enrollment growth at budgeted rates; revenue limits, which are continuously appropriated, receive growth at adjusted rates.

GOVERNOR'S BUDGET PROPOSALS

2010-11 Attendance Adjustments. (Total $357.5 million)

- **Revenue Limits.** The Governor provides a net increase of **$357.5 million**, above the 2010-11 budget act, to reflect estimated ADA growth for revenue limit programs, which are subject to continuous appropriations. This total includes an increase of $389.2 million for school districts and a decrease of $31.7 million for county offices of education.

- **Categorical Programs.** The Governor does not propose any funding changes for categorical programs subject to statutory attendance adjustments As indicated previously, statutory categorical adjustments follow budgeted rates, and are not subject to adjusted rates, as is the case for revenue limit programs, which are continuously appropriated.

2011-12 Attendance Adjustments. (Total $104.9 million)

- **Revenue Limits.** The Governor provides a net increase of **$81.4 million** for revenue limit programs above the 2010-11 revised level. This amount includes a $88.9 million increase for school districts and $7.5 million decrease for county offices of education.

- **Categorical Programs**. The Governor provides **$23.5 million** to provide positive growth adjustments for two categorical programs subject to statutory adjustments. This amount includes a $16.1 million increase for the Charter School Categorical Block Grant program to reflect increased ADA for new charter schools and $7.4 million for the Special Education program to reflect estimated ADA growth.

STAFF COMMENTS:

- **May Revise Updates**. DOF will update 2011-12 estimates of student ADA as part of the Governor's May Revise to reflect more current K-12 enrollment data.

- **Governor's Proposal Provides Positive Growth to Selective Categorical Programs in 2011-12.** DOF estimates positive growth for approximately 12 categorical programs, but provides growth funding for only two programs – the Charter School Categorical Block Grant ($16.1 million) and Special Education ($7.4 million) programs. Other programs with similar amounts of estimated growth**—**but not funded by the Governor -- include Adult Education ($19.8 million) and Child Nutrition ($7.3 million).

- **Governor Protects Two Categorical Programs from Negative Growth Adjustments – Lost Savings in 2011-12**. The Governor's proposal does not apply negative growth adjustments to two categorical programs (excluding child care) estimated to decline in 2011-12. Elimination of these protections could create **$30.1 million** in savings that could be used for other purposes in 2011-12. For example, these savings could be directed to providing positive COLA for other statutory programs that are growing, most notably Child Nutrition.

- **Declining Enrollment.** The Governor's Budget estimates **$334 million** for revenue limit enrollment adjustments for school districts experiencing declining enrollment in 2011-12. Revenue limit funding is calculated by multiplying revenue limit rates for school districts times student enrollment, which is calculated by average daily attendance (ADA). State statute allows school districts that are experiencing declining student enrollment to delay revenue limit reductions associated with enrollment declines for one year. Declining enrollment districts can choose to use prior year enrollment as the basis of their revenue limit funding to soften the impact of enrollment based funding losses. This is significantly lower that expenditures in previous years.

  The $334 million budgeted for declining enrollment in 2011-12 is significantly lower than amounts provided in previous years at the height of enrollment declines. As K-12 attendance continues to increase statewide, the number of districts in decline and state spending for declining enrollment will also decrease.

QUESTIONS:

1. How does the Governor's Budget fund the $357.5 million in statutory revenue limit ADA adjustments in 2010-11, given the Proposition 98 funding level was set by Chapter 715, Statutes of 2010?

2. Why doesn't the Governor apply negative growth adjustments for categorical programs subject to statutory adjustments? For example, the Department of Finance estimates negative growth of $28.4 million for the Teacher Credentialing Block Grant in 2011-12?

3. Why were the Charter School Categorical Block Grant ($16.1 million) and Special Education program ($7.4 million) selected for growth funding, above other categorical programs that are also subject to statutory growth adjustments? For example, the Department of Finance estimates positive growth of $7.3 million for the Child Nutrition program in 2011-12, but does not propose to fund that growth.

4. How has growth funding been handled in recent years for nearly 40 programs included in the Categorical Flexibility Program established in 2008-09?

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 2: Governor's Budget Proposal - Cost-of-Living Adjustments

DESCRIPTION: The Governor proposes not to fund cost-of –living adjustments (COLAs) for K-12 education programs in 2011-12. The Department of Finance (DOF) estimates a COLA of 1.67 percent for K-12 education programs in 2011-12. The Governor's proposal equates to a savings of **$860.5 million** for K-12 revenue limit and categorical programs in 2011-12.

BACKGROUND:

Current law requires that a COLA be applied annually to revenue limits and most K-12 categorical programs in order to reflect the higher costs that schools face due to inflation. (COLAs are not statutorily provided for community colleges, but are typically provided for community college apportionments [general purpose funds] and some community college categorical programs based upon the K-12 COLA rate.)

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

Due to recent budget shortfalls, COLAs have not been included in recent budget acts -- foregoing K-12 COLAs of 5.66 percent in 2008‑09 and 4.25 percent in 2009‑10.

In 2010-11, the K-12 COLA was estimated to be negative (-0.39 percent) due to recessionary factors that led to a decrease in government costs. According to the LAO, 2010-11 was the first time in over 60 years, the index used to calculate the K-12 COLA was negative. However, because positive COLAs had not been funded in previous years, the negative COLA was not applied in 2010-11. Instead COLA was funded at zero percent in 2010-11.

Deficit Factors. Deficit factors have been established in recent years to keep track of the foregone COLA for revenue limit programs – adjusted by negative COLA in 2010-11 - so revenue limit funding could eventually be restored to previous base levels. The Legislature is not required to create a deficit factor for revenue limits when no COLA is provided; however, the Legislature has adopted the practice of establishing deficit factors for revenue limit programs -- based upon statutory COLA rates -- when COLA has not been provided.

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

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

GOVERNOR'S BUDGET PROPOSAL:

The Governor proposes not to provide COLA, estimated by DOF at 1.67 percent for K-12 programs in 2011-12. This proposal will result in program savings of **$860.5 million** in 2011-12 for revenue limit and categorical programs that traditionally receive COLA, as follows:

- **$662.7 million** for revenue limit programs (statutory).
- **$25.5 million** for child care categorical programs (statutory).
- **$56.6 million** for special education program (statutory)
- **$87.6 million** for other categorical programs (statutory)
- **$28.1 million** for other categorical programs (discretionary)

The Governor proposes to establish deficit factors to track the foregone COLA for revenue limit programs in 2011-12, consistent with recent and traditional practice. Without funded COLA, revenue limit deficit factors will increase to **19.608 percent** for school districts and **19.892 percent** for county offices of education in 2011-12. (Note: Deficit factors reflect both foregone COLA <u>and</u> base reductions from past years for revenue limit programs.)

STAFF COMMENTS:

- **Governor's Proposal Reasonable; Reflects Budget Realities**. Given ongoing base reductions for revenue limit and categorical programs, and in light of substantial reductions for child care proposed by the Governor, it does not seem reasonable to provide COLA increases for K-12 programs in 2011-12.

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

SUGGESTED QUESTIONS:

1. What factors within the State and Local Government Price Deflator (GDPSL) explain the COLA estimate of 1.67 percent in 2011-12? This positive rate contrasts with the negative COLA rate in 2010-11 – the first negative rate in 60 years. Have increasing fuel costs affected the 2011-12 COLA estimate?

2. Would the new Administration be open to considering changes to the basis of K-12 COLA calculations to better reflect school district costs? For example, the State and Local Government Price Deflator (GDPSL) gives heavy weight to fuel prices, even though about 85 percent of school district expenses are tied to employee salaries and benefits.

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 3: Governor's Budget Proposal – Payment Deferrals

DESCRIPTION: The Governor proposes **$2.1 billion** in additional, inter-year payment deferrals for K-12 education from 2011-12 to 2012-13. Per the LAO, the Governor's proposal would bring annual K-12 inter-year payment deferrals to **$9.4 billion**, which equates to **21 percent** of annual K-12 Proposition 98 payments. This proposal is central to the Governor's K-12 Proposition 98 plan that maintains current year funding levels without making further programmatic cuts to K-12 education in 2011-12.

The Governor has also signaled that K-12 intra-year payment deferrals in effect in 2010-11 are likely to be continued in 2011-12 in order to meet the state's cash needs.

BACKGROUND:

Inter-Year Deferrals Used for Ten Years as Alternative to K-12 Program Cuts. The state has been utilizing inter-year payment deferrals for ten years – since 2001-02. Deferrals have allowed K-12 local education agencies (LEAs) to essentially borrow from the next fiscal year to cover current programmatic costs.

The Legislative Analyst's Office (LAO) points out, that initially, inter-year payment deferrals were a means of making mid-year budget reductions that would not cut programs well after the school year had commenced. Since the initial years, deferrals have become more a part of primary budget packages, as is the case with the Governor's current proposal.

In addition, the size of deferrals has grown significantly in recent years. While remaining at about $1.1 billion for most of the first seven years, inter-year deferrals have grown by $6.280 billion in the last three years (2008-09 through 2010-11), as indicated by the LAO's figures below. In 2010-11, year-to-year payment deferrals for K-12 LEAs total **$7.383 billion,** which accounts for **17 percent** of annual Proposition 98 payments.

K-12 Inter-Year Deferrals	**Amount**
Prior Year Base (Beginning in 2001-02)	$1.103 billion
2008-09 New	$2.851 billion
2009-10 New	$1.679 billion
2010-11 New	$1.750 billion
SUBTOTAL, Current Inter-Year Deferrals	**$7.383 billion**
Share of Proposition 98 Program	**(17 percent)**
2011-12 (New Proposed)	$2.064 billion
TOTAL, Current & Proposed Inter-Year Deferrals	**$9.417 billion**
Share of Proposition 98 Program	**(21 percent)**

As a result of larger inter-year payments, the LAO reports that more substantial portions of February to June payments for K-12 LEAs are currently made in the next fiscal year.

While a portion of the 2002-03 inter-year payment deferral was repaid in 2003-04, no other inter-year payment deferral has been repaid since then.

Intra-Year Deferrals Utilized to Meet State Cash Needs. In addition to inter-year payment deferrals to achieve budgetary savings, intra-year deferrals have been utilized for the last two years to help the state meet its cash needs. These intra-year deferrals proposals have differed in amount, length and frequency of deferrals, based on the state's cash flow situation at the time. In 2010-11, the state is authorized to defer $2.5 billion in K-12 payments to LEAs in July and October 2011 and March 2012. These payment deferrals were authorized by two bills enacted in the 2010 Special Session -- ABX8 5 (Committee on Budget) and ABX8 14 (Committee on Budget).

GOVERNOR'S BUDGET PROPOSAL:

The Governor proposes to defer an additional **$2.1 billion** in state payments for K-12 LEAs from 2011-12 to 2012-13. The Administration has not identified specific details for this new inter-year deferral yet. Specifically, the Administration has not indicated when (months) payment deferrals would occur and when they would be paid back. Per the LAO, the Administration has generally indicated deferrals would involve 2011-12 revenue limit payments that would not be repaid until September or October of 2012.

In addition, the Governor has signaled that intra-year payment deferrals for K-12 LEAs in effect in 2010-11 are likely to be continued in 2011-12. Under this scenario, $2.5 million in K-12 payments to LEAs could be deferred for various periods in July and October 2011 and March 2012. However, specific details for these inter-year details have not yet been released by the Administration.

The Governor proposes to continue hardship waivers for both inter-year and intra-year deferrals to provide relief to LEAs that may not be able to maintain fiscal solvency with additional payment deferrals.

LAO COMMENTS:

Reliance on Deferrals Has Placed Significant Burdens on School Districts. Under the Governor's proposal, annual K-12 inter-year payment deferrals would increase by **$2.1 billion** to a total of **$9.4 billion**, so that **21 percent** of the 2011-12 Proposition 98 program would be paid in 2012-13. While the LAO recognizes that adopting deferrals will mitigate reductions that K-12 districts will have to make, the LAO believes that large deferrals have placed a large cash flow burden on LEAs. The LAO is concerned that additional deferrals would continue the deterioration of LEA fiscal health and could result in the need for state emergency loans to avoid insolvency.

Combination of New Inter-Year Deferrals and Continuation of Existing Intra-Year Deferrals Could Create Significant Cash Shortages for LEAs. The LAO indicates that inter-year deferrals would be especially problematic if they are not paid back until fall of 2012. (While not official, the Administration has indicated possible repayment in September or October 2012.) Per the LAO, the Governor's proposed intra-year deferrals would further exacerbate the problem – by deferring already-deferred payments until even later in the fiscal year. In combination, inter-year and intra-year deferrals could result in K-12 LEAs facing significant cash flow difficulties in the summer and fall of 2012.

STAFF COMMENTS:

- **$2.1 Billion Deferral Central to Governor's K-12 Proposition 98 Plan.** The $2.1 billion K-12 payment deferral proposal is the most substantial piece of the Governor's plan to continue Proposition 98 funding in 2011-12 at essentially the same level as 2010-11, while maintaining programmatic spending. Without the deferral, K-12 schools would have to make $2.1 billion in cuts in order to live within the Governor's budget in 2011-12.

- **More Details Needed to Assess Impact, Provide Advance Notice to LEAs.** While on a short budget time-frame, it will be important to have specific details as soon as possible on the amount and timing of payment deferrals and repayment schedules to assess impact and give LEAs advance notice so they can make plans to cover payments.

- **More Districts Might Seek Relief Through Hardship Waivers, Which Could Reduce Deferral Savings.** Given the LAO's concerns, it is likely that additional LEAs -- possibly small school districts -- will not be able to maintain fiscal solvency and will apply for deferral hardship waivers. These LEAs may find they cannot borrow internally and externally at a sufficient level to address the combined effects of continuing intra-year deferrals and new inter-year deferrals with longer repayment periods.

Suggested Questions:

1. Can the Department of Finance provide any additional details on the specifics of the inter-year deferrals for K-12 schools proposed by the Governor in 2011-12? For example, in what months will deferrals occur and when will deferrals be paid back?

2. Is it possible to defer an additional $2.1 billion in K-12 payments from May or June of 2011-12 or will it require April, March, or February payments as well?

3. Is it likely that the Governor's new inter-year deferrals will not be repaid until September or October of 2012?

4. Can the Department of Education or LAO comment on how far is too far on state payment deferrals to LEAs? Where is the fiscal or legal limit for LEAs? For the state?

5. The LAO has raised serious concerns about the negative fiscal impact of the Governor's additional intra-year and inter-year deferrals – especially in combination - on LEAs. Is the Administration confident that the Governor's additional deferrals won't result in additional district insolvencies and emergency loans from the state?

6. Can the Department of Education provide any information on the number of hardship waiver requests received by districts for the 2010-11 payment deferrals? Did the number or types of LEAs change from 2009-10?

7. Does the existing hardship waiver process – in place for both inter-year and intra-year deferrals -- appear to provide effective relief to the LEAs that need it most?

8. While the Department of Education has not yet certified First Interim Fiscal Reports – submitted by LEAs in October 2010 - can the Department provide any information on the relative fiscal status of local educational agencies and their ability to absorb $2.1 billion in new inter-year payment deferrals in 2011-12?

9. Is the Governor committed to reversing payment deferrals in future years? What is the likelihood that regular monthly payments will ever be restored to LEAs?

10. Since payment deferrals rely on paying current year bills with funding from next year, are deferrals good public policy in years when sufficient budget year growth cannot be assured?

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Robert Huff
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Wednesday, January 26, 2011
2:30 p.m.
Room 3191, State Capitol

ISSUE 1: Higher Education Budget Overview

Speaker: Steve Boilard, Legislative Analyst's Office

Higher Education Core Funding

		2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Estimated	2011-12 Proposed
UC	GF	$3,257.4	$2,418.3	$2,591.2	$2,911.6	$2,524.1
	Tuition[a]	$1,116.8	$1,166.7	$1,449.8	$1,793.6	$1,909.5
	ARRA		$716.5		$106.6	
	Lottery	$25.5	$24.9	$26.1	$30.0	$30.0
	Totals	***$4,399.7***	***$4,326.4***	***$4,067.0***	***$4,841.9***	***$4,463.6***
CSU	GF	$2,970.6	$2,155.3	$2,345.7	$2,682.7	$2,291.3
	Tuition[a]	$916.3	$1,104.5	$1,210.8	$1,254.9	$1,400.7
	ARRA		$716.5		$106.6	
	Lottery	$58.1	$42.1	$42.4	$45.8	$45.8
	Totals	***$3,945.0***	***$4,018.4***	***$3,599.0***	***$4,090.1***	***$3,737.8***
CCC	GF	$4,272.2	$3,975.7	$3,735.3	$3,994.7	$3,599.8
	Fees	$291.3	$302.8	$353.6	$350.1	$456.6
	LPT	$1,970.8	$2,028.8	$1,999.8	$1,892.1	$1,873.5
	ARRA			$35.0	$4.0	
	Lottery	$168.7	$148.7	$163.0	$168.5	$168.5
	Totals	***$6,702.9***	***$6,456.0***	***$6,286.7***	***$6,409.4***	***$6,098.3***
Hastings	GF	$10.6	$10.1	$8.3	$8.4	$6.9
	Fees[a]	$21.6	$26.6	$30.7	$34.2	$35.3
	Lottery	$0.1	$0.1	$0.1	$0.2	$0.2
	Totals	***$32.3***	***$36.8***	***$39.1***	***$42.7***	***$42.4***
CPEC	GF	$2.1	$2.0	$1.8	$1.9	$1.9
CSAC	GF	$866.7	$888.3	$1,043.5	$1,224.3	$577.6
	Other[b]		$24.0	$32.0	$100.0	$976.8
	Totals	***$866.7***	***$912.3***	***$1,075.5***	***$1,324.3***	***$1,554.4***
GRAND TOTALS		**$15,948.7**	**$15,751.9**	**$15,069.2**	**$16,710.2**	**$15,898.5**
	GF	$11,379.6	$9,449.7	$9,725.8	$10,823.5	$9,001.5
	Fees/Tuition	$2,346.0	$2,600.6	$3,044.9	$3,432.8	$3,802.1
	ARRA	$0.0	$1,433.0	$35.0	$217.2	$0.0
	LPT	$1,970.8	$2,028.8	$1,999.8	$1,892.1	$1,873.5
	Lottery	$252.4	$215.8	$231.7	$244.6	$244.6
	Other	$0.0	$24.0	$32.0	$100.0	$976.8

[a]Figures for tuition revenue and fee revenue at UC, CSU, and Hastings College of the Law exclude amounts diverted to financial aid.

[b]Other funds for CSAC include reimbursements from Student Loan Operating Fund and federal Temporary Assistance for Needy Families funding.

ARRA = American Recovery and Reinvestment Act   Source: Legislative Analyst's Office

ISSUE 2: UC and CSU Budget Reductions

Speakers:

- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance
- Johnny Garcia Vasquez, University of California Student Association
- Brandon Sisks CSU Student Representative
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Kevin Woolfork, California Postsecondary Education Commission

Issue. The issue before the Subcommittee is an overview of the UC and CSU budgets and the reductions proposed by the Governor.

Higher Education Core Funding

(dollars in millions)

		2009-10 Actual		2010-11 Estimated		2011-12 Proposed	Change from 2010-11 to 2011-12
University of California							
General Fund	$	2,591.2	$	2,911.6	$	2,524.1	-$387.5
Student Fees	$	1,449.8	$	1,793.6	$	1,909.5	$115.9
ARRA	$	-	$	106.0	$	-	-$106.0
Lottery	$	26.1	$	30.0	$	30.0	$0.0
Total	**$**	**4,067.0**	**$**	**4,841.2**	**$**	**4,463.6**	**-$377.6**
California State University							
General Fund	$	2,345.7	$	2,682.7	$	2,291.3	-$391.4
Student Fees	$	1,210.8	$	1,254.9	$	1,400.7	$145.8
ARRA	$	-		106.0	$	-	-$106.0
Lottery	$	42.4		45.8	$	45.8	$0.0
Total	**$**	**3,599.0**	**$**	**4,089.4**	**$**	**3,737.8**	**-$351.6**

University of California Background. The University of California (UC) was founded in 1868 as a public, state-supported land-grant institution with an independent governing board called the UC Regents. The UC is the primary state-supported academic agency for research and awarding doctoral degrees. It is the primary segment authorized to independently award doctoral degrees and professional degrees in law, medicine, dentistry, and veterinary medicine. The UC draws students from the top 12.5 percent of the state's high school graduates, as well as transfer students who have successfully completed specified college work. In 2010-11 the UC system had enrolled approximately 234,000 undergraduate and graduate Full Time Equivalent Students (FTES).

California State University Background. California State University (CSU) is the largest four-year university system in the country, with 23 campuses and almost 354,000 (FTES) students. 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, CSU provides bachelor's degrees, master's degrees, and doctoral degrees in education or jointly with UC or private institutions in other fields of study. The CSU grants more than half of the state's bachelor's degrees and one-third of the state's new master's degrees.

Governor's Proposal. Under the Governor's proposed budgets for UC and CSU, both segments would take a General Fund cut of $500 million. However, both segments then receive a backfill of General Fund to replace one-time ARRA funds. Under the Governor's proposal, CSU also would receive an additional $75.2 million General Fund for retirement costs, and both segments receive other small General Fund adjustments. The total General Fund reduction proposed to the UC system is $387.5 million, and $391.4 million to CSU.

Reduction is Unallocated. The General Fund reduction to the UC and CSU segments is unallocated, which means that the Governor has not specified the program areas that are being reduced. Instead, the Governor has provided intent language in *The Governor's Budget Summary*:

> "These reductions are intended to minimize fee and enrollment impacts on students by targeting actions that lower the costs of instruction and administration. The Administration will work with the Office of the Chancellor and the Trustees [and Office of the President and the Regents], as well as stakeholders (including representatives of students and employees), to determine the specific mix of measures that can best accomplish these objectives."

Mitigation of Budget Reduction from Student Fee Revenue. The UC Regents and CSU Board of Trustees approved new student fee increases in November 2010. When the projected net student fee revenue from these increases is taken into account (student fee revenue minus return to aid), the total proposed budget reductions are **$377 million to UC and $351 million to CSU**.

Staff Comment. Budget reductions of the magnitude proposed by the Governor for UC and CSU will be difficult to achieve without impacting the quality of the services students receive. The budget reductions can be achieved through numerous avenues, singly or in combination, including: 1) reduction in student enrollment; 2) increase in student fees; 3) reduction in institutional financial aid; 4) reduction in student services; 5) reduction in instruction costs; or 6) reduction in non-instructional costs such as administration and research. Each of these options, and what they mean for the students and the preparation of qualified advanced degree holders, will be discussed in turn.

Suggested Questions:

1. How do the segments intend to deal with the Governor's proposed reductions?
2. If the segments are provided an unallocated reduction with no direction from the Legislature on how to implement the cuts, when and how will the segments make the decision on where the cuts are coming from?
3. When does Department of Finance anticipate to complete the work with the segments, the stakeholders, and the employees to determine how the budget reductions will be handled?

ISSUE 3: Student Enrollment

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance

Issue. The issue before the Subcommittee is the impact of the proposed reductions on student enrollment and whether or not to include a specific enrollment target in the UC and CSU budgets.

Enrollment Target Background. Traditionally, the Legislature specifies in the Budget Act an enrollment target for both the UC and CSU. The enrollment target is the number of funded Full-Time Equivalent Students (FTES) that the segments are expected to enroll. If the higher education segments enroll more students than their funded FTES, these additional students are not financed by the state and are called unfunded FTES. The Budget Acts of 2008-09 and 2009-10 did not specify enrollment targets because the Legislature wanted to provide the segments with a multitude of options for dealing with the steep budget reductions in those years. The enrollment targets were brought back in the *2010-11 Budget Act*, since that budget increased the funding for both segments.

Segments Response to Budget Cuts Since 2008. Due to the steep General Fund cuts to each of the segments' budgets in 2008-09, the Legislature eliminated the enrollment targets to provide the segments with flexibility to implement their budget cuts by reducing enrollment. Both the UC and CSU had previously enrolled more students than the enrollment target mandated, and attempted to reduce or eliminate those unfunded FTES as General Fund support for the higher education institutions was reduced. The result has been that fewer freshmen have been admitted into the UC and CSU systems. The CSU system also took steps to force "super-seniors" with more than 142 units completed to graduate or leave the system.

Governor Not Proposing Enrollment Target. The Governor's proposed 2011-12 Budget does not contain an enrollment target for either UC or CSU. Instead, the Governor proposes the following language:

> *The university shall develop an appropriate enrollment target for state-supported full-time equivalent students in 2011-12, in consultation with the Administration and the Legislature.*

Enrollment at UC and CSU. The amount of student enrollment is the traditional access issue. The more enrollment spaces provided, the more students receive the opportunity to make college work for them. California funded enrollment growth in 2010-11, but due to budget restrictions did not fund enrollment growth in either 2008-09 or 2009-10. However, UC enrollment grew during this time period despite the decreased funds. CSU intended to severely limit their enrollment in 2010-11, but funds provided by the Legislature allowed the system to maintain enrollment at about even.

Higher Education FTES Totals

	2007-08 (Actual)	2008-09 (Actual)	2009-10 (Actual)	2010-11 (Estimated)	2011-12 (Budgeted)
UC	203,906	210,558	213,589	214,963	209,977
CSU	353,914	357,223	340,303	339,873	339,877

Impact of Budget Reductions. The Governor's office has encouraged UC and CSU to achieve the budget reductions through "targeting actions that lower the costs of instruction and administration" and "minimize fee and enrollment impacts on students". The segments have not yet presented a plan for how they intend to deal with the budget reductions.

Marginal Cost per Student. One possible means for calculating possible impact on enrollment from the proposed cuts is to examine the cost of each new student to the university system, represented by the marginal cost per student. Department of Finance usually calculates the marginal cost per student for purposes of enrollment growth. Department of Finance has not calculated a new marginal cost per student number because there was no enrollment growth proposed for 2011-12. However, using the marginal cost per student figures from 2010-11, the latest year in which growth was funded, it can be calculated that a cut of $308 million at UC is sufficient funding for 30,766 students, and a cut of $208 million at CSU is sufficient funding for 28,473 students.

Staff Comment. It is unclear if the segments can reduce their budgets by $308 million for UC and $208 million for CSU without limiting enrollment. In order to assure that the UC and CSU do not drastically reduce student enrollment, the Legislature may wish to consider including budget bill language that specifies the enrollment level for both UC and CSU. No vote is recommended at this time.

Suggested Questions:

1. Are the segments planning on reducing enrollment in 2011-12? If so, by how much?

ISSUE 4: Student Fees

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance
- Kevin Woolfork, CPEC

Issue. The issue before the Subcommittee is an informational overview of the student fee levels at UC and CSU. Also discussed in this item are the institutional financial aid levels.

Recent Student Fee Increases. In November 2010, the UC Regents approved a student fee increase of 8 percent for the 2011-12 academic year. This is in addition to earlier fee increases of 15 percent for 2010-11 and 17.5 percent for 2009-10. These fee increases are projected to provide $810.7 million in additional student fee revenue over the 2008-09 fiscal year for the UC system.

In November 2010, the CSU Board of Trustees approved a 10 percent student fee increase for the 2011-12 academic year. This increase is in addition to a 15 percent student fee increase in 2010-11 (of which five percent was in effect for half the academic year) and a 32 percent student fee increase in 2009-10. Together these fee increases bring the total student fee increases at CSU since 2006 to 93.8 percent. These fee increases are projected to provide $339.2 million in additional student fee revenue over the 2008-09 fiscal year for the CSU system.

Student Fees for Resident Undergraduates

	University of California	California State University	California Community Colleges*
2006-07	$ 6,141	$ 2,520	$ 690
2007-08	$ 6,636	$ 2,772	$ 600
2008-09	$ 7,126	$ 3,048	$ 600
2009-10	$ 8,373	$ 4,026	$ 780
2010-11	$ 10,302	$ 4,440	$ 780
2011-12	$ 11,124	$ 4,884	$ 1,080

**For full time student taking 30 units*

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

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

Annual Student Fees for UC and Comparison Institutes

	2010-11
University of Illinois	$13,508
University of Michigan	$12,590
University of California*	**$11,279**
University of Virginia	$10,628
State University New York, Buffalo	$7,136

**Includes campus fees voted in by the students*

Annual Student Fees for CSU and Comparison Institutes

		2010-11
Illinois State University	$	11,399
Wayne State University	$	10,416
University of Connecticut	$	9,338
University of Maryland	$	9,171
University of Wisconsin	$	9,032
George Mason University	$	8,684
University of Texas, Arlington	$	8,500
Cleveland State University	$	8,466
Arizona State University	$	8,134
Georgia State University	$	7,884
University of Colorado	$	7,327
State University of New York	$	6,830
North Carolina State University	$	6,529
University of Nevada, Reno	$	5,561
California State University*	**$**	**5,180**

**Includes campus fees voted in by the students*

Governor's Budget. The Governor's Budget does not assume new student fee increases for UC or CSU. The Governor has stated the intention that the budget reductions be "intended to minimize fee and enrollment impacts". However, UC's constitutional autonomy provides the UC Regents with the authority to increase student fees, without approval of the Governor and the Legislature. Thus far, neither the UC nor CSU have indicated that they intend to raise student fees further.

Institutional Financial Aid. Institutional financial aid is the financial aid provided by the UC and CSU segments as student fee waivers to their own students. This financial aid is provided only to California residents based on the lower-income status of the student. Approximately one-third of the students at UC and CSU receive institutional financial aid.

Both the UC and CSU increased the amount of their institutional financial aid to respond to the fee increases approved by the Regents and Board of Trustees. Under the UC Blue and Gold Plan, students with family income less than $80,000 annually could have their student fees covered in combination with federal grants and institutional aid. Similarly, CSU offers institutional financial aid to students with family income less than $70,000 annually.

Institutional financial aid is foregone student fee revenue rather than funds received by the segments and then paid out. Thus, a reduction in institutional financial aid would lead to increased revenue for the segments as more students would pay student fees. However, some of the students receiving institutional financial aid may find it difficult to attend the university without financial assistance, as they would have to rely solely on loans and parental assistance to meet their expenses.

Staff Comment. Neither the UC nor CSU systems have yet provided detail as to how exactly they will absorb the proposed cuts. Student fees have been rising rapidly over the last few years in both segments. Further increases in student fees are unlikely to make California residents attend universities in other states as the UC and CSU student fees will still be less than the non-resident tuition charged by non-California universities. However, California residents might be discouraged from attending university at all due to sticker shock.

Suggested Questions:

1. Are UC and CSU considering raising student fees?
2. Are UC and CSU considering changes to institutional financial aid?

ISSUE 5: Student Services

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance

Issue. The issue before the Subcommittee is an informational review of student services that are at risk due to budget reductions.

Student Services. Among the services provided by the campuses for students are counseling services, financial aid administration, libraries, tutoring, computer labs, and academic preparation, and outreach programs. These services are critical support structures for students to complete their academic studies. For example, reduced library hours or computer labs with outdated machines will make it more difficult for students to complete research and other academic work.

Academic Preparation Programs. Academic preparation programs are programs geared at non-traditional students who may need extra help in navigating campus administration, enhanced educational resources, or paying for college. These programs include a wide array of services such as disabled student services; Enhanced Opportunity Program (EOP); and Math, Engineering, and Science Achievement (MESA). Both UC and CSU offer a wide array of academic preparation programs geared at helping disadvantaged students through college.

Outreach Programs. Outreach programs are programs to encourage high-school, community college, and middle-school students to prepare for and transition into the UC and CSU systems. Arguably, as enrollment is decreased there is less need for outreach programs. However, these programs draw in more students of color, and without these programs there could be decreased diversity in the UC and CSU systems.

Staff Comment. In order to ensure that certain academic preparation and outreach programs are protected, the Legislature may wish to consider including budget bill language that stipulates reductions in these areas cannot proportionately exceed the reductions to the segments' overall budgets. This is an informational item and no vote is recommended at this time.

Suggested Questions:

1. How are UC and CSU going to approach potential reductions to student services?
2. Do UC and CSU have plans to reduce or eliminate academic preparation or outreach programs?

ISSUE 6: Instruction Alternatives

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance
- Kevin Woolfork, CPEC

Issue. The issue before the Subcommittee is an informational item as to how the UC and CSU could absorb a portion of the Governor's proposed budget reduction through changes to instruction.

Instruction is the Primary Mission. The CSU's main mission is to teach students. The UC has a three-pronged mission of instruction, research, and public service. Since instruction is the primary mission of both university systems, it is also a large expenditure for both systems.

Governor's Directive. In *The Governor's Budget Summary*, the same direction is provided to both UC and CSU: "These reductions are intended to minimize fee and enrollment impacts on students by targeting actions that **lower the costs of instruction** and administration." It is not clear from the Governor's directive as to what steps the UC and CSU should take to lower the cost of instruction.

Student-Faculty Ratio. One possible means for lowering the cost of instruction is to have each instructor teach more students per class. The current student-faculty ratio is 22:1 at UC and 22.76:1 at CSU. It is not certain what the savings are from this alternative. Higher student-faculty ratio could mean that the campuses have to consider different approaches to instructional delivery or provide a revised acknowledgement of the expectations placed on instructors.

Number of Courses Taught by Faculty. Full-time tenured faculty at UC teach four courses a year and full-time faculty at CSU teach 12 units a semester, which is roughly four classes per semester. It should be noted that CSU has no research mission, while full-time faculty at UC are expected to publish research. If the faculty at each system taught more courses, the cost of instruction would decrease. However, having faculty teach additional courses has downsides such as faculty burnout, and, for the UC system, decreased research time.

On-Line Courses. The campuses are constrained by the amount of space available in their buildings during instructional hours. However, on-line courses do not face the same limitations on available classroom space as traditional courses, and also do not depend on the instructor's ability to travel to the campus. As more young people become comfortable with using computers to communicate and exchange information, the universities may wish to examine on-line courses as a means of offering classes at lower cost.

Consolidation of Programs. The UC and CSU campuses offer a full array of programs at each campus. There are some programs with specific demand that perhaps could be regionally consolidated within the UC system of the CSU system. For example, if a student wishes to gain a Master of Science in Marine Science degree, perhaps that student could be directed to CSU Monterey Bay or CSU San Diego, rather than CSU Fresno (which is not near the ocean, but offers this major). Similarly, UC could regionally consolidate some of the smaller majors, such as language courses. The potential savings from consolidating programs is not known.

New Programs. Despite concerns raised by the California Postsecondary Education Commission (CPEC), some new professional schools have been started on UC campuses. These include the UC Irvine Law School. Funding for these professional schools comes primarily from hefty student fees and the university's unclassified funds. However, by spending unclassified funds on professional schools the UC system is foregoing spending those funds on traditional undergraduate education.

Staff Comment. Instruction is the primary service directed at students and any changes to the way instruction is conducted should seek to benefit students. Both segments have a large number of options to consider in lowering instructional costs.

Suggested Questions:

1. Has the Department of Finance proposed ways in which instructional costs could be limited?
2. How are UC and CSU planning to reduce instructional costs?
3. How will UC and CSU involve their respective Academic Senate's in the decision making about reducing instructional costs?

ISSUE 7: Administration Alternatives

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance

Issue. The issue before the Subcommittee is an informational item on what portion of the budget reduction UC and CSU will absorb through administration, and how each segment plans to lower administration costs.

Governor's Directive. In *The Governor's Budget Summary*, the same direction is provided to both UC and CSU: "These reductions are intended to minimize fee and enrollment impacts on students by targeting actions that lower the costs of instruction and **administration.**"

Administration Difficult to Measure. Though the cost of operating the University of California Office of the President (UCOP) and the California State University Chancellor's Office are well known, the administrative cost of each campus is tied up in student services and instruction so that there is no separate budget line item for the administrative expenditure component. Thus, institutional support is one of the best ways to capture purely administrative costs in the system, though it will not capture all administrative costs.

Institutional support includes executive management, fiscal operations, general administration, logistical services, public relations, and administrative information technology. Though the actual dollars for institutional support are projected to increase slightly for both segments, as a percentage of total expenditures it has remained about even for both UC and CSU.

Institutional Support at UC and CSU

(dollars in millions)

		UC		CSU
2009-10 Total	**$**	**820.6**	**$**	**660.4**
General Fund	$	317.3	$	341.8
Other Funds	$	503.3	$	318.6
2010-11 Total	**$**	**855.9**	**$**	**645.1**
General Fund	$	269.9	$	368.7
Other Funds	$	586.1	$	276.4
2011-12 Total	**$**	**859.2**	**$**	**674.4**
General Fund	$	269.9	$	380.2
Other Funds	$	589.3	$	294.2

Accusations of Administrative Bloat. The University of California has been accused repeatedly since the budget reductions began of providing administrators with high salaries while cutting services to students and denying salary increases to service employees. In fact, some top-level administrators have even received salary increases during the last two years. While student fees are increased and student services are decreased, it should be asked if the salaries of UC executives are reflective of the general economic picture on the campuses.

Staff Comment. As the University of California budget shrinks, and student services are reduced, it is imperative to ask if the university system is as efficient as it could be in its administration. If administrative reductions and efficiencies can be achieved, they should be taken before cuts to courses or student services such as libraries. As General Fund support for the UC is lowered, and student fee revenues must pay for the activities and positions previously financed with General Fund, there should be a close examination of whether or not all of those positions are necessary.

Suggested Questions:

1. How will UC and CSU work to reduce administrative costs?
2. How will UC and CSU work to create efficiency in administration?
3. Since the budget cuts to the UC system began in February 2009, how many senior management personnel have received pay raises?
4. Has student fee revenue been used to provide raises to executive management since 2008-09?

ISSUE 8: Mandatory Cost Growth Factors

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance

Issue. The issue before the Subcommittee is an informational overview of mandatory cost growth at UC and CSU.

Mandatory Costs. Mandatory costs are defined as those costs that the university must cover regardless of enrollment level or student fee revenue. These include electricity, capital outlay lease-revenue payments, employee health care cost increases, and retirement costs. Though UC and CSU have in the past presented certain employee compensation costs as mandatory costs, employee compensation costs can be tied to enrollment levels and thus do not have to be viewed as mandatory.

Mandatory Cost Growth Not Automatically Funded. Chapter 12 of the 2009-10 Fourth Extraordinary Session added Section 11019.10 to the Government Code, which provides that "except as provided in the Budget Act and implementing statutes, no automatic increases shall be provided to the University of California, California State University, the state courts, or to state agency operations, including, but not limited to, annual price increases to state departments and agencies." Thus, funding for any cost increases that occur during the year (such as a utility raising rates) must be approved by the Legislature in the Budget Act.

Impact of Mandatory Costs on Instruction. If enrollment in a university system remains unchanged year-over-year, but costs such as lease-revenue bond payments and electricity costs rise, the university must meet those increased costs in some way. This could take place through increased state funding, decreased services to students, leaner administration, or increased student fees.

CSU Mandatory Costs. The CSU's new mandatory cost growth for 2011-12 totals about $48.9 million. The CSU has an additional $44.6 million in contractual scheduled salary increases, which the CSU would likely argue are a mandatory cost.

CSU Mandatory Cost Growth

(dollars in millions)

Mandatory Item	2011-12
Health Insurance Premiums	$ 36.4
Dental Insurance Premiums	$ 3.2
Energy Price Increases	$ 5.5
New Space (Utilities/Maintenance)	$ 3.8
Total	**$ 48.9**

UC Mandatory Costs. The UC's new mandatory cost growth for 2011-12 totals about $148.7 million. In addition to these mandatory costs, UC has another $180.7 million in cost increases related to contractual salary increases and facilities maintenance.

UC Mandatory Cost Growth

(dollars in millions)

Mandatory Item	2011-12
Employee Health Benefits	$ 22.9
Annuitant Health Benefits	$ 10.5
Purchased Utilities	$ 5.5
Non-Salary Cost Increases	$ 24.0
Retirement Contributions	$ 85.8
Total for Mandatory	**$ 148.7**

Non-Mandatory Item	2011-12
Deferred Maintenance	$ 60.0
Academic Merit Increases	$ 27.7
Compensation Increases	$ 87.0
Collective Bargaining Agreements	$ 6.0
Total for Non-Mandatory	**$ 180.7**

Retirement Costs. Growth in retirement costs has been occurring for both UC and CSU. Contributions to retirement plans is not optional because retirement is part of each employee's benefits package, but the amount of the total annual contribution can vary depending on the number of employees each system chooses to employ.

California State University. Like most state employees, the CSU's employees are in the CalPERS retirement system. Thus the CSU does not independently determine the contribution rate of its employees or the employer into the retirement plan. The Governor's budget proposes an additional $75.2 million General Fund for the CSU CalPERS contributions. This amount is sufficient to cover the CSU increased costs for 2011-12.

University of California. Unlike CSU, the UC system has its own independent retirement system called University of California Retirement Plan (UCRP). The UC Regents determine the amount of the employee and employer contributions into the plan. For approximately 19 years (until 2009) when the UCRP was earning large amounts of interest, there were no state or employee contributions made into the plan. However, the economic difficulties of 2008 made UCRP insolvent, and the UC Regents decided to restart both employer and employee contributions in the spring of 2010.

Staff Comment. Both UC and CSU have prior year mandatory costs for which they never received increased state funding, and thus had to be absorbed by the segments' budgets. Since UC and CSU were able to absorb those costs, the prior year mandatory costs should not be viewed as a current unmet burden on either the UC or the CSU systems.

Suggested Questions:

1. Are the negotiated salary increases avoidable costs? Can contracts be renegotiated, or will a possible reduction in student enrollment lower these costs?

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Tuesday, February 1, 2011
10:00 a.m.
Room 3191, State Capitol

ISSUE 1: California Community Colleges Main Budget Changes

Speakers:

- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance
- Erik Skinner, Chancellor's Office
- Dan Troy, Chancellor's Office

Issue. The issue before the Subcommittee is an overview of the budget reduction proposed for the California Community Colleges (CCC).

System Overview. The California Community Colleges (CCC) are publicly supported local education agencies that provide educational, vocational, and transfer programs to approximately 2.8 million students. Constituting the largest system of higher education in the world, the California Community College system is comprised of 72 districts, 112 campuses, and 68 educational centers. The CCC advances California's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement. The CCC also provides remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

Funding Sources. The California Community Colleges rely on State General Fund and local property taxes as their main sources of revenue. Unlike the K-12 system, CCC does not receive General Fund backfill when local property taxes fall below the Budget Act estimate.

California Community Colleges Core Funding
(dollars in millions)

	2009-10 Actual	2010-11 Approved	2011-12 Proposed	Change from 2010-11 to 2011-12
General Fund	$ 3,764.3	$ 4,009.1	$ 3,599.8	$ -409.3
Student Fees	$ 357.3	$ 365.2	$ 475.2	$ 110.0
Local Property Taxes	$ 1,999.8	$ 1,913.3	$ 1,873.5	$ -39.8
ARRA	$ 35.0	$ 3.5	$ -	$ -3.5
Lottery	$ 163.0	$ 153.2	$ 168.5	$ 15.3
Totals	**$ 6,319.4**	**$ 6,444.3**	**$ 6,117.0**	**$ -327.3**

Governor's Budget. The Governor's main proposals are:

1. $400 million unallocated reduction to the CCC apportionment
2. New deferral of $129 million
3. $110 million for system growth for 22,700 Full-Time Equivalent Students (FTES)
4. $10 per unit increase to student fees to raise an additional $110 million in student fee revenue (discussed in Issue 3)

$400 Million Unallocated Reduction

$400 Million Reduction to Apportionment Funding. The Governor proposes to reduce General Fund support for CCC by $400 million, 6.9 percent of base apportionments. While the Governor offers no specific proposals for allocating the $400 million apportionment reduction, he suggests that changes to allocation formulas (including a change in how and when the number of students to be funded at each campus is counted) could better align campus incentives with state objectives. This policy proposal will be further discussed in the agenda under Issue 2.

What $400 Million Buys. Currently, each $10 million at CCC is sufficient to pay for 2,063 Full-Time Equivalent Students (FTES). Thus, $400 million is enough funding for 82,520 FTES. If viewed as headcount, the amount of the reduction could fund 185,720 students. Another way of thinking of the funding is the number of courses that can be offered, and $400 million is sufficient for 27,520 new courses (or 245 classes per CCC campus).

New Deferral of $129 Million

Impact of Deferral. The deferral has no programmatic effect; it simply delays into the next fiscal year a state payment of $129 million to cover CCC costs incurred in 2011-12. This new deferral would bring CCC's ongoing inter-year deferrals up to $961 million, or about 17 percent of its annual Proposition 98 apportionment. The CCC also has another $300 million in intra-year deferrals, which influence cash management during the fiscal year.

Growth Funds

Funding Increase. The Governor's budget proposes a $110 million augmentation to increase funded enrollment by 1.9 percent (or about 22,700 FTES). The Governor has proposed budget bill language that would limit the allocation of these funds to growth in FTES on a district-by-district basis.

Increase Not In Addition to New Fee Revenue. Though the $110 million in FTES growth funding is written into the Budget, it should be noted that the Governor's proposed budget also decreases apportionments to the community colleges by $110 million with the anticipation that student fee revenues will make up the difference.

Community Colleges Already Overenrolled. The community colleges are already enrolling more students than they are funded to serve, approximately 90,000 FTES, making it unlikely to expect an increase in system-wide community college enrollment under the Governor's budget.

LAO Recommendation

Enrollment Prioritization. The LAO recommends changes to the community colleges' enrollment policies as funding is decreasing:

In recent years, community college 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 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 will become even more serious in 2011–12 to the extent that budget reductions further reduce enrollment slots.

The LAO recommends the Legislature: (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.

The LAO envisions an approach that:

1. Assigns the highest registration priority to continuing students who are fully matriculated (participated in assessment, orientation, and counseling, as well as completed an educational plan) and are making satisfactory progress toward their educational goals (for example, as defined in federal financial-aid rules).
2. Next-highest priority could be granted to new students--particularly recent high-school graduates--who have completed matriculation requirements and other key steps, such as applying for federal financial aid.
3. Lowest priority would go to nonmatriculated new and continuing students, students with a declared goal of personal enrichment, and students who are not making satisfactory progress toward their goals. These students would not be allowed to register for classes until open registration.

The LAO's recommendation on enrollment prioritization would not result in state savings per se; rather it would help to ensure that state resources are first directed to the highest-priority students under the Master Plan.

Cap on State-Supported Units. The LAO also recommends changes to state-supported instruction for students that have more than 100 completed units at a community college or who keep repeating the same course. The LAO argues that these students should pay for the full cost of their instruction. The LAO estimates that there are about 120,000 (headcount) such students currently in the CCC system.

Under this recommendation, students with more than 100 units would still be eligible to attend CCC. However, since a state subsidy would no longer be provided, the Legislature could authorize colleges to charge these students up to the full cost of instruction. The LAO's recommendation would result in a CCC workload reduction of up to 38,000 full–time equivalent (FTE) students in 2011-12, for a savings to the state of as much as **$175 million**.

No State-Funded Repeated Courses. The LAO recommends that the Legislature eliminate state funding for any repeats of the same or similar (that is, part of the same sequence) activity class. (The LAO recommendation would exclude intercollegiate athletics and "adaptive" physical education classes, which are designed for individuals with physical disabilities, as well as students who are majoring in physical education or the fine arts.)

Under this recommendation, colleges would be permitted to allow students to repeat these classes, though these enrollments could not be counted for purposes of calculating apportionments. Alternatively, colleges could provide opportunities for students to repeat these activities through CCC "community service" classes, which statute requires to be fully supported by student fees. The precise amount of savings generated by our recommendation is unknown. Based on available data from 2009-10, it appears that CCC's workload could be reduced by an estimated 15,000 FTE students in 2011–-2, generating state savings of **roughly $60 million**. (This estimate takes into account students with more than 100 units who repeated an activity class in 2009-10.)

Staff Comments

The total cut to the community colleges is about $290 million, plus the deferral. This is because the $400 million is alleviated by new student fee revenue (discussed in issue 3).

Staff thinks that expecting the community college system to absorb a $290 million funding reduction while simultaneously serving more students is unrealistic. The colleges will have trouble taking a reduction of this magnitude to their state apportionment without reducing class offerings and other services to students. Staff recommends that the Legislature consider eliminating the growth requirement and instead adding the growth funds into the base apportionment.

Staff encourages the Legislature to consider easing certain restrictions on community college expenditures for a year or two as the campuses adjust. These restrictions include the "75-25 Faculty Ratio", which requires 75 percent of course units be taught by permanent faculty; "50-50", which requires that 50 percent of the district budget be for instruction; and "contracting out", which restricts the districts' ability to contract out for small maintenance services.

Suggested Questions:

1. In real dollar terms, what is the magnitude of the budget reduction for the community colleges once all the proposed adjustments are accounted for?
2. Can the community colleges grow in enrollment at this time?
3. Considering that the majority of community college districts' budgets are salaries and benefits, what measures will colleges have to take to shrink their budgets by $290 million?

ISSUE 2: California Community Colleges Census Policy Change

Speakers:

- Ed Hanson, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Erik Skinner, Chancellor's Office
- Dan Troy, Chancellor's Office

Issue. The issue before the Subcommittee is the Governor's proposal to change the census date policy.

Current Census Policy. Currently, the CCC apportionment (which is the majority of the General Fund received by the districts) is divided between the districts by FTES. The current census measures the number of FTES at each campus during the beginning of the third week of classes. This measurement may overestimate the number of students that actually stay in the course, because the students at CCC can drop a class until the end of the third week without penalty to their transcript, and many courses have their first exam during the fourth week of classes (which causes some students to drop out). The LAO estimates that 16 percent of students on average do not finish credit courses they have enrolled in.

Census Date Change. As part of the Governor's budget reduction proposal of $400 million for the California Community Colleges, the Administration proposes to change the allocation formulas for fiscal year 2011-12, including a change in how and when the number of students to be funded at each campus is accounted.

No Trailer Bill Language Available Yet. Trailer bill language is usually completed on February 1st, and since this hearing is taking place on February 1, 2011, there has not been enough time for staff to analyze the specifics of this proposal.

Proposal Outline. The Administration is still working out the specifics of their proposal, however, it is apparent that this policy change requires a full vetting process. Changing the census date actually generates $800 million in savings, but the Administration has indicated that they would redirect half of the funds to reinvest in districts with high attrition rates that serve low-income communities, while rewarding colleges for providing "high priority transfer courses." This new figure of savings with intent to redirect is new information that was not provided in the Governor's Budget, and which requires more time to analyze and assess.

Legislative Process. SB 1143 (Liu, 2010), requires the CCC Board of Governors to adopt a best practices plan for promoting and improving student success after convening a taskforce to examine funding options and effective models. The first workgroup meeting convened on Wednesday, January 19, 2011. The CCC Board of Governors, prior to implementation of this plan, has to report to the Senate Education Committee and Assembly Higher Education Committee at a joint hearing no later than March 1, 2012.

Governor Proposes Workgroup. The Governor's Budget Summary states:

> *The Administration proposes to work with the Chancellor and the Board of Governors, as well as stakeholders (including representatives of students and employees), to develop specific census date reforms and other changes to apportionment funding that result in equitably spreading reductions while rewarding colleges for ensuring necessary prerequisites to enrollment are met, assisting students in completing courses they enroll in, and prioritizing course offerings needed for transfer and vocational skills.*

The first of these workgroups took place on Friday, January 21, 2011, and involved the Chancellor's office, stakeholders, executive, and legislative staffers. The objective of these sessions was to gather a wide range of alternative saving solutions with the intent to minimize impact to student fee increases and enrollment reductions. As this was the initial meeting and a first step, below are a few examples of ideas for generating savings:

- Provide flexibility from state mandates to enable campuses to redirect funds to student success programs and courses.
- Increase accountability of administrative and executive expenditures for all segments of higher education.
- Move to a two-year funding model to provide increased direction and guidance to facilitate campuses' academic and budgeting cycles.
- Allowing for long term solutions to take place with legislative and executive direction as to what the state considers high priority programs and objectives.

Staff Comment. Since legislative staff has yet to review the Administration's proposal, and given that SB 1143 was fully vetted through the legislative process to generate solutions, such as this one, it would be imperative to provide a full vetting of this proposal, once it is finalized, in order to allow the California Community Colleges the opportunity to weigh in as to how they would implement such a change in funding, as well as stakeholders who will be impacted.

Suggested Questions:

1. Would the Governor's proposed policy change take effect on July 1, 2011? Does that leave sufficient time for the community colleges to adjust their internal policies to the new system-wide policy?
2. What incentives does this new policy create for the community colleges?
3. What unintended consequences could result from this new census policy? For example, could the community colleges start banning students with basic skills needs from registering for classes?
4. How does the Administration see the proposed census policy change interacting with the SB 1143 effort to create comprehensive change based on student success?

ISSUE 3: California Community Colleges Student Fee Increase

Speakers:

- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance
- Erik Skinner, Chancellor's Office
- Dan Troy, Chancellor's Office

Issue. The issue before the Subcommittee is the Governor's proposed $10 per unit student fee increase (from $26 per unit to $36 per unit).

Governor's Proposal. The Governor's budget proposes $110 million in new student fee revenue for the CCC system, for a total of $475 million in student fee revenue. Even with this increase, the CCC student fees will still be lowest in the nation.

Legislative Control. The Legislature sets the CCC student fee level (unlike with the UC and CSU, where the Regents and the Board of Trustees set the student fees). It should be noted that the campuses do not have an option of collecting a lower fee level than that set by the Legislature.

CCC Fee History. California has long had the lowest community college fees in the nation. Fees were increased from $20 per unit ($600 per year for a student taking a full course load) to $26 per unit ($780 per year) in 2009-10. Currently, CCC fees are less than one-fourth of the national average for community college fees. New Mexico, the state with the second-lowest fees, charges $1,200 per year.

Student Fees for Resident Undergraduates

	California Community Colleges*	California State University	University of California
2006-07	$ 690	$ 2,520	$ 6,141
2007-08	$ 600	$ 2,772	$ 6,636
2008-09	$ 600	$ 3,048	$ 7,126
2009-10	$ 780	$ 4,026	$ 8,373
2010-11	$ 780	$ 4,440	$ 10,302
2011-12	$ 1,080	$ 4,884	$ 11,124

**For full time student taking 30 units*

Alternatives for Students with Low Income:

BOG Waiver. In considering any fee increase, the Legislature should consider the potential effects on student affordability and access. For financially needy CCC students, affordability is preserved through the Board of Governors' (BOG) fee waiver program. This entitlement program is designed to ensure that community college fees will not pose a financial barrier to California residents. It accomplishes this by waiving enrollment fees for residents who demonstrate financial need. The program has relatively high income cut–offs. For example, a CCC student living at home, with a younger sibling and married parents, could have a family income up to approximately $65,000 and still qualify for a fee waiver. The family's income cut–off would increase to roughly $80,000 if the same student lived away from home. An older, independent student living alone could have an income up to about $45,000, and a student with one child could have an income up to about $80,000 and still qualify for a waiver.

Increasing CCC fees thus creates no additional out-of-pocket expense for financially needy students, since these students qualify for waivers no matter what the fee level. In recent years, about one-third of all community college students (representing up to 50 percent of all units taken) have received BOG fee waivers. In 2009-10, about $365 million in fees were waived.

Tax Deduction. Students who do not qualify for the BOG Waiver can still quality for federal tax credits, including the federal American Opportunity tax credit (AOTC), Lifetime Learning Credit, and tuition and fee tax deduction. The federal government recently extended AOTC through the 2012 tax year. Income thresholds for AOTC are high. For example, students (or their parents) with a family income of up to $160,000 are eligible for a full federal tax credit equal to their fee payment for up to $2,000 per year. (The amount of the tax credit is gradually reduced between $160,000 and $180,000 for joint returns; $80,000 and $90,000 for single filers.) Therefore, if the state were to increase fees to $36 per unit (or $1,080 for a full-time student), eligible students taking 30 units per year would still pay--after taxes--nothing for courses, and would still be eligible to receive over $900 for full reimbursement of textbook costs. In addition, families or students with insufficient tax liabilities qualify for partial tax refunds (equivalent to 40 percent of qualifying expenses).

Students who do not meet AOTC's academic requirements (such as those who already hold a bachelor's degree or only take one course each term) can qualify for the federal Lifetime Learning tax credit, which provides a tax credit equal to 20 percent of fees. Finally, those not claiming the credits may be eligible for a tax deduction of up to $4,000 of the cost of fees. The LAO estimates that roughly two-thirds of CCC students would qualify for full fee coverage through the BOG waiver program or AOTC. About 90 percent of CCC students would qualify for either a fee waiver or a full or partial tax offset to their fees.

Staff Comment. Given the current fiscal situation and the dramatic budget reduction proposed for the CCC, staff recommends that the Legislature approve a student fee increase for the CCC. If the Legislature chooses to approve a smaller fee increase than that proposed by the Governor, revenue can be calculated as each dollar of fee increase brings the system as a whole about $11 million in new revenue.

Suggested Questions:

1. Last year this Subcommittee spent a great deal of time discussing how students with BOG waivers were not applying for Pell Grants. What steps have the community college campuses taken to get more students to fill out a Free Application for Federal Student Aid (FAFSA)?
2. How many students know about the federal tax credits and actually apply for those tax credits?
3. How much more student fee revenue could the CCC receive if students with more than 100 units paid for the full cost of their education?
4. What impact would making students with more than 100 units paying the full cost of their education have on continuing education?

ISSUE 4: California Community Colleges Categorical Flexibility

Speakers:

- Ed Hanson, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Erik Skinner, Chancellor's Office
- Dan Troy, Chancellor's Office

Issue. The issue before the Subcommittee is an extension of CCC categorical flexibility until 2014-15 (previously ending in 2012-13).

History of Categorical Flexibility. In 2009-10, General Fund support was reduced for the California Community Colleges' categorical programs by a total of $263 million, or 37 percent, compared to 2008-09 levels. Ten of the CCC's 21 programs received base cuts of 50 percent, with 8 other programs cut between 30 and 40 percent. Eleven of CCC's categoricals were moved a "flex item" to improve college districts' ability to contend with the cuts.

Programs Included in Flex Item	Programs Excluded From Flex Item
Academic Senate	Basic Skills Initiative
Apprenticeship	CalWORKs Student Services
Campus Child Care Support	Disabled Students Program
Economic and Workforce Development	Extended Opportunity Programs and Services
Equal Employment Opportunity	Financial Aid Administration
Matriculation	Foster Care Education Program
Part-Time Faculty Compensation	Fund for Student Success
Part-Time Faculty Health Insurance	Nursing Grants
Part-Time Faculty Office Hours	Telecommunications and Technology Services
Physical Plant and Instructional Support	Career Technical Education Initiative
Transfer Education and Articulation	

Source: LAO

Governor's Proposal. The Administration proposes to extend the sunset date for the categorical programs funding flexibility until 2014-15, in order for districts to better accommodate reductions, permitting the transfer of funds from categorical programs in the flex item to any other categorical spending support. Under current law, categorical flexibility ends 2012-13.

Categorical Funding. The Governor's budget proposal keeps the categorical funding levels the same as in 2010-11, except for Financial Aid Administration which would receive $1.7 million more in 2011-12 than in 2010-11.

Staff Comment. Staff recommends the Legislature reject the extension of categorical flexibility, because it is premature to extend this program when it does not expire until June 30, 2013.

ISSUE 5: Career Technical Education

Speakers:

- Erik Skinner, California Community Colleges
- Dan Troy, California Community Colleges
- Ed Hanson, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office

Issue. The issue before the Subcommittee is an update on the Career Technical Education (CTE) categorical.

Career Technical Education Background. SB 70 (Scott, 2005) created the CTE Pathways Initiative. SB 70 established a program to "improve linkages and career technical education pathways" between K-12 and community colleges. These "pathways" are designed to help K-12 students develop vocational skills sought by employers in the area, while also preparing students for more-advanced academic or vocational coursework at a community college or university.

The CCC Chancellor's Office and California Department of Education (CDE) administer the initiative and allocate funds through a competitive grant process. Local projects are jointly developed by community colleges and K-12 entities (high schools and Regional Occupation Centers/Programs). Most local projects are also required to involve local businesses. Grants typically provide short-term improvement funding to develop or strengthen CTE programs rather than ongoing operational support. Currently, the initiative consists of 19 separate grant categories.

Funding History. As the chart below illustrates, the CTE Pathways Initiative program was funded only with Proposition 98 funds during the first two years of operation (2005-06 and 2006-07). Chapter 751, Statutes of 2006 (SB 1133, Torlakson), included additional annual funding for the initiative as part of the Quality Education Investment Act (QEIA).

CTE Pathways Initiative (SB 70)

(dollars in thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
Proposition 98	$ 10,000	$ 20,000	$ 48,000	$ -	$ -
QEIA	$ 32,000	$ 38,000	$ -	$ 48,000	$ 48,000
Total	**$ 42,000**	**$ 58,000**	**$ 48,000**	**$ 48,000**	**$ 48,000**

Governor's Budget. The Governor's proposal provides CTE with $48 million from QEIA funding in 2011-12.

Staff Comment. The CTE Pathways Initiative is a program that holds a lot of promise to provide career technical education to high school students. The CTE Pathways Initiative works with community colleges and high schools to establish courses that provide career technical education to students. There have been some difficulties in getting the high school level CTE courses approved as prerequisite courses to the UC and CSU, thus placing high school students who take CTE courses at a disadvantage to starting as freshmen at a California four-year public university. There may be opportunities to expand high school CTE courses that meet the UC's A-G course requirements, through initiatives such as increased teacher training on how to incorporate CTE into a traditional classroom.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open.

Suggested Questions:

1. How does CCC measure success in the CTE Pathways Initiative?
2. How did the funding allocation between the various projects in the CTE Pathways Initiative Five-Year Plan get determined?

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Tuesday, February 1, 2011
1:30 p.m.
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.

6120 California State Library

ISSUE 1. California State Library Proposed Budget

Speakers:

- State Librarian Stacie Aldrich, California State Library
- Debbie Newton, California State Library
- Steve Boilard, Legislative Analyst's Office
- Lenin Del Castillo, Department of Finance
- Lisa Mierczynski, Department of Finance

Issue. The issue before the Subcommittee is the Governor's proposed budget reduction to the State Library budget.

California State Library Background. The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library: (1) administers and promotes literacy outreach programs; (2) develops technological systems to improve resource sharing and enhance access to information; and (3) administers the Public Library Foundation, which, via a statutory formula, distributes state funding to support basic services at local libraries.

<u>BUDGET:</u>

State Library Budget - General Fund Only

(dollars in thousands)

	2010-11	2011-12 Proposed)
State Operations		
Operating Budget	$ 10,547	$ 11,181
Library Development Services	$ 1,106	$ 1,101
Information Technology Services	$ 989	$ 985
Subtotal	*$ 2,642*	*$ 13,267*
Local Assistance		
Public Library Foundation	$ 12,924	$ -
California Library Services Act	$ 12,908	$ -
English Acquisition and Literacy Program	$ 4,558	$ -
Civil Liberties Public Education Program	$ 450	$ 450
California Newspaper Project	$ 216	$ 216
Subtotal	*$ 31,056*	*$ 666*
Total	**$ 43,698**	**$ 13,933**

Governor's Budget. The Governor's budget proposes to eliminate all state General Fund support for local libraries, with the exception of two small programs (the California Civil Liberties Public Education Program and the California Newspaper Project). The programs that would lose all state funding are the Public Library Foundation Act, the California Library Services Act, and the English Acquisition and Literary Program. This reduction provides the state with a $30.4 million General Fund savings.

THE PROGRAMS:

Public Library Foundation. This program provides core operational assistance to local libraries and is used to support library staffing; maintain hours of operation; develop and expand library-based programs such as after-school reading programs and homework assistance centers; and purchase books and materials. The Public Library Foundation Act is a funding formula under which the state contributes funding for basic local library services under specified conditions. At its peak (in 2000-01), the state appropriated $56.9 million to the Public Library Foundation. The Governor's budget would eliminate state funding for this program.

California Library Services Act. The California Library Services Act (CLSA) promotes resource sharing and reimburses public libraries for loans to people living outside their jurisdiction. The Governor's budget would eliminate state funding for this program.

English Acquisition and Literacy Program. The California Library Literacy and English Acquisition Services Program provides community-centered literacy assistance to English-speaking adults who have missed the opportunity to learn to read English in traditional learning settings. This program includes funding for the mobile library program. Combined, these literacy programs serve 42,497 adults and 46,983 children in 105 different local library jurisdictions. The Governor's budget would eliminate state funding for this program.

MOE:

Federal Maintenance of Effort. During the 2011-12 fiscal year, California will receive about $19.7 million in federal funds for the State Library. These funds require a state match. The amount of the federal grant is calculated based on the past three years of state funding support. If California discontinues state support for local libraries, in 2012-13 the state will begin losing federal funds for libraries and by 2014-15 the federal government will no longer provide library grants to California.

However, some of the State Library programs that will continue to receive funding can count toward the federal maintenance of effort (MOE) requirement. The State Library calculates that by providing **$3.9 million General Fund** above the Governor's proposed level for 2011-12, California would meet its federal MOE and receive the full grant for 2012-13.

<u>STAFF COMMENTS:</u>

Local Library Reliance on State Funds. Some local libraries are far more reliant on state funds than others. California has 181 local library jurisdictions that receive some state funds, of which only 14 get more than ten percent of their total funding from the state (and another 35 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 of 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.

Once Funding Eliminated, Difficult to Restore. Staff notes that once funding for a program is completely eliminated, it is difficult to bring those programs back. The Legislature may wish to consider a small restoration of the local funding in order to keep programs going. Also, the Legislature may wish to allocate the restored funds based on local poverty rates rather than strictly on a per-capita basis.

Suggested Questions:

1. What happens when the state cannot meet the federal MOE to receive federal funds? If those federal funds are lost, what happens to the State Library programs?
2. How many local libraries would have to close if the Governor's budget is adopted?

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 2. Governor's Budget Proposal – Statewide Education Data Systems

DESCRIPTION: The Governor proposes to continue the veto of **$6.5 million** in federal funds from the 2010-11 budget bill for support of two statewide education data systems -- the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Teacher Integrated Data Education System (CALTIDES).

While vetoed by the last Administration, the Governor does not propose to restore funding for CALPADS and CALTIDES in 2010-11 or 2011-12. Instead, the Governor proposes that any future funding decisions are pending a review of these programs. Specifically, the Governor proposes an interagency working group – convened by the Governor's Office -- to conduct this review prior to any further funding of either CALPADS or CALTIDES.

BACKGROUND: Current law, established by SB 1453 (2002) and SB 257 (2003), requires that the California Department of Education (CDE) contract for the development of a statewide data system to collect, maintain, and report longitudinal student assessment and other data required to meet federal No Child Left Behind (NCLB) reporting requirements, to evaluate education programs, and to improve student achievement. This system is known as California Longitudinal Pupil Achievement System (CALPADS). Senate Bill 1453 and SB 257 identify five basic goals for the state's longitudinal data system:

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

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

In 2006, SB 1614 was also enacted establishing CALTIDES to facilitate teacher assignment monitoring through automation and enable monitoring of Highly Qualified Teacher Requirements of NCLB. CALPADS will include teacher assignment data and will be linked to credential data and authorization data maintained by the Commission on Teacher Credentialing.

CALPADS Implementation. A chronology of major activities related to the CALPADS project is displayed in the table below. The Feasibility Report was completed in August 2004 and conditionally approved in June 2005, with final approval in November 2005. The Request for Proposal was completed in June 2006 and approved in September 2006. Final Bids were released in June 2007. A first Special Project Report -- with all updated cost estimates, the selected proposed solution, and all changes to the project since approval of the Feasibility Study Report (FSR) -- was approved in November 2007; and the contract was awarded to IBM in late December 2007. Work on the contract began in January 2008. CALPADS implementation began in August 2009 and is scheduled to wrap-up in September 2011.

CDE has provided the following summary of CALPADS project and system development.

Project Development

Project Stage	Start	Completed	Approved/Released
Feasibility Study Report (FSR)	April 2004	August 2004	
FSR Submission 2	January 2005	April 2005	June 2005 – Conditional
Supplemental Report to FSR	June 2005	October 2005	November 2005
Request for Proposal (RFP)	December 2005	June 2006	September 2006
Final Bids Submission/Evaluation	April 2007	May 2007	June 2007
Final Bid Cost Opening		June 2007	
Special Project Report	July 2007	September 2007	November 2007
Section 11	November 2007	December 2007	December 2007
Contract Commences	January 2008		
Second Special Project Report			January 2011

System Development*

Project Stage	Start	Completed	Approved/Released
Phase 1: Project Initiation	January 2008	May 2008	
Phase 2: Design, Development, Conversion, Testing	April 2008	April 2009	
Phase 3: Pilot User Acceptance Test (UAT)	December 2008	July 2009	
Phase 4: System Implementation	August 2009	Sept 2011	
Phase 5: Warranty and Maintenance	September 2011	August 2012	
Includes projected dates			

CALPADS Funding. According to the LAO, the state has provided a total of **$214 million** over the last 13 years - since 1997-98 - on student data systems, as summarized below.

- **Pre-CALPADS (1997-2001) Funding.** A total of **$46.3 million** was appropriated to LEAs for data development before CALPADS was established in statute 2002. These funds were provided to help LEAs prepare (build capacity) for a state longitudinal data system. This funding helped LEAS improve their own data systems and data management processes and practices.

- **CALPADS Funding (2002-Present).** A total of **$166.2 million** has been appropriated for CALPADS since enactment of the program in 2002. This total includes **$115.5 million** in local assistance funding – including funding for CSIS – to support data collection and development for LEAs, and also includes **$50.6 million** in state operations funding appropriated to CDE for

CALPADS project costs, including the CALPADS contract. (The CALPADS contract began in January 2008.) The contract provides **$13.9 million** to IBM. CDE's contract with IBM is "deliverables" based, which means the vendor is not paid until required functionality is designed, built, implemented, and accepted by CDE.

Recent CALPADS Implementation Delays & Stabilization. In the Fall of 2009, CALPADS went online, but by February 2010, due to unacceptable system performance issues that occurred during the rollout of CALPADS, the Superintendent of Public Instruction delayed any new system development and directed IBM and CDE staff to focus all resources over the next two months on stabilizing the system. In December 2009, SABOT Technologies, an independent contractor hired by CDE, conducted an independent assessment of the CALPADS system architecture and technical processes.

SABOT asked IBM to develop a plan to stabilize the system. IBM contract executives developed a high level plan to stabilize the system by the end of March 2010. During this "stabilization period" IBM was required to both retest the entire system and fix all "severity 1 and 2" defects, and to hold off on developing new functionality. Throughout stabilization, the CALPADS system remained available to users.

On April 26, 2010 a stabilization software was released to the field to increase the efficiency of the CALPADS system. CDE required the system to demonstrate stability for 60 days. The goal was achieved and the system successfully exited the stabilization period in late June 2010.

CALTIDES Implementation & Funding. CALTIDES is in the procurement phase. Once developed**,** CALTIDES will be a new comprehensive data system that integrates existing databases to enable the retention of longitudinal teacher data to meet federal No Child Left Behind (NCLB) and other state reporting requirements, to facilitate assignment monitoring, and to conduct high quality program evaluations.

CDE has provided the following chronology of CALTIDES. The CALTIDES contract was last projected to commence in March 2010. However, due to delays in CALPADS implementation last year, the contract was delayed --an entire year --to March 2011. If a contract is successful then, system implementation is slated to begin in 2012-13.

CALTIDES Project Status

Project Stage	Start	Completed	Approved/Released
Feasibility Study Report (FSR)	September 2005	March 2006	May 2006
Request for Proposal (RFP)	January 2007	April 2009	April 2009
Final Bids Submission/Evaluation	May 2009	September 2009*	September 2009*
Special Project Report*	September 2009	November 2009	December 2009*
Contract Commences*	March 2010		

CALTIDES is being jointly developed by the CDE and CTC. To date, approximately **$4 million** has been spent on project development for CALTIDES, including assigning Statewide Educator Identifiers to all certificated staff, contracting for project management and project oversight services, developing a Feasibility Study Report and Request for Proposal, and selecting a vendor. The contract, however, has not been awarded.

2010-11 Budget Vetoes: The previous Governor vetoed **$6.5 million** in federal funds for CALPADS and CALTIDES in 2010-11, as follows:

- **CALPADS.** The Legislature approved $5.6 million in federal funds to the California Department of Education (CDE) for the implementation costs associated with the California Longitudinal Pupil Achievement Data System (CALPADS) in 2010-11.

  However, the previous Governor vetoed $2.7 million, leaving $2.9 million in federal funds for CALPADS through December 6, 2010. The previous Governor stated intent that "reduced funding be set aside for future legislation that appropriates funds for an appropriate entity to complete the project and provide a data system that will successfully supply student-level achievement data to assist teachers, district administrators, and policy makers with reliable information."

- **CSIS.** The previous Governor vetoed $3.6 million in one-time Proposition 98 funds for California School Information Services (CSIS) administrative support activities for the CALPADS project to conform to this action, leaving $1.3 million for these CSIS activities. (Note: Due to technical errors, this veto was not operational. Consequently, the $3.6 million in funding for CSIS has continued in the budget.)

- **CALTIDES.** The Legislature approved nearly $4.0 million in federal funds to CDE, and $84,000 in Teacher Credentialing Funds to the Commission on Teacher Credentialing, for development of the California Teacher Information Data System (CALTIDES).

  However, the previous Governor vetoed $3.3 million in ongoing federal funds and $200,000 in one-time federal funds, leaving $563,000 in federal funds for CALTIDES through December 6, 2010.

  The previous Governor stated intent that " reduced funding be set aside for future legislation that appropriates funds for an appropriate entity to complete the project and provide a data system that will successfully supply student-level achievement data to assist teachers, district administrators, and policy makers with reliable information."

GOVERNOR'S BUDGET PROPOSALS:

2010-11 Proposal. The Governor's Budget does not propose to restore $6.5 million in federal funds vetoed by the last Administration in 2010-11 for support of CALPADS and CALTIDES. Instead, the Governor's Budget proposes to establish an interagency working group convened by the Governor's Office to review any further funding for CALPADS and CALTIDES. The Governor proposes to address the following issues as a part of the review:

- **Program Objectives**
- **Usefulness**
- **Longer Term Implications**
- **Compatibility with Growing Federal Requirements**

As a result of the Governor's action, the **$6.5 million** in vetoed federal funds remain available, but unauthorized for CALPADS and CALTIDES in 2010-11. These vetoed funds – as summarized in the table below – include $1.8 million for CDE State Operations; $1.1 million for CALPADS Project Implementation; and $3.5 million for CALTIDES.

I. CALPADS – CDE State Operations	**Amount**
Data Reporting Requirements	442,500
CALPADS Development	1,381,500
Subtotal, CALPADS CDE State Operations	**1,824,000**
II. CALPADS Implementation Costs	
Vendor Costs – System Integration	606,000
Vendor Project Management Costs	277,000
Independent Project Oversight Consultant and Independent Validation and Verification Costs	214,000
System Hardware Costs	4,000
System Software Costs	6,000
DGS Contract Revision Charges	15,000
Subtotal, CALPADS Implementation Costs	**1,122,000**
III. CALTIDES	
Support & Development	2,440,000
Support & Development	1,060,000**
Subtotal, CALTIDES	**3,500,000**
TOTAL	**6,446,000**

*****Includes 2.0 existing positions. One-time carryover funds can be used for CALTIDES or CALPADS support, which may include a DPM III position).***
***Includes $200,000 in Title II one-time carryover funds.*

In conforming to these vetoes for CALPADS and CALTIDES, the previous Administration intended to veto another **$3.6 million** in one-time Proposition 98 funds for California School Information Services (CSIS) support activities for the CALPADS project in 2010-11. However, due to a technical error in the Governor's veto action, the CSIS veto has not been operational. As a result, the $3.6 million for CSIS passed by the Legislature remains available in the 2010-11 budget act.

2011-12 Proposal. The Governor provides limited funding for CALPADS and CALTIDES in 2011-12, since the Governor proposes to base any further funding for these data systems on the outcomes of the Interagency Working Group. A summary of available funding for data systems is provided below.

- **CALPADS & CSIS.** The Governor currently proposes to continue **$2.5 million** in special funds for CSIS operations in 2011-12. The Governor's proposal does not contain any one-time Proposition 98 funds for base CSIS operations because of the uncertainty of CALPADS funding in 2010-12. The Governor proposes no additional federal funding for CALPADS state operations at CDE in 2011-12.

Budget Item/Funds	**2010-11**	**2011-12**
CSIS		
6110-101-0349*	1,225,000	1,225,000
6110-107-0349	242,000	242,000
6110-140-0001/6110-140-0349**	1,033,000	1,033,000
6110-488 (One-Time Prop 98)	5,224,000	0
Subtotal	**7,724,000**	**2,500,000**
CDE		
Item 6110-001-0890 **Provision 17(b) & 17(d).**	**2,506,000**	**0**
Provision 17 (a)	**287,000**	**0**
Provision 17 (e)	**38,000**	**0**
Provision 17 (c)	**115,000**	**0**
Subtotal	**2,946,000**	**0**
TOTAL, CALPADS & CSIS	**10,670,000**	**2,500,000**

**Includes $828,000 to support LEA SSID work that is not administered by CSIS.*
***Includes $500,000 for Student Friendly Services and $150,000 for oversight of CSIS, which are neither CSIS operational funds nor related to CALPADS.*

CDE has requested funding of $13.162 million in 2011-12 to support the full costs of CALPADS. This amount ties to amounts in the recently approved State Project Report (SPR). Of this total, CDE requests $3.405 million for ongoing CDE operations and $1.763 million in one-time costs. In addition, CDE requests a total of $7.994 million for CSIS ongoing operations

- **CALTIDES**. The Governor provides no additional funding for CALTIDES in 2011-12 due to uncertainty about the future for CALPADS and CALTIDES funding in 2010-11. The Governor does propose to continue $84,000 to the Commission on Teacher Credentialing (CTC) to provide funding for one limited term (two year) position to support subject matter expertise and support in the development of CALTIDES with CDE. It also continues $560,000 for CDE administration of CALTIDES, but specifies the funds cannot be used until CALPADS is able to transfer data reliably (this condition has been met) and upon approval of DOF.

Budget Item/Funds	**2010-11**	**2011-12**
CDE		
6110-001-0001/0890	563,000	560,000
CTC		
6360-001- 0408 (Provision 5)	84,000	84,0000
Total	**647,000**	**644,000**

CDE does not request restoration of the $3.5 million in vetoed federal funds for CALTIDES in 2010-11. Due to delays in resulting from the 2010-11 CALPADS vetoes, there have been delays in the certification of data needed for the CALTIDES project. For this reason, CDE does not believe it can sign a CALTIDES contract before June 30, 2011. Instead, CDE requests an augmentation of $2 million in federal IES grants funds in 2011-12 for the CALTIDES contract.

CDE COMMENT.

Status/Impact of Data Systems Following 2010-11 Veto:

- **CALPADS.** CALPADS currently involves four data collection phases, also referred to as functionalities. According to CDE, there are four basic data collection phases (or functionalities), as follows:

    1. **Fall 1 –** This phase is completed and consists of student enrollment counts and exit records that are used to calculate graduation and dropout rates. This phase also includes a collection of other student data -- grade level, gender, race/ethnicity, English learner status and some

program designations, such as special education and migrant. This data was collected last year and is currently being collected for the second time.

2. **Fall 2 –** This is phase is also completed and consists of collecting information about certificated staff and their assignments, the courses students are taking and the courses that teachers are assigned to teach. In addition, information is collected about some characteristics of these courses (AP, independent study, EL services, whether a teacher is highly qualified to teach a course, etc.). This data is currently being collected for the first time.

3. **Spring –** This phase is currently being tested by LEAs and is scheduled for release to all LEAs on March 1. This is a collection of CDE's annual Language Census of English learners and immigrants.

4. **End-of-Year –** This phase is currently in development and involves a collection of the courses students have completed and the grades/credits they have earned (in grades 7-12 departmentalized classes in traditional schools). This phase also includes some student program participation information (such as Title I counts or Homeless student counts).

Aside from these four data collections (or functionalities), IBM is also contracted to provide for some functionalities CDE refers to as "data exchanges", which do not require data to be submitted by LEAs. One functionality includes the loading of three years of student assessment data results for STAR, CAHSEE, and CELDT, and the development of related reports. Another functionality includes the creation of reports that CDE is required to send to the U.S. Department of Education (USDE).

According to CDE, the loss of funding from vetoes in 2010-11 has had an impact on all of these functionalities. For those that are finished (Fall 1 and 2), CDE is unable to implement fixes or enhancements. For those that are in testing or development (Spring and Assessments), CDE may not be able to oversee the finishing of these functions and risk that IBM does not implement these as we need them. For those functionalities that have not started development (End-of-Year and federal reports), CDE cannot oversee the work of IBM to design these functions in the manner needed to meet requirements.

- **CALTIDES.** While CALTIDES is currently in the procurement phase, the contract most recently planned for March 2011, is currently on hold because of vetoed funds.

  CALTIDES is designed to link and leverage the teacher and course information that districts submit to CALPADS in Fall 2. According to CDE, most districts are still submitting Fall 1 data to CALPADS and they have not started to focus on submitting Fall 2 data.

  Per CDE, only 17 LEAs have certified their Fall 2 data through CALPADS. CDE believes this is not sufficient to determine that Fall 2 has been successfully implemented. IBM still has to meet some contractual obligations related to Fall 2 before CDE considers it completed and IBM is paid.

CDE does not want to enter into a contract with a vendor that still has to prove that it can successfully deliver the product, especially if Fall 2 is a cornerstone to CALTIDES. Due to these problems, even if funding is back on track soon, CDE does not believe it will be able to enter into the contract for CALTIDES before June 30.

Current Federal Data Commitments: The implementation of CALPADS and CALTIDES is critical to California's ability to meet federal data reporting requirements for a number of major federal acts, most notably:

- **No Child Left Behind (NCLB) of 2001**. California currently receives approximately **$2.6 billion** in ongoing NCLB funding annually. NCLB requires states to hold all schools and districts accountable for making "Annual Yearly Progress" (AYP) on specified indicators, including statewide assessments and graduation rates. CALPADS and CALTIDES were created to meet these needs.

  For example, CALPADS will allow California to produce a four year student graduation and dropout rate for purposes of NCLB Title I programs. This four year rate can only be calculated with a longitudinal data system.

  As another example, CALTIDES is required for the CDE to comply with its Highly Qualified Teacher reporting and monitoring requirements under NCLB. These requirements are specified in our state's "Plan of Activities to Meet NCLB Teacher Quality Requirements" submitted to the U.S. Department of Education in April 2006.

- **American Recovery and Reinvestment Act (ARRA).** California has received approximately **$6.0 billion** in one-time federal ARRA funds for K-12 schools over the last three years, including: **$3.6 billion** in State Fiscal Stabilization Funds; **$1.2 billion** in Special Education funds; and **$1.1 billion** in Title I funds. As a condition of receiving these ARRA funds, the previous Governor signed a set of data assurances and reporting requirements. The state must comply with these assurances and requirements, primarily that our state establish a longitudinal data system that includes data elements described in the America Competes Act. Failure to comply with these ARRA requirements could result in the loss of federal funds to our state.

- **Education Jobs Funds.** California received **$1.2 billion** in one-time funding under the federal Education Jobs Fund.

- **Institute of Educational Science (IES) Grants**. CDE has received federal IES grants to support development of both CALPADS and CALTIDES.

STAFF COMMENTS:

- **Governors Concerns and Goals Unclear; More Information Needed to Evaluate Proposals**. A student level data system has been envisioned for more than ten years in California. CALPADS is now operational and very close to being fully implemented. The Governor has paused continued funding for CALPADS (and CALTIDES) and has raised fundamental questions about the system's usefulness and has challenged some of the original goals, for example to meet federal requirements. Given the seriousness of these questions – the Governor must have serious concerns. However, those concerns cannot be identified by the Administration at this time. It is difficult to evaluate the fix, when the underlying problems are not known.

- **Scope and Timing of Governor's Proposals Makes Contingency Planning Difficult.** The Governor conditions any further funding for CALPADS or CALTIDES on the outcome of an Interagency Working Group to address these issues. Is the Governor interested in building upon the CALPADS systems as currently developed, but allowing the existing system to finish out? Or is the Governor interested in halting final development of the system in order to making final changes? The scope and timeframe for both these activities is quite different and makes it difficult for the state to make contingency plans for meeting data commitments to the federal government.

- **Governor's Problems Do Not Appear Fiscal**.

  - **Federal Funds Available for CALPADS & CALTIDES – No General Fund Pressure from Projects.** All **$6.5 million** in funds vetoed in 2010-11 were federal funds and remain available. There is no pressure on the General Fund for support of CALPADS or CALTIDES at this time.
  - **State Spending on Student and Teacher Data Systems Miniscule Portion of Education Spending**. The **$6.5 million** vetoed to continue development and support of state's primary state and teacher data systems – both CALPADS and CALTIDES – represents **0.01 percent** of the **$45.6 billion** in programmatic funding for K-12 schools in 2010-11 It does not appear that the state has over-invested in data systems.

- **IBM Problems from Last Year Appear Resolved**. CDE reported that all implementation problems were fixed by IBM by late June 2010 and the system was stabilized. As a precaution, the 2010-11 budget act includes provisional language – recommended by the last Administration – that conditioned funding upon resolution of all problems. Neither the Department of Finance nor CDE can identify any remaining problems for CALPADS. In addition, the California Technology Agency has no outstanding issues with the CALPADS project at this time.

- **State May be at Risk if It Cannot Meet Federal Data Assurances.** While CALPADS is operational and almost fully implemented, without continued CDE funding, the state cannot certify data and develop state reports promised to the federal government**.** The state has made data commitments for several major federal programs – NCLB, ARRA, Ed Jobs Funds, IES grants, etc. Some of these data commitments appear to be due in September 2011. According to CDE, failure to comply could result in a loss of funding for our state. More information is needed from CDE to identify specific federal data commitments and risks of noncompliance.

- **Veto Impacts CALPADS Data Quality, Data Exchanges, and Federal Reports by CDE.** The greatest impact of the CALPADS veto appears to on work provided by CDE to assure data quality and certification, the development of reports to meet federal data assurances, and the development of data exchanges - some of which are needed for CALTIDES to advance. For example, the state is on track to provide the first four year cohort for high school graduation and dropout rates this spring. This data has been long awaited at the state level and is also required for federal reporting purposes.

- **Veto Results in Delays for CALTIDES.** The veto cut funding for the system integration contract that was projected to commence March 2011, with a system roll out in 2012-13. Even if funding is back on track soon, CDE believes it is too late to fund a contract in 2010-11. This will move roll-out of the program well beyond 2012-13. Depending upon the scope of the delays, the contract may have to be re-procured increasing project costs and adding further delays. In addition, CDE believes the veto seriously jeopardizes the $6 million in a federal IES competitive grant that was awarded to CDE.

STAFF RECOMMENDATION: Staff recommends that the Subcommittee restore the **$6.5 million** in federal funds vetoed for CALPADS and CALTIDES in 2010-11. Staff recommends that the Subcommittee take this action when it votes on the Proposition 98 package.

Staff further recommends that -- within the next week -- CDE provide the Subcommittee with a budget proposal for CALPADS and CALTIDES funding in 2011-12 that does not involve General Fund support.

SUGGESTED QUESTIONS:

1. What are the Governor's primary concerns with CALPADS, now in its final phases of implementation?

2. What is the status of the Interagency Working Group being convened by the Governor's Office? Is the working group intended to complete its work within the 60 day budget timeframe? If not, within the 2010-11 budget year?

3. In what specific ways has CALPADS been useful to LEAs, e.g., increased capacity, reduced workload of multiple submissions? How has CALPADS been useful to students/families, e.g., eligibility for free/reduced price lunches, records transfers? How will CALPADS be useful to the state?

4. Long term, will CALPADS save LEAs and the state time and money and result in higher quality data, i.e., result in more efficient and effective state and local education data systems?

5. How does the veto of CALPADS funding for the California Department of Education affect its authority to direct the work of IBM particularly with regard to technical fixes or enhancements to the system?

6. While CDE reports that CALPADS is currently operational, how does the veto affect CALPADS? How does it affect operations support to assure data quality?

7. Will lack of funding affect the calculation of new, accurate, CALPADS- derived, four year student graduation and dropout rates, which are scheduled to become available for the first four year cohort this spring?

8. If CALPADS funding is not restored, how will California be able to comply with federal data submissions required in September 2011? [Per CDE, California has made substantial assurances as a condition of receiving nearly $6.0 billion in federal ARRA funds appropriated over the last three fiscal years and the $1.2 billion in Education Jobs Funds appropriated in the current fiscal year.]

9. Does the Governor also have specific concerns about CALTIDES?

10. How does vetoed funding affect CALTIDES implementation specifically?

11. Why doesn't CDE support current-year restoration funding for the CALTIDES project?

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 3. Governor's Budget Proposal –Economic Impact Aid Adjustments (6110-128-0001)

DESCRIPTION: The Governor proposes to reduce funding for the Economic Impact Aid program by an additional **$54 million** in order to reflect anticipated savings for the program in 2011-12.

BACKGROUND:

Program: Economic Impact Aid (EIA) is the state's major compensatory education program intended to address the educational needs of low-income and English learner students. More specifically, EIA is a K-12 categorical program to support:

(1) Additional programs and services for English learners (limited English proficient LEP) and,
(2) State Compensatory Education (SCE) services for educationally disadvantaged students as determined by the Local Education Agency (LEA).

Districts may use funds for a variety of purposes benefitting low-income and English learner students, such as supplemental services and instruction; teacher training; and supplementary materials.

Funding. The EIA formula is based upon counts for economically disadvantaged and English learner students. The 2010-11 budget act provides **$942.4 million** for the EIA program in 2010-11. The federal compensatory education program is known as the Title I Basic Grant program. The Governor's budget provides **$1.7 billion** in federal Title I grants to schools statewide in 2010-11.

The EIA program is not included in the Categorical Flexibility Program, and therefore has been protected from categorical reductions in recent years. The EIA program budget has been adjusted annually to capture natural savings that had accumulated for the program as a result of declining student enrollment.

In 2010-11, the English Language Acquisition Program (ELAP) was consolidated into the EIA program. The ELAP program was previously included in the Categorical Cut-No Flexibility program, beginning in 2008-09 and continuing through 2011-12. The ELAP program provided funding that could only be used to provide services to English learner students in grades 4 through 8.

The consolidation of ELAP funds into EIA allows local educational agencies (LEAs) to use ELAP to use funds more flexibly for low-income and English learners. LEAs can now use ELAP funds for the same purposes as EIA funds – and direct funds to low-income and English learner students as most needed – without grade level restrictions

G**OVERNOR'S BUDGET PROPOSAL:** The 2010-11 budget act provides **$942.4 million** for the EIA program, as noted in the table below. The Governor proposes to reduce EIA funding in 2011-

12 to **$888.4 million**, a decrease of **$54.0 million.** This reduction is intended to reflect additional, anticipated savings for the program in 2011-12.

Dollars In Millions	2009-10	2010-11	2011-12 (Proposed)	Change
EIA	945,779	942,447*	888,447	-54,000
ELAP	50,549	0	0	-
TOTAL	**996,328**	**942,447**	**888,447**	**-54,000**

**Includes $3.1 million to cover EIA eligible students in County Court Schools and $50.549 million for ELAP.*

In 2008-09 and 2009-10, the Legislature captured significant one-time savings from the EIA program. These natural savings resulted from differences between amounts budgeted and amounts earned by LEAs due to declining enrollment in these fiscal years. In 2010-11, the Legislature captured additional one-time savings and made the decision to continue these savings in the EIA program base – thereby converting one-time savings into ongoing savings. The Governor's 2011-12 budget proposal, scores an additional **$54 million** in ongoing savings – beyond those already included in the program base - for the EIA program in 2011-12.

LAO COMMENTS/RECOMMENDATIONS: According to the LAO, the 2010-11 budget appropriation of **$942.4 million** seems to be on track with estimated expenditures for the EIA program. To date, CDE reports only **$6.9 million** in excess funds for 2010-11, and while not final, CDE believes some of this excess funding will be needed for final revisions later in the year. In addition, the LAO notes that since student enrollment is starting to grow again statewide, it is unlikely there will be any additional savings for the EIA program in 2010-11.

For these reasons, the LAO believes that the additional **$54 million** in EIA savings proposed by the Governor is fully overstated. The LAO does not anticipate any further savings for the program – beyond ongoing savings built into the program base -- in 2011-12. Therefore, the LAO views the Governor's proposal as a **$54 million** cut to the EIA program in 2011-12.

STAFF COMMENTS/RECOMMENDATION:

- **Governor's Estimated Savings Appear Overstated –Will Likely Result in Program Reduction Unless Revised by Administration.** As noted by the LAO, additional savings are not likely for the EIA program in 2011-12. Without additional savings to offset, the Governor's reduction of $54 million translates into a **$54 million** reduction for the EIA program in 2011-12. DOF has indicated a willingness to revisit its EIA savings estimates for 2011-12, but has not done so to date. If DOF confirms there is a shortfall for EIA, staff recommends that the Subcommittee consider restoring these funds when it acts on the Proposition 98 package.

SUGGESTED QUESTION:

1. Does the Department of Finance stand behind its January savings projection for EIA in 2011-12? If not, does the department plan to revise its EIA savings proposal soon – in time for the sixty day budget - or wait until May Revise?

ISSUE 4. Governor's Budget Proposal –Emergency Repair Program (6110-187-0001)

DESCRIPTION: The Governor proposes to add **$54 million** in Proposition 98 funding for the Emergency Repair Program (ERP) in 2011-12. This amount includes **$43 million** in ongoing Proposition 98 funds and **$11 million** in one-time Proposition 98 savings from prior years. The Governor proposes to use these new funds to provide funding for the next $54 million in approved projects on the ERP unfunded list.

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

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

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

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

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

Projects Approved: To date**,** the SAB has approved and funded a total of **$338 million** in ERP projects. According to the SAB, there are an additional **$228 million** in approved-unfunded projects and **$234 million** in unapproved projects pending**.**

Types of Projects: Last year, ERP staff provided a list of approved, but unfunded projects to provide information about the types of projects approved. At that time, there were **$73 million** in approved projects on the unfunded list. (The Governor's 2011-12 proposal would fund the first **$54**

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

Funding History. Annual appropriations and expenditures for ERP are summarized below. As mentioned earlier, current statute specifies that appropriations for the program come from one-time funds from the Proposition 98 Reversion Account, which has been the source of all appropriations to date. However, the Governor proposes **$43 million** in ongoing Proposition 98 funds, as well as **$11 million** in one-time funds in 2011-12.

In summary, the state currently has appropriated and expended a total of **$338 million** for ERP since 2005-06. Current law authorizes a total **$800 million** over the lifetime of the program, so there is **$462 million** in remaining authority for ERP.

Fiscal Year	**Appropriations**	**Expenditures**
2004-05	5,000,000	0
2005-06	196,024,000	3,500,000
2006-07	136,979,000	36,600,000
2007-08	200,000,000 -250,000,000	171,400,000
2008-09	101,000,000 -51,000,000	100,800,000
2009-10	0	25,703,000
2010-11	0	0
Subtotal	***338,003,000***	***338,003,000***
2011-12 (Proposed)	51,000,000	51,000,000
Total	***392,003,000***	***392,003,000***

In recent years annual appropriations for ERP were adjusted to respond to the state's budget shortfall and to better align appropriations with expenditures. The 2008-09 budget was adjusted on the natural when anticipated one-time funds did not materialize in the Proposition 98 Reversion Account. The 2009-10 budget did not appropriate any funding for the program in 2009-10, however, due to prior year fund balances for the program, a total of $25.7 million was allocated by ERP in 2009-10. As of September 2009, all available ERP funds had been allocated. No new funding has been appropriated since then for the any of the **$228 million** in remaining approved projects.

GOVERNOR'S BUDGET PROPOSAL: The Governor's Budget proposes to appropriate **$54 million** in Proposition 98 fund for ERP in 2011-12. This amount includes **$43 million** in ongoing

Proposition 98 funds and **$11 million** in one-time, Proposition 98 savings from various programs for ERP in 2010-11. These new funds will provide funding for the next $54 million of the **$228 million** in projects on the current ERP unfunded list. Projects would be funded based upon the date the project applications were received by the Office of Public School Construction.

LAO RECOMMENDATION. According to the LAO, the Legislature could take two reasonable approaches. The Legislature could meet the provisions of the *Williams* settlement for 2011-12 by providing funding for the Emergency Repair Program. Alternatively, given the state has provided maximum flexibility to school districts and relaxed several requirements related to facility maintenance, the Legislature may want to consider redirecting the funds proposed for the Emergency Repair Program to other programs that give districts more flexibility in making spending decisions.

STAFF COMMENTS:

- **Dimensions and Impact of the Governor's Proposal.** The Governor's proposal would provide **$54 million** for approximately 125 school projects. Projects range in size from $8.0 million to a low of $485. Approximately 55 percent of projects are grant-based; the remaining 45 percent are reimbursement based. In spite of this diversity, at least $40 million of the total proposed by the Governor goes to about 20 school projects – that exceed $500,000 each – in less than ten school districts statewide.

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

STAFF RECOMMENDATIONS: The Legislature did not approve any new funding for the ERP program in 2010-11 – given ongoing revenue limit cuts for K-12 education. Consistent with this action, <u>staff does not support</u> the Governor's proposal to provide additional funding for ERP in 2011-12. The **$54 million** in funds proposed by the Governor would provide additional funding to a very small number of school districts in the state. While these projects would presumably stimulate their local economies, most of the benefit would be concentrated in fewer than ten school districts in the state.

Therefore, <u>staff recommends</u> that -- when the Subcommittee takes action on Proposition 98 issues -- the Subcommittee deny the **$54 million** for ERP proposed by the Governor in 2011-12.

<u>Staff further recommends</u> that the Subcommittee redirect the savings to offset other categorical program shortfalls in the 2011-12 budget with greater statewide benefit, i.e., benefit for more or all school districts in the state.

QUESTIONS:

1) Why does the Governor utilize ongoing Proposition 98 funding for the Emergency Repair Program, when the authorizing statute specifies one-time funds?

2) What is the outlook for one-time funds in 2011-12 and what is the likelihood these funds will be needed to fund other program shortfalls?

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 5. Governor's Budget Proposal –K-12 Mandates (6110-295)

DESCRIPTION: The Governor proposes ongoing funding of **$89.9 million** for reimbursement of K-14 mandates in 2011-12, including **$80.4 million** for K-12 mandates and **$9.5 million** for community college mandates. This action continues reimbursements for all K-14 mandates that were funded in 2010-11. In addition, the Governor continues to suspend those mandates suspended in 2010-11. The Administration intends to continue to participate in the working group on mandate reform established pursuant to Chapter 724, Statutes of 2010.

BACKGROUND:

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

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

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

Mandates Approval Process. For K-14 education, the mandate process begins when a K-14 local education agency --K-12 school district/county office of education or community college district -- files a test claim with the Commission on State Mandates. Local education agencies are required to submit claims within one year of the effective date of the statute (or executive order). The Commission hears the test case and issues a "Statement of Decision" determining whether a claim is a reimbursable state mandate. If a mandate is determined, the Commission begins the process determining mandate costs based upon mandate claims. In so doing, claimants propose "Parameters and Guidelines (Ps and Gs)" for determining mandate costs. Ps and Gs identify the mandated program, eligible claimants, period of reimbursement, reimbursable activities, and other necessary

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

claiming information. The Commission then adopts the Ps and Gs, which are sent to the State Controller's Office in order to develop claiming instructions for K-14 local agencies. At this point, K-14 local agencies can file claims. In the end, the Commission estimates the costs of paying claims and reports the amount to the Legislature as the "Statewide Cost Estimate," for inclusion in the annual budget.

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

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

Problems with Current K–14 Mandate System

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

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

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

- ***Suspend.*** Alternatively, the Legislature may choose to "suspend" a mandate by eliminating funding in the budget and adding provisional language stating the mandate is suspended. When a mandate is suspended, local responsibilities for providing the mandate and state obligations for funding the mandate are also suspended. In years prior to 2010-11, five mandates applying to school districts (three of which also apply to community colleges) were suspended.

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

Audit Findings by State Controller's Office

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

In August 2010, the SCO reported the outcomes of audits for K-14 mandate claims from 1994-95 through 2008-09. In summary, the SCO Audits Division audited $316,044,623 in mandate costs and identified $224,841,903 in overstated mandate costs, a **71.1 percent** disallowance **(**error) rate for K-14 audited claims.

Recent Court Decision on Deferrals. The court case described below influenced recent budget proposals and state budget actions to stop the practice of deferring annual payments for K-14 education mandates:

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

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

2010-11 Budget Actions: Adopted K-14 mandate reforms, as an alternative to the Governor's across the board, one-year suspension of K-14 mandates. These reforms include:

- Suspending six full mandates and two partial mandates for three years (through 2012-13) consistent with the timeframe for categorical flexibility;
- Modifying four mandates to preserve the underlying statute while reducing or eliminating mandate costs, including two of the most expensive mandates - Behavior Intervention Plans and High School Science Graduation Requirement;
- Updating statutes for one mandate program that is no longer fully operational;
- Requesting redetermination of one K-14 education mandate;
- Funding remaining K-14 mandates in 2010-11 with **$90 million** in Proposition 98 settle-up funds; and

- Creating a working group led by the LAO to examine K-14 mandates and make recommendations to the Legislature for future fiscal and policy action.

The 2010-11 budget act provided **$300 million** in Proposition 98 “settle-up” funds in 2010-11, which are attributable to revised minimum funding obligations for 2009-10.

Of this amount, **$210 million** is provided on a per pupil basis to K-12 schools (based upon average daily attendance) and community colleges (based upon full-time equivalent students). These funds will count as payment against prior-year mandates claims.

The remaining **$90 million** is appropriated to K-12 and community colleges for annual mandate claims in 2010-11.

New California School Boards Association (CSBA) Lawsuit. In addition to other litigation underway, CSBA has filed a new lawsuit challenging most of the mandates reforms implemented in the 2010-11 budget package. The lawsuit, which was filed in State Superior Court in January 2011, challenges the three following components of the 2010-11 mandate reforms:

1. **Mandate Redetermination Process.** The lawsuit challenges the redetermination process in general and specific language adopted for individual mandates.

2. **Statutory Changes to Clarify Mandate Costs.** This lawsuit challenges statutory changes utilized for the Behavior Intervention Plan mandate and High School Science Graduation requirement.

3. **Lack of Funding for Mandates Not Suspended**. Mandate payments for 2010-11 are based upon the most recent annual mandate claims costs. For some funded mandates, no funding was required because no claims were provided in the most recent year available (2008-09).

As a result of these grievances, CSBA is asking the courts to be relieved from the state mandate process in general.

RELATED LEGISLATION:

SB 64 (Liu). This bill is intended to addresses the underlying need to reform the process for mandate evaluation and reimbursement and designed to make the mandates system simpler, timely, and equitable. More specifically, the bill would:

1. Create a collaborative process for educators and state agencies to resolve most mandate questions without litigation or excessive delays.
2. Require routine reviews of mandated cost guidelines so that inequities or excessive costs are avoided.
3. Provide for timely audits, so that local schools can use state reimbursements to serve students.
4. Establish standards for mandated cost claim preparation firms, so that procedures and records are consistent and meet state criteria.

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes ongoing funding of **$80.4 million** for K-12 mandates in 2011-12. This action continues reimbursements for all K-12 mandates that were funded in 2010-11. In addition, the Governor continues to suspend those mandates suspended in 2010-11. The Administration intends to continue to participate in the working group on mandate reform established pursuant to Chapter 724, Statutes of 2010.

LAO COMMENTS/RECOMMENDATION: Consistent with their previous position, the LAO recommends eliminating or reforming all but 11 K-12 mandates using the standard set of criteria their office has developed. That being said, the LAO continues to lead the Mandates Working Group that has been meeting regularly in recent months to review all K-14 mandates. The LAO notes that the costs of providing annual payment for K-12 mandates proposed by the Governor will need to be updated to reflect 2009-10 claims. The 2010-11 mandate costs reflect 2008-09 claims costs, the most recent available at that time.

STAFF COMMENTS:

- **Governor's Funding Level Reflect 2010-11 Budget Approach**. Consistent with actions taken in the 2010-11 budget, the Governor proposes to fund approximately 35 K-12 mandates and suspend most remaining mandates. The Governor provides **$80.4 million** in ongoing Proposition 98 funds for these annual K-12 mandate payments. The 2010-11 budget utilized one-time Proposition 98 funds to cover annual mandate costs.

- **Due to Working Group Process Underway, Better to Take Final Mandate Actions Later in Spring.** The mandate reforms package in 2010-11 created a working group on K-14 mandates convened by the LAO. (Chapter 724; Statutes of 2010) (The LAO will provide an update on the mandates working group.) The working group is required to develop recommendations by March 15, 2011. However, the timeframe for the working group does not fit into the short budget process currently underway. The recommendations of the working group can be considered in depth later this spring.

STAFF RECOMMENDATION: Staff recommends that - when the Subcommittee takes action on the Proposition 98 package - the Subcommittee approve **$80.4 million** in funding for K-12 mandates proposed by the Governor for 2011-12. This recommendation continues the approach enacted in the 2010-11 budget, but provides ongoing Proposition 98 funds instead of one-time funds. Staff further recommends that the Subcommittee reconsider the issue later in the spring in order to consider the specific recommendations of the mandates working group.

SUGGESTED QUESTIONS:

1. Can the LAO provide an update on the status of the mandates working group?

2. In years when mandates were funded in the budget act, what was the funding source - ongoing or one-time Proposition 98 funds?

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Wednesday, February 2, 2011
12:00 p.m.
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.

ISSUE 1: Child Development Budget Overview

Speaker:

- Rachel Ehlers, Legislative Analyst's Office

Issue. The issue before the Subcommittee is an overview of the Governor's proposed budget for Department of Education child care. Please note that certain child care activities, such as CalWORKs Stage 1, are handled through the Department of Social Services budget and heard by Senate Budget Subcommittee 3.

BACKGROUND

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

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

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

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

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

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

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

- *Direct Contractors* receive funding from the state at a Standard Reimbursement Rate (SRR), which pays for a fixed number of child care "slots." These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.
- *Alternative Payment Programs (APs)* act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

BUDGET

Governor's Budget. The Governor proposes a total of $2.2 billion for Child Care and Development (CCD) programs in 2011–12, which is a reduction of $535 million, or 19 percent, compared to the current year. To achieve these savings, he proposes several significant changes to current policies, including reducing child care subsidies by 35 percent, lowering maximum family income eligibility from 75 percent to 60 percent of the state median income (SMI), and eliminating subsidized child care for 11- and 12-year olds. Offsetting these proposed savings is the Governor's plan to partially restore the vetoed California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 3 child care program, beginning April 1, 2011. Each of the Governor's proposals will be discussed individually.

Although the Governor's budget would achieve $784 million in policy–related savings and recognize an additional $106 million in technical and caseload savings, the net reduction across all child care programs is only $535 million. This is because the Governor's package contains two notable augmentations: (1) $215 million in additional TANF funds to cover projected increases in Stage 1 caseload and (2) a net increase of $192 million to partially restore funding for the CalWORKs Stage 3 program.

Child Care and Development Budget Summary

(Dollars in Millions)

	2009–10	2010–11 Revised	2011–12 Proposed	Change From 2010–11 Amount	Change From 2010–11 Percent
Expenditures					
CalWORKs Child Care					
Stage 1	$547	$494	$611	$117	23.7%
Stage 2[a]	485	440	255	–186	–42.2
Stage 3[b]	412	193	200	8	3.9
Subtotals	($1,445)	($1,127)	($1,066)	(–$61)	(–5.4%)
Non–CalWORKs Child Care					
General child care[c]	$797	$797	$480	–$317	–39.8%
Other child care[c]	321	305	173	–132	–43.2
Subtotals	($1,118)	($1,103)	($654)	(–$449)	(–40.7%)
State Preschool[c]	$439	$439	$438	–$1	–0.2%
Support programs	109	100	76	–24	–24.2
Totals	**$3,110**	**$2,768**	**$2,233**	**–$535**	**–19.3%**
Funding					
State General Fund					
Proposition 98	$1,836	$1,262	$1,087	–$175	–13.9%
Non–Proposition 98	29	29	29	—	—
Other state funds[d]	66	290	—	–290	–100.0
Federal funds					
CCDF	541	602	526	–77[e]	–12.7
TANF	528	475	592	117	24.6
ARRA	110	110	—	–110	–100.0

[a] Includes $9 million for Stage 2 program run by the California Community Colleges. Does not reflect any reduction based on the $10.7 million the Governor proposes to sweep in 2010–11.

[b] Does not include $52.6 million the administration has indicated setting aside pending legislation for CalWORKs Stage 3 in 2010–11.

[c] For 2010–11 includes funding from local reserves.

[d] Includes prior–year Proposition 98 carryover and, in 2010–11, $6 million non–Proposition 98 General Fund redirected from the Assembly's budget and $83 million from local reserves.

[e] Year–to–year decrease due mostly to the use of one–time funds in 2010–11.

CCDF = Child Care and Development Fund; TANF = Temporary Assistance for Needy Families; ARRA = American Recovery and Reinvestment Act.

Source: Legislative Analyst's Office

ISSUE 2: Reduction in Subsidy Levels

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the Governor's proposed 34.6 percent reduction to the child care subsidy levels (excluding preschool).

Governor's Proposal. The Governor's Budget proposes to reduce the amount provided to all child development contractors, other than state preschool and CalWORKs Stage 1 contractors, by 34.6 percent, for a savings of **$577 million**. However, the Governor proposes not to allow contractors to absorb this reduction by serving fewer children. The Governor's proposal includes new local flexibility in setting the subsidy rate in order to achieve the required savings.

LAO Concerns. The LAO has raised concerns regarding how the Governor's proposal would be implemented, including the inconsistency of not applying the reduction to CalWORKs Stage 1 or state preschool, and the new authority it provides to local agencies (many of which are not public agencies), to allocate the reduction in different ways across the state. In whatever approach it ultimately employs, the LAO recommends the Legislature apply reductions more consistently across programs and regions.

<u>PROPOSAL DETAILS</u>

Local Decision Making. The administration proposes to grant some local discretion as to how the 35 percent cut is applied across families. Specifically, the proposal grants new authority to local child care contractors, both Alternative Payment (AP) agencies and Title 5 centers, to apply a larger or smaller subsidy reduction to families of different income levels, as long as the reduction across all the families they serve totals 35 percent. The AP agencies typically serve as the intermediary between the California Department of Education (CDE) and local child care providers, passing along state payments to child care providers, but not typically providing child care services themselves. Title 5 centers have contracts with CDE to serve children directly.

Decrease in Subsidy Level. The Governor's proposal would decrease the average annual amount provided per child care slot in child care programs by $2,604 compared to current-year subsidy levels (from $7,841 to $5,237 annually). The Governor assumes that families would find a way to pay the difference between the amount their child care providers currently charge and the reduced state subsidy. This reduction is about $217 per month per child, which the low-income families would have to cover themselves.

IMPACT ON FAMILIES

Families Possibly Impacted Differently. The proposed new local control would allow a contractor to reduce a very low-income family's subsidy by only 20 percent, but reduce another low-income family's subsidy--and increase their new copayment--by 50 percent. Alternatively, the agency could cut each of their families' subsidies by 35 percent across-the-board without regard to income and expect each family to make up the difference through higher copayments.

Impact on Families. Currently, families making below 40 percent of SMI (which for a family of three is about $2,010 a month) are not required to pay any fees. About two-thirds of the children served in the state's child care programs are from such families. While the amount the state currently pays for a family's child care services varies by county, age of child, and type of care, in many counties the reimbursement rate for a preschool-age child in full-time center-based care is roughly $650 a month. In this example, the Governor's proposal would reduce the state payment by about $220 a month, meaning families making 40 percent of the SMI would have to dedicate more than 11 percent of their incomes to maintain current child care arrangements. For the over 160,000 families making below 40 percent of the SMI and those that live in high-cost counties where child care is more expensive than in this example, absorbing this drop in state support could be prohibitive.

Reduction Likely Would Decrease Both Access to and Quality of Care. While some families and providers might be able to "meet in the middle" and accommodate the reduction through a combination of lower rates and higher copays, the magnitude of the cut still makes this implausible in most cases. If most families cannot afford significant new copays and most providers cannot afford to reduce their rates dramatically, most families would seek to accommodate the cut by looking for less expensive child care, including turning to a license-exempt provider. However, only about half of the children in the state's child care system, those in the voucher-based CalWORKs stages and AP program, currently have the option of selecting a license-exempt provider. In such cases, there would likely be a diminution in the quality of care provided.

LIKELY PROVIDER RESPONSE

The LAO anticipates the following potential responses to this proposal:

Licensed Providers Not Likely to Reduce Rates Dramatically. Assuming most families currently receiving subsidies could not afford to assume notably higher payments, the child care providers could choose to reduce their rates to make up for some or all of the lost state funding. However, many licensed child care providers would have few options for absorbing a revenue drop of the magnitude forced by the Governor's budget reduction. Issues that restrict provider ability to reduce costs are:

1. State licensing regulations require that licensed providers maintain specific adult-to-child ratios, which currently limit their ability to reduce staff to save money.
2. For many centers, local collective bargaining agreements may further limit their ability to accommodate the reduction by lowering salaries.

3. State law forbids providers from charging private-pay clients a higher rate than subsidized families, which would prohibit them from recapturing the lost revenue from other families.
4. The Governor's proposal would prohibit contractors from reducing the number of subsidized children served or hours of care offered.

It is unreasonable to expect providers could maintain the exact same level of care for 35 percent less revenue and continue to stay in business. A more likely scenario is that licensed providers would opt not to lower rates so substantially, effectively resulting either in a shift away from subsidized clients to private clients or in closure.

License-Exempt Providers Might Have an Easier Time Absorbing the Reduction. The shortage of licensed providers who would be affordable under the proposed drop in subsidies might lead to an increase in the number of families who opt for license-exempt care. License-exempt providers, who currently care for roughly 15 percent of all children in the state's subsidized care system, might be able to absorb the drop in state subsidies more easily than licensed providers. Because these "kith and kin" providers typically care for their own family members in their own homes and do not have the administrative or overhead expenses of running a formal business or meeting licensing requirements, they might continue caring for children even at a lower subsidy rate. However, if the child care payment represents the license-exempt provider's sole income, he or she likely also would struggle with a 35 percent reduction in pay and could opt instead to seek a higher salary in another vocation.

Lower State Subsidy Would Limit the Pool of Providers From Which Families Could Afford to Choose. Currently, the state provides eligible families in the AP program and all three CalWORKs stages with a funding voucher sufficient to cover entirely the rate charged by about 65 percent of the licensed providers in their county. (Title 5 child care centers, which serve families in the General Child Care program, charge one statewide standardized reimbursement rate.) If the family chooses one of the 35 percent of providers that charge above the state reimbursement ceiling, then the parent must pay the difference. Thus, families seeking fully subsidized care likely would face greater competition for licensed slots, countering the Governor's claim that his proposal maintains the same access to care.

Current Regional Market Rate. The state's maximum reimbursement rates were set at the 85th percentile of the regional market rates (RMR) in 2005, meaning they were supposed to be sufficient to provide subsidized clients access to 85 percent of the licensed child care providers in their county in that year. However, since state rates have not been updated in the intervening years and the amounts most providers charge have increased, a reasonable estimate is that the state's rates are now effectively at about the 65th percentile of the RMR. While the data were not available to compare exactly how the Governor's proposed reduction would lower the state reimbursement rate with respect to RMR data, the LAO thinks it would be **well below the 50th percentile**. That is, fewer than 50 percent of licensed child care providers currently charge at or below the Governor's proposed level for state subsidies.

OTHER POTENTIAL OPTIONS

Lower Regional Market Rate. Rather than eliminating 35 percent of the total subsidy, the Legislature may wish to consider a more modest decrease in the child care subsidy rates for both licensed and unlicensed providers. For example:

- Reduce licensed provider reimbursement rate from 85th percentile to 75th percentile of the RMR: $19 million savings
- Reduce license-exempt provider reimbursement rate from 80 percent to 70 percent of the licensed rate: $56 million savings

Restrict Child Care for School-Age Children. Since school-age children are more able to attend after-school programs, the Legislature could consider restricting subsidies for school-age children to non-traditional hours of care and prioritizing these children for after-school programs. The LAO estimates that this option could create savings of $300 million.

Apply Lower Income Ceiling to Preschool. The Governor's budget proposal excludes preschool from the 60 percent SMI ceiling (keeping preschool at 75 percent of SMI). The Legislature may wish to consider lowering the income ceiling for state-subsidized preschool to 60 percent of SMI. The LAO estimates that this option could create savings of up to $60 million.

Parent Fees. Currently, families making less than 40 percent SMI do not pay the daily parent fees (which increase with income). The Legislature may wish to lower the income ceiling at which parent fees become mandatory. The LAO estimates that this option could create savings of up to $30 million, depending on how the fee schedule is changed.

Administration Funding. Currently, the APs are allowed 17.5 percent of their contracts for administration (which includes intake services of the families). If this percentage was reduced to 15 percent, the LAO estimates that this option could create savings of $15 million.

Simplify State Regulations. The complexity of child care program rules creates problems for local child care providers. This complexity permeates every aspect of the child care system. For example, different programs have different eligibility rules and different rate structures. Providers that operate under more than one program also have to negotiate separate contracts for each program. They must also follow complex rules regarding allowable expenditures and attendance accounting, and collect detailed administrative information on these factors. Most of the child care-related positions in CDE are devoted to assisting contractors and implementing the cumbersome rules and requirements. Savings from this proposal are unknown.

Combine Multiple Child Care Programs Into a Single Block-Grant for Locals. Instead of allocating funds for multiple child care programs, the state could divide funding between CalWORKs and all other child care. Then the funding for other child care could be provided to the locals as a block grant. This option relies on an increased role for local decision making, such as that provided by the Governor's proposal to have county offices of education take on a more active role in subsidized child care. Savings from this proposal are unknown.

Simplify Access and Case Management for Families Seeking Child Care. The Legislature could consider aligning AP contracts to Resource and Referral Service Areas in order to increase access for families to AP services.

One-Time Options Unlikely to Work. While past-year sweep funds were available in prior years for use in patching up child care funding, for 2011-12 these funds may not be available due to the aggressive use of such funds to restore vetoes in the 2010-11 budget and certain unexpected expenses within the Proposition 98 funded programs.

Suggested Questions:

1. Are there unspent one-time funds that could be used to cover some of the 35 percent cut to subsidy levels?
2. What would be some of the potential ramifications of combining child care programs into a single local block-grant?
3. What would it take to simplify state regulations around child care? About how long would a review of state regulations take? What possible savings could be captured from such a simplification of process?
4. What would be the impact on APs of reducing the administrative funding amount to 15 percent?
5. In real dollar terms, what does this mean for a mother with two children?

ISSUE 3: Children Aged 11 and 12

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the Governor's proposal to eliminate child care subsidies for 11- and 12-year-olds.

Governor's Proposal. The Governor's budget proposes to eliminate child care subsidies for 11- and 12-year-olds, for savings of $93 million total ($59 million Proposition 98 General Fund and $34 million in federal funds). This proposal would eliminate 10,000 child care slots in CDE administered child care (plus additional slots in CalWORKs Stage 1 not included here).

Care for Children Ages 11 and 12. Under CalWORKs, a child can receive child care services until his or her 13th birthday as long as the family's income remains below the maximum allowable level. Nearly half of the children in this age group are receiving licensed-exempt care. The children aged 11 and 12 who are receiving care through licensed child care centers are more able to move to other child care alternatives, such as afterschool programs funded with ASES or 21st Century federal funds, because the afterschool programs take place during traditional hours of care.

LAO Recommendation. The LAO thinks that the Governor's proposal to lower the state's age eligibility threshold and prioritize services for younger children merits consideration, perhaps in modified form, because there are more supervision options available for school-age children. California funds an extensive before and after school program in which slots could be prioritized for 11- and 12-year olds (and even younger school-age children) displaced from CDE child care programs.

Specifically, the state annually spends almost $550 million on the After School Safety and Education (ASES) program and an additional $130 million in federal funds for the 21st Century Community Learning Centers. Many schools and communities also run a multitude of other locally based after-hours programs for school-age children. Taking better advantage of existing school-age care programs could allow the state to prioritize limited child care funds for infants and toddlers, for whom care typically is more costly and harder to find.

While the LAO knows of no other state that sets its age limit for subsidized child care as low as age 10 (the LAO's review suggests other states set maximum age at 12 or 13), there are no federal prohibitions against prioritizing services for younger children.

Federal Requirements. The CDE has informed staff that federal regulations for the Child Development Block Grant (CDBG) require that subsidized care be made available to all eligible children through the age of 12. Thus 11- and 12-year olds cannot be explicitly eliminated from the child care programs without California falling out of compliance with federal regulations.

Staff Comment. California can still prioritize child care for children 10 and under without being out of compliance with federal regulations. Prioritizing care for younger children would in effect push older children out of subsidized care because the number of child care slots is restricted based on the amount of funding provided (except for Stage 2, which is an entitlement program). There are 3,446 11- and 12-year olds in Stage 2, who cost $19.6 million to serve. So excluding Stage 2 for the savings, prioritizing care for children 10 and under would provide savings of about $73.4 million.

Suggested Questions:

1. Does this elimination only apply to CalWORKs kids?
2. What other care is available to children ages 11 and 12?
3. How many children ages 11 and 12 currently receiving child care subsidies receive center-based care? For those children currently not in center-based care, are after school programs a feasible option?
4. If children ages 11 and 12 are prioritized for after school programs, will other children currently in those programs lose their slots?

ISSUE 4: Reducing Income Eligibility Ceiling

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the Governor's proposal to reduce the income eligibility ceiling from 75 percent of State Median Income (SMI) to 60 percent of SMI.

Governor's Budget. The Governor proposes to reduce the income eligibility for subsidized child care programs, excluding preschool, from 75 percent of SMI to 60 percent of SMI. This proposal would create savings of $79 million in Proposition 98 funds.

Impacted Population. The Governor's proposed income eligibility ceiling reduction would disqualify 13,597 children from the State's child care programs. The majority of these children are in General Child Care and in CalWORKs Stage 3 child care.

LAO Recommendation. The LAO believes the Governor's proposal to lower the income eligibility ceiling from 75 percent to 60 percent of SMI is reasonable, because it prioritizes service for the most needy families. Moreover, the LAO has reviewed other states' eligibility policies for subsidized child care, and findings indicate the Governor's proposed level would be more comparable to policies in other states. Like California, all states set maximum income eligibility thresholds for subsidized child care based on their SMI. The LAO's review indicates that only 15 other states set maximum income eligibility at or above California's current SMI threshold. In contrast, about half of all states set income ceilings at or below 60 percent of their SMI.

The LAO questions the Governor's policy of exempting state preschool from the proposed change to income eligibility. Besides leaving the income ceiling at 75 percent of SMI for state preschool, the Governor also does not propose changing current statute that allows these programs to enroll up to 10 percent of their caseload from families that make 15 percent more than 75 percent of SMI. In addition to the administrative complication that different eligibility ceilings would create for centers that run blended preschool and General Child Care programs for 3- and 4-year olds, preserving access to subsidized preschool for higher income families while lower income families remain on waiting lists does not prioritize service for the neediest children. The LAO estimates that including preschool in the income ceiling reduction could save the state an additional $60 million (for a total savings of $150 million from the reduction).

Suggested Questions:

1. How many children would lose state subsidized child care if this lower income ceiling was extended to preschool?

ISSUE 5: Quality Improvement Activities

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is a reduction to quality improvement programs.

Governor's Proposal. The Governor's Budget proposes to reduce federally funded quality improvement programs by $16 million. In 2010-11, the state spent $88 million in federal funds ($69 million in child care block grant monies and $19 million in ARRA funds) on about 40 different quality improvement programs. Due to the expiration of the ARRA grant, the Governor's 2011-12 budget proposal reduces overall spending on quality improvement activities by $16 million. Under the proposal, CDE would decide which of the 18 quality activities, including the California Preschool Instructional Network, California Early Childhood Mentor Program, and support for young English language learners, would be reduced or eliminated.

Quality Improvement Programs. As a condition of receiving federal child care block grant funds, the state must spend a certain amount on quality improvement activities. These activities typically include professional development, stipends for child care providers, and activities related to health and safety.

LAO Recommendation. The Governor's proposal not to backfill $16 million for quality improvement projects that were funded with ARRA funds seems reasonable given the $69 million that would remain for these activities under the Governor's budget. Nonetheless, the LAO thinks the Legislature could improve upon the Governor's proposal by coming up with its own list of quality projects to maintain, reduce, or eliminate. The LAO recommends taking a careful look at which quality initiatives are most effective, of highest priority, and complementary, then developing a package of initiatives strategically designed to work together in a concerted effort to improve the quality of the overall child care system.

Staff Comment. Staff has requested a list of the quality improvement activities from the CDE. Some of these activities have spending mandated in state statute, so the department does not always have discretion over how much funding to provide for an activity. Staff will work with the department to develop a list that utilizes the $69 million in the most effective way possible, and provide that list for the Budget Committee for a vote at a later date.

Suggested Questions:

1. Which quality improvement programs provide the most benefit for the child care programs? Has the effectiveness of these programs ever been examined?

ISSUE 6: Elimination of the Centralized Eligibility List

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the elimination of the Centralized Eligibility List and the redirection of the savings to other child care activities.

Governor's Proposal. The Governor's Budget proposes to eliminate funding for the CELs beginning in 2011-12 and to redirect the $7.9 million to child care programs to help offset other proposed reductions.

Centralized Eligibility List Background. The Centralized Eligibility Lists (CELs) serve as master waiting lists for all eligible non-CalWORKs families in the county seeking subsidized child care. The lists rank families by income to help ensure the neediest families get first priority when providers have child care slots available. Since 2005-06, the state has provided a total of $7.9 million annually to the 58 counties to maintain countywide CELs. As of June 2010, there were almost 188,000 children on county CELs waiting for care.

Impact on Families. The effect of the proposal would be that eligible families once again have to sign up on multiple waiting lists at multiple child care centers rather than in one centralized location, and providers with available slots would only consider families that had signed up on their individual lists.

LAO Recommendation. The LAO recommends the Legislature adopt the Governor's proposal to redirect $7.9 million from supporting the CELs to child care programs because it prioritizes direct services for children over administrative activities. While the county-based CELs help facilitate and streamline the registration and enrollment process for eligible families waiting for care, in this fiscal climate keeping children off the waiting lists is a more important state-level priority than tracking how many children are on the waiting lists.

Suggested Questions:

1. Why was the centralized eligibility list created to begin with? What were the problems the CEL was intended to overcome and what problems will be solved by dismantling the list?

ISSUE 7: Stage 3 Child Care

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the funding gap in CalWORKs Stage 3 child care.

Governor's Budget. Though the Governor's Budget proposes to restore CalWORKs Stage 3 for the 2011-12 fiscal year, it provides funding for this partially-vetoed program only from April 2011 on. This leaves Stage 3 without funding for the months of January, February, and March. Beginning April 1, 2011, the Governor proposes to fund Stage 3 child care at a reduced level of $52.6 million. This is a lower level of funding because of the policy changes proposed by the Governor, including the 35 percent decrease in subsidy levels.

Impact on Families. The Governor's proposal to delay restoration of the CalWORKs Stage 3 program until April 1, 2011, raises questions as to how affected families will manage child care needs during the three-month gap in services.

LAO Concerns. The LAO believes the Legislature should reconsider the priority of the CalWORKs Stage 3 program compared to other child care services. The justification for giving continued priority for child care to former CalWORKs participants over other working poor families, who may have lower incomes, is not particularly strong. While there may be a risk of former CalWORKs recipients going back on CalWORKs aid if they suddenly lose their child care, other working poor families are continually grappling with the same challenges, with the primary difference being they have not received cash assistance in the past. Moreover, the LAO has not been able to find an example of another state that guarantees child care to former welfare recipients for such an extended period of time.

If the Legislature were to restore Stage 3 based instead on current law and provide sufficient funding to cover the January-through-June 2011 period, the LAO estimates it would cost roughly $135 million, or about $85 million more than the Governor has set aside.

Staff Comment. The Legislature has always been very supportive of families receiving Stage 3 child care. If there are options for ensuring continuity of services for these at-risk families those should be explored.

Suggested Questions:

1. Are there funds from prior years that could be directed to cover the gap in Stage 3 funding?

ISSUE 8: Stage 2 Caseload

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is a proposed current year (2010-11) sweep of Stage 2 funds.

Governor's Proposal. Based on the administration's assessment of underlying demographics and caseload trends, the Governor also assumes the CalWORKs Stage 2 program will not need the full 2010–11 Budget Act appropriation. The Governor proposes to sweep $11 million from the program and use it for other Proposition 98 purposes in the current year.

LAO Recommendation. The LAO recommends the Legislature reject the Governor's proposal to sweep and reallocate $11 million from the current-year CalWORKs Stage 2 program. The LAO believes it is premature to assume savings will materialize in this program, particularly given the current-year veto of the Stage 3 program. Due to unused Stage 2 eligibility and some counties' creative use of the CalWORKs Diversion program, the LAO believes several thousand former Stage 3 children have reentered Stage 2 care, hence increasing current-year Stage 2 caseload.

Staff Comment. The department has informed staff that the latest caseload numbers indicated about 7,500 children transferred from Stage 3 to Stage 2, thus increasing the number of children in Stage 2. The department estimates that, without changes to eligibility policy, Stage 2 may be underfunded by as much as $12 million in the current year.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Monday, February 7, 2011
2:30 p.m. or
Upon Adjournment of Session
Room 4203, State Capitol
(Note Room Change)

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0558 OFFICE OF THE SECRETARY OF EDUCATION
6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 1. Governor's Proposal to Eliminate OSE & Increase Funds for the State Board of Education

DESCRIPTION: The Governor proposes to eliminate the Office of the Secretary of Education (OSE) and shift some of the savings to the State Board of Education. More specifically, the Governor proposes to decrease funding for OSE by **$1.9 million** in 2011-12 and shift **$274,000** to the State Board of Education in 2011-12 to continue some OSE activities. This proposal provides net General Fund savings of $**1.6 million** in 2011-12, as well as **$400,000** in 2010-11, since the Governor proposes immediate elimination of OSE.

BACKGROUND:

Office of the Secretary of Education (OSE). The Secretary of Education is a member of the Governor's Cabinet, responsible for advising the Governor and making recommendations on state education policy and legislation. While the Office of the Secretary of Education (OSE) is not established in statute, it has operated for a number of years in an advisory role to the Governor

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

GOVERNOR'S BUDGET PROPOSAL -- OSE: The Governor's budget includes a decrease of **$400,000** General Fund in 2010-11 and **$1.9 million** General Fund in 2011-12 to reflect the elimination of OSE. The Governor proposes to shift a portion of state operations for OSE to the State Board of Education in 2011-12 in order to streamline government operations.

Office of the Secretary for Education

Summary of Expenditures *(Dollars in thousands)*	**Positions** 2009-10	2010-11	2011-12	**Expenditures** 2009-10	2010-11	2011-12
	15.0	16.2	--	$1,803	$1,485	$--
Funding						
General Fund				$1,676-	$1,361	$--
Reimbursements				127	124	--
Total				$1,803	$1,485	$--

GOVERNOR'S BUDGET PROPOSAL FOR STATE BOARD OF EDUCATION: The Governor proposes to increase funding for the State Board of Education (SBE) by **$274,000** in 2011-12 to continue some activities previously provided by the OSE. These funds are being shifted from General Fund savings resulting from the elimination of the OSE.

State Board of Education

Summary of Expenditures *(Dollars in thousands)*	**Positions** 2009-10	2010-11	2011-12	**Expenditures** 2009-10	2010-11	2011-12
	8.1	9.0	9.0	$1,195	$1,904	$2,217
Funding						
General Fund				$xxx	$xxx	$xxxx
Reimbursements				$xxx	$xxx	$xxx
Total				$1,195	$1,9048	$2,217

The SBE currently has nine authorized positions. According to SBE staff, seven of these nine positions are filled, leaving two vacancies – one full-time Chief Counsel position and one part-time Office Technician position. (The Chief Counsel position is an exempt position appointed by the Governor, which has made this position difficult to fill per SBE staff.)

As a part of the $274,000 funding shift, the Governor also proposes to shift three permanent, full-time positions authorized within the California Department of Education budget to the State Board of Education budget. This increases total SBE authorized staff from nine to twelve positions.

The SBE plans to use the three shifted positions to cover some of the responsibilities previously handled by OSE and to staff the State Board President. For example, OSE was responsible for preparing bill analyses and recommendations to the Governor. In addition, SBE staff are working with the Administration to ensure adequate board staff to fulfill some of its basic functions such as providing public agendas and materials and posting minutes of all meetings in a timely fashion. SBE staff and the Administration are working together to determine the workload requirements of the new leadership for the SBE. For example, the SBE is in the process of identifying top priority issues and deciding how many meetings it will hold in the 2011-12 fiscal year.

STAFF COMMENTS:

- **Senate Has Supported Elimination of OSE in Recent Years**. Senate has taken budget action in recent years to phase out OSE as a means of achieving General Fund savings without eliminating education programs and achieving greater government efficiencies by reducing duplicative services.

- **Governor's Proposal Creates Permanent General Fund Savings.** The Governor's proposal to eliminate OSE and shift limited funds to the State Board results in net, ongoing General Fund savings of **$1.6 million** beginning in 2011-12.

- **Governor's Action Has Resulted in Additional One-Time Savings in Current Year.** Since the Governor has already acted to phase out the OSE, additional one-time savings of **$400,000** are likely in 2010-11.

- **Governor's New Appointees Create New SBE Leadership**. The State Board includes 11 members, including one student member. The Governor appointed seven new members to the State Board in January 2011. One of those new appointees was elected President of the State Board in January.

- **Governor's Proposals Does Not Increase Authorized Positions and Does Not Require New General Funds, But More Justification Needed to Justify Positions.** SBE staff is currently finalizing their position request. As a part of this effort, SBE staff is currently preparing a workload analysis to determine precisely what workload functions SBE will assume from OSE and what types of positions will be needed.

STAFF RECOMMENDATION: In progress – awaiting final information from Administration and SBE staff.

SUGGESTED QUESTIONS:

1. Staff understands the State Board is currently developing more specific information to describe workload for the three shifted positions per the Governor's proposal. When will that information be available?

ISSUE 2. Governor's Budget Proposal – Special Education Mental Health Related Services (AB 3632 Services)

DESCRIPTION:

The Governor continues to declare that the state AB 3632 mandate on counties is suspended in 2010-11, consistent with the veto by the previous Administration last Fall. This action returns the federal mandate for mental health related services to K-12 schools. The Governor continues $69 million in federal special education funds for AB 3632 services, but does not provide any additional funding to the schools to cover full provision of these services in 2010-11.

In 2011-12, the Governor proposes to realign AB 3632 services to counties using and paying for these services with $99 million in Proposition 63 funds, $72 million in realignment funds for residential services, and $69 million in federal special education funds.

In 2012-13 and beyond, the Governor proposes to fund AB 3632 services with $176 million in realignment funds -- reflecting $104 million for mental health related services and $72 million for residential services -- and $69 million in federal special education funds.

Background

The federal Individuals with Disabilities Education Act (IDEA) requires schools to provide "special education and related services" to students with disabilities. Related services are defined to cover "transportation, and such developmental, corrective, and other supportive services as may be required to assist a child with a disability to benefit from special education." Mental health services clearly fall into the category of a related service. For example, federal law explicitly states that related services include, but are not limited to – social work, counseling, and psychological services.

Until 1984, California schools provided mental health services to special education pupils who needed the services to benefit from their Individualized Education Plans (IEP). The Legislature saw a need to assure coordination of services among publicly funded agencies. In 1984 the Legislature passed AB 3632 (W. Brown), Chapter 1747, Statutes of 1984, and assigned county mental health departments the responsibility for providing students these services [except students placed out of state].

In 1996, the Legislature expanded county responsibilities to include services to students placed in out-of-state schools [AB 2726 (Woods), Chapter 654, Statutes of 1995]. This program is generally known as -- the AB 3632 Program.

Approximately **20,000** students with disabilities receive mental health services under the AB 3632 program.

While AB 3632 was written in response to federal IDEA requirements, state law is more specific than federal law in articulating all allowable mental health services. The statute defines mental health related services to include therapy and counseling, day treatment, medication management, and for children with the most severe problems, 24-hour therapeutic residential programs with on-site schools.

AB 3632 tasks mental health professionals, in consultation with educators, with deciding what services should be included in the student's IEP. Once a service is included in the IEP, it is deemed an educationally necessary service.

AB 3632 Funding. The LAO has prepared the chart that summarizes AB 3632 funding in recent years.

Year	Department of Mental Health Categorical	Department of Social Services (Residential Care)	Federal Special Education	Mandate Claims	Total
1998-99	$12	$23	—	$50	$85
1999-00	12	24	—	68	104
2000-01	12	25	—	78	115
2001-02	12	31	—	119	162
2002-03	—	38	—	146	184
2003-04	—	39	—	57	96
2004-05	—	37	$69	68	174
2005-06	—	38	69	72	179
2006-07	52	43	69	61	225
2007-08	52	48	69	83	252
2008-09	104	51	69	36[a]	260
2009-10	—	59	69	Not Available	128

[a] Additional mandate claims being submitted for 2008-09 year.

Counties currently receive federal special education funds and General Fund resources from the California Department of Education (CDE), Departments of Mental Health (DMH) and Social Services (DSS). (Counties also receive funding from Medi-Cal for eligible students; however, these funds are not reflected LAO chart above.)

In addition, the state currently makes payments for mandate claims submitted by counties to cover costs in excess of other state and federal appropriations. The Constitution requires the state to pay mandate bills or suspend or repeal the mandate.

2010-11 Budget Veto. Governor Schwarzenegger proposed suspension of the AB 3632 mandate in his January 2010 budget. The Legislative Analyst's Office noted that suspending AB 3632 would be temporary, confusing, and disruptive. The LAO found that the Governor's proposal did not address the significant transitional issues associated with the change, and that eliminating AB 3632 funding could violate federal special education spending maintenance-of-effort (MOE) requirements, thereby jeopardizing receipt of federal funds. While several alternatives were considered throughout the budget process, ultimately the Legislature rejected the Governor's proposal to suspend the mandate.

On October 8, 2010, Governor Schwarzenegger vetoed approximately **$133 million** in funding for the AB 3632 mandate. In vetoing the funds, the Governor claimed to have suspended the mandate on county mental health departments for 2010-11. Legal action is pending as to whether the Governor has the ability to veto funding in order to suspend an underlying state law.

Related Litigation. Three lawsuits have been filed in response to the veto of the AB 3632 services. These lawsuits have been filed in both state and federal courts. They involve questions of constitutional law and executive power, unfunded state mandates, California's compliance with federal law, and ensuring that mental health services are provided to eligible special education students who require them.

- **Lawsuit on Behalf of State and Local Education Agencies.** On November 9, 2010, the California School Boards Association (CSBA), LAUSD, and Manhattan Beach Unified School District petitioned the California Court of Appeal for a writ to issue against the Governor, and various state agencies and officials, declaring the Governor's veto of the appropriation for AB 3632, and his proposed suspension of the mandate to be void. **(Note**: **The California Legislature filed a letter in support of the petition.)** The petition asks the Court of Appeal to set aside the Governor's actions as a violation of Article XIII B, section 6(b) and Article III, section 3 of the California Constitution, and to order the transfer of approximately $133 million from California's reserve account in order to restore the Legislature's funding appropriation for AB 3632**. The Status:** Oral arguments are set to be heard on Tuesday, February 8 in the 2nd District Court of Appeals in Los Angeles.

- **Lawsuit on Behalf of Students with Disabilities.** On October 21, 2010, four special education students receiving AB 3632 services in Los Angeles County filed suit in federal District Court against the Governor and various state and local entities, seeking declaratory and injunctive relief under IDEA. On November 1, 2010, the court signed a stipulated Temporary Restraining Order (TRO) maintaining the status for students in Los Angeles County. On November 5, 2010, the California Department of Education (CDE) released $76 million dollars statewide, with the Los Angeles County Office of Education (LACOE) being allocated $13 million. Pursuant to the TRO, the Los Angeles County Department of Mental Health (LACDMH) agreed to continue to comply with AB 3632 to serve eligible students within Los Angeles County until January 14, 2011, unless the funds allocated by the CDE run out before that date. **Status:** In December the court declined to grant the preliminary injunction and "stay put" relief requested by plaintiffs and instead continued the hearing on their request to a future date pending further briefing.

- **Lawsuit on Behalf of Counties.** On November 5, 2010, twenty-three (23) counties in California filed suit in Sacramento Superior Court against the state and various state officials seeking a judicial declaration that AB 3632 is an unfunded, unenforceable state mandate under Government Code section 17612. Additional counties joined the lawsuit. This lawsuit seeks the court's declaration of an unfunded mandate to absolve mental health agencies of the responsibility of providing educationally-related mental health services under AB 3632.
  Status: The counties are still waiting for a decision on their case. The counties' motion for judgment was heard on January 7, 2011. The judge took the case under submission and will

render a decision within 90 days—noting he intends to issue a ruling before the CSBA lawsuit is heard on February 8, 2011.

Related Legislation:

- **AB 39 (Beall).** Requires the Department of Mental Health to allocate **$57 million** from the Mental Health Services Fund (Proposition 63) to county mental health departments for purposes of providing special education services. The bill also requires the Superintendent of Public Instruction and county mental health directors to jointly convene a technical working group to develop a transitional program to transfer responsibilities associated with special education services from county mental health departments to the State Department of Education. **Status:** The bill is pending referral to committee.

Governor's 2011-12 AB 3632 Proposal

The Governor's budget does not propose any changes to funding for the AB 3632 program for 2010-11 and maintains that the mandate is suspended for 2010-11. This action returns the federal mandate for mental health related services to K-12 schools. The Governor continues $69 million in federal special education funds for AB 3632 services, but does not provide any additional funding to the schools to cover full provision of these services in 2010-11. Per the Administration, K-12 schools will have to absorb the additional costs of providing services within their existing budgets.

Beginning in 2011-12, the Governor's budget proposes to realign AB 3632 services with county mental health agencies. While the Governor originally proposed to continue the state AB 3632 mandate, that is no longer the case. The Governor proposes to fund realigned AB 3632 services -- and services for two other programs (the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program and Mental Health Managed Care) – with a combination of state and federal funds, as follows:

- In 2011-12, the Governor proposes to realign AB 3632 services to counties using and paying for these services with $99 million in Proposition 63 funds, $72 million in realignment funds for residential services, and $69 million in federal special education funds.

- In 2012-13 and beyond, the Governor proposes to fund AB 3632 services with $176 million in realignment funds -- reflecting $104 million for mental health related services and $72 million for residential services -- and $69 million in federal special education funds.

LAO COMMENTS:

- **3632 Services Appropriate for Realignment, but Better Aligned to Schools not Counties**. The LAO believes that AB 3632 services are merit realignment – per the Governor's proposal. However, the LAO believes that AB 3632 services should be realigned to schools, not counties as proposed by the Governor.

More specifically, the LAO suggests schools should have programmatic and financial responsibility for this program in providing mental health services to special education pupils. They contend that while schools could contract with county mental health departments, the primary fiscal and program responsibilities should reside with schools.

- **Mandated Program Inefficient**. According to the LAO, the existing approach to delivery of AB 3632 services, by which the state reimburses counties for the provision of mental health services after-the-fact in response to claims, does not provide strong cost-control mechanisms or guarantee that state funds are well spent.

- **Need to Connect Services and Funding**. The LAO also notes that the current structure can result in inappropriate separation between county mental health and K-12 schools, whereby program services may lack sufficient input from educators or connection to students' educational outcomes.

- **More Accountability Needed**. The LAO also sites concerns that the existing structure lacks accountability to measure how well counties achieve the program's goals. Neither DMH nor CDE maintain quality data on services or outcomes for student receiving AB 3632 services.

- **2010-11 Budget Discussions Provided Some Movement**. During the 2010-11 Budget Conference Committee, the LAO presented an alternative to the current system that would allow for a one-year transition and then repeal the AB 3632 mandate. As a part of this repeal, the LAO would reaffirm that federal IDEA requires schools to provide mental health services contained in a student's IEP, but that federal law does not require anything additional.

  The LAO proposal was not adopted by the Legislature. But the Conference Committee left the door open on the issue by appropriating $500,000 in one-time federal IDEA funds to CDE to contract with an external entity to evaluate the state's approach to providing mental-health related services for pupils with disabilities. However, given the ambiguity over the status of the program, CDE has held off on moving forward with the study until they receive further direction from the Legislature.

LAO RECOMMENDATIONS:

The LAO recommends that the Legislature reject the Governor's proposal to fund the mandate with Proposition 63 funds in 2011-12 and realign funding to counties beginning in 2012-13. Instead, the LAO recommends that Legislature repeal the state AB 3632 mandate and realign responsibility and funding to schools, consistent with federal law.

SUGGESTED QUESTIONS:

1. How has the Administration's AB 3632 realignment proposal changed from the Administration's earlier version on January 10? What issues are behind the changes?

2. The Governor continues to "suspend" the AB 3632 mandate on counties in 2010-11. This proposal places most of the AB 3632 mandate back on schools. Does the Governor provide additional funding to schools to cover these services?

3. How are schools providing mental-health related services in the current year given the lack of funding for 2010-11?

4. How do other states deliver mental health related services – per the IDEA mandate – in other states? How does this practice differ in California?

5. What other related services are typically provided for students with disabilities? Do LEAs contract for other specialized "related services" for student with disabilities?

6. Do some LEAs in California provide mental health related services?

7. What benefits has the LAO identified in returning responsibility for mental health related services – as required by the federal IDEA – back to the K-12 education?

8. What are some of the transitional issues the state would need to consider in realigning the provision of mental-health related services either under the Governor's proposal or the LAO's proposal?

9. How does the Department of Mental Health monitor services and outcomes students with disabilities receiving mental health related services through the counties? How does the Department of Education monitor services and outcomes for these students?

10. The federal lawsuit in Los Angeles requested that CDE send a memorandum to all Local Educational Agencies (LEAs) reminding them of their responsibilities to ensure uninterrupted mental health services and assessments to special education students in compliance with IDEA, federal regulations, and AB 3632. CDE has complied with this order. How did CDE frame its responsibilities in this letter?

ISSUE 3. Governor's Budget Proposal - Special Disability Adjustment

DESCRIPTION: The Governor's Budget reflects a reduction of **$74 million** in Proposition 98 funds to reflect the repeal of the Special Disability Adjustment calculation in 2011-12, pursuant to Chapter 403, Statutes of 2010, which makes the adjustment inoperative on July 1, 2011.

BACKGROUND: The Special Disability Adjustment (SDA) or "incidence multiplier as it is commonly called, is a calculation that is included as a part of the AB 602 funding formula in order to account for students with high cost, low incidence disabilities."

When AB 602 funding reforms were enacted in the late 1990s, the funding model changed from a model based upon the number of special education students to a model based upon the general school population. At that time, there was concern that the new model would not recognize the high costs for some special education students. To address that issue, AB 602 required a study to recommend a low incidence, high cost disability adjustment.

The resulting study, published by the American Institutes of Research (AIR) in 1998, recommended the creation of the incidence factor that was added to the AB 602 funding formula. That same study recommended that the formula be updated every five years.

As a result, the Legislature funded another study, published by AIR in 2003. The recommendations of this study would have made substantial changes to definitions, costs, and allocations for the incidence adjustments in place among SELPAs pursuant to the 1998 formula, which caused concerns about the new formula. In addition, there were concerns about the reliability of the data used in the updated study. As a result, the new SDA formula recommended by the 2003 AIR study was never implemented.

While the 1997 formula was clearly out-of-date, as reflected by the 2004 AIR study recommendations, there was no confidence in moving forward with the new recommendations. Instead of suspending the formula moving forward, the 1997 formula has continued since then.

According to the California Department of Education (CDE), the SDA is estimated to provide **$70.0 million** in state Proposition 98 funds to approximately 32 of the state's 122 Special Education Local Planning Areas (SELPAs) in 2010-11. The remaining 90 SELPAs statewide - including several large urban SELPAS (San Francisco Unified, Long Beach Unified, Stockton City Unified) receive no funding from the SDA.

In 2009-10, the state provided a total of **$69.8 million** to these 32 SELPAs. Of this amount, Los Angeles Unified SELPA received $22 million, San Diego City SELPA Unified received $9 million, and Garden Grove Unified SELPA received $6 million. Most of the remaining SELPAs—that received SDA funding had allocations of less than $2 million.

2009-10 and 2010-11 Budgets Actions for SDA.

In order to keep the original SDA formula going, it is extended annually in the budget trailer bill. In 2009-10, the budget package did not include language to continue the formula. This circumstance gave the Legislature a chance to reconsider continuation of the formula in both 2009-10 and 2010-11. As a result, the Conference Committee took action to phase out the existing SDA formula. Specifically, the Conference Committee took action to continue the existing SDA in 2009-10 and 2010-11, but to repeal the existing formula in 2011-12. This action was implemented in Chapter 403; Statutes of 2010.

The Conference Committee also approved $300,000 in one-time federal IDEA funds for CDE to conduct a study to address questions surrounding the need for any adjustment factor in the future. The 2010-11 Budget Act (Item 6110-161-0890, Provision 38) requires CDE to contract for a study to include the following:

1) Summary of the extent to which incidences of severe disabilities are evenly or unevenly distributed across the state.

2) Determination of whether any observed differences in incidences have a significant effect on the relative costs to special education local plan areas (SELPAs) for providing special education services.

3) Suggested methods for adjusting the state's funding formula that do not create inappropriate fiscal incentives for identifying students as needing special education or for placing students in particular programs.

Before entering into the contract, CDE is required to work with the Department of Finance and the Legislative Analyst's Office (LAO) regarding the specific scope and design, and anticipated cost, of the study. The study is due to the Legislature by **April 1, 2011.**

CDE is continuing to work with DOF and the LAO - with input from Legislative staff – to define the scope of the study.

GOVERNOR'S BUDGET PROPOSALS:

The Governor's Budget reflects a reduction of **$74 million** in Proposition 98 funds to reflect the repeal of the SDA calculation in 2011-12, pursuant to Chapter 403; Statutes of 2010.

The Governor's Budget also proposes an increase of $7.3 million in Proposition 98 funding in 2011-12 to reflect student attendance growth. This issue was discussed in an earlier hearing.

With this adjustment, the Governor proposes a total of $4.1 billion for special education programs in 2011-12. This includes $2.9 billion in state Proposition 98 funds and $1.2 billion in federal funds authorized under the Individuals with Disabilities Equation Act (IDEA).

CDE COMMENTS:

- **Federal Maintenance of Effort Concerns.** CDE has expressed concerns that the $74 million reduction in state Proposition 98 funds to eliminate the SDA may violate federal maintenance of effort (MOE) because it will reduce funding in 2011-12 below the 2010-11 level.

- **Revised 2011-12 SDA Estimates.** The Governor proposes a **$74 million** reduction in 2011-12 to reflect repeal of the SDA. According to CDE, the SDA is estimated to total **$70 million** in 2011-12. So per CDE, the Governor's proposal overstates the amount of savings by $4 million.

Federal Maintenance of Effort (MOE). Under federal IDEA, California is required to fulfill MOE requirements. These requirements generally prevent states from reducing current year state funding below spending levels for the previous year. Failure to meet these MOE requirements could result in a loss of federal funds in the amount of the MOE violation.

The IDEA allows states to apply for a waiver of MOE provisions. The U.S. Department of Education (USDE) grants such waivers when a state demonstrates that it is experiencing "exceptional or uncontrollable circumstances such as an unforeseen decline in the financial resources of the State." Three states – Kansas, Iowa, and West Virginia – have been granted MOE waivers by USDE under these circumstances for the 2009-10 fiscal year.

The decision to grant a waiver is made on a case-by-case basis. When considering a waiver, USDE makes sure that any reduction in the level of state support for special education and related services is not greater than the percentage reduction in revenues experienced by the state, and that the state is treating special education equitably when compared to other programs within the state.

STAFF COMMENTS:

- **Special Education Protected from Categorical Cuts to Date**. Special Education programs are among a handful of education categorical programs that have been protected from across-the-board reductions in recent years. As a result of state budget shortfalls, state categorical programs have been cut by approximately 20 percent for a five year period – 2008-09 through 2012-13.

- **State Benefitted from Substantial Influx of One-Time Federal Funds.** California received **$1.2 billion** in ARRA one-time funds – essentially double the annual state grant amount. These funds were appropriated to the state in 2008-09 and 2009-10 and remain available through September 2011.

- **Annual Federal Funds Adjustments Helpful**. The Governor Budget reflects an estimated increase of **$24 million** in federal IDEA grants to California grants in 2011-12. Federal funds have increased to California in nine out of the last ten years. Increases have ranged from $15 million to $154 million annually.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee support the Governor's proposed adjustments in 2011-12 when it takes action on the Proposition 98 package. Further analysis is needed to determine whether there is a federal MOE issue. If this is the case, other Proposition 98 savings would have to be redirected to the special education budget or the state could explore options for a federal MOE waiver.

SUGGESTED QUESTIONS:

1. What are CDE's specific MOE concerns with the Governor's proposal?

2. Does DOF have MOE concerns?

3. Does CDE believe that our state could qualify for a federal MOE waiver, if needed?

4. Does DOF agree with CDE's **$70 million** estimate of the SDA reduction, rather than **$74 million** per the Governor's proposal?

ISSUE 4. Governor's Budget Proposal – Categorical Flexibility;

LAO Report on School District Finance & Flexibility

DESCRIPTION: The Governor proposes to extend current K-12 program and funding flexibility options for local educational agencies (LEAs) for an additional two years. This action extends most flexibility options, which became effective in 2008-09, through 2014-15.

GOVERNOR'S BUDGET PROPOSAL:

Categorical and Program Flexibility Options. In an effort to ease local impacts of state budget cuts, the February and July 2009 budget packages included a number of significant flexibility options intended to loosen program funding restrictions and to give school districts more control over spending decisions. Most of these flexibility options were authorized for a **five year period** -- from **2008-09 through 2012-13**. Some options had shorter timeframes. The Governor proposes to extend most of these program and funding flexibility options for local educational agencies (LEAs) by two additional years **–through 2014-15** -- or **seven years** total, as follows:

- **Categorical Program Flexibility.** Allows LEAs to use funding from about 40 K-12 categorical programs for any education purpose through 2014-15 (seven years), instead of 2012-13, as currently authorized. Since 2008-09, funding for these categorical programs have been combined into a budget "flexibility item" and were also subject to across-the-board funding reductions. Under categorical flexibility, a district's allocation for each program is based on its share of total program funding either in 2007-08 or 2008-09 -- with the earlier year being used for certain participation‑driven programs.

- **Instructional Time Requirements.** Authorizes school districts to reduce the number of instructional days by five – from 180 to 175 days per year -- through 2014-15 without losing longer-year incentive grants.

- **Instructional Material Purchases.** Allows LEAs to use standards-aligned instructional materials adopted prior to July 1, 2008, instead of purchasing new materials, through 2014-15.

- **K-3 Class Size Reduction (CSR).** Continues the existing reduction in penalties for not meeting the K-3 CSR requirements through 2013-14, which is one year less than the flexibility provided for most other flexibility programs. Existing penalty reductions are currently authorized through 2011-12.

- **Sale of Surplus Property**. Allows school districts to direct the proceeds from the sale of surplus property for general fund purposes through January 1, 2014, instead of 2012 per current law. Only proceeds from the sale of non-state funded property are eligible for this additional flexibility, which commenced in 2009-10.

- **Routine Maintenance Contributions**. Suspends the remaining routine maintenance reserve requirement of one percent for school districts that meet the facility requirements of the Williams settlement 2014-15. Allows remaining LEAs to reduce contributions for routine maintenance of school facilities from three percent to one percent of General Funds through 2014-15.

- **Deferred Maintenance Program Matching Requirements**. Suspends previously required General Fund set-asides for LEAs receiving Deferred Maintenance funds for school facilities through 2014-15.

Fiscal Oversight Relief. The Governor also proposes to continue one provision that reduces fiscal oversight for LEAs:

- **School District Budget Reserves**. Continues the authorization for districts to reduce their minimum budget reserves for economic uncertainty to one-third of previously required levels through 2011-12, instead of 2009-10 as currently required. Requires LEAs to make annual progress in restoring reserves in 2012-13, instead of 2010-11, and restores previously required reserve levels in 2013-14, instead of 2011-12.

Flexibility Options and Fiscal Relief <u>Not</u> Covered by Governor's Proposal. The Governor does <u>not</u> propose changes to several other flexibility options that became effective in 2008-09 as a result of the 2009 budget packages.

- **Access to Prior-Year Funding Balances**. Allows LEAs to access prior-year fund balances in 2008-09 and 2009-10 only for the following programs: Targeted Instructional Improvement Grants; Instructional Materials; California High School Exit Exam; Adult Education; ROC/P Facilities; and Deferred Maintenance. [Economic Impact Aid; Special Education; Quality Education and Investment Act (QEIA); Home-to-School Transportation; English Language Learner Acquisition and Development Pilot Program; Child Development; and Child Nutrition were protected.]

- **Federal Funds Losses**. Allows LEAS to avoid a negative or qualified fiscal certification due to a substantial loss of federal American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Funds (SFSF) in 2011-12 and 2012-13. To ensure consistent statewide implementation, the Superintendent of Public Instruction is required to convene the Standards and Criteria Commission to modify the budget and fiscal review criteria to incorporate these changes.

- **High School Exit Exam**. Suspends the California High School Exit Exam (CAHSEE) as a requirement for student graduation for eligible students with disabilities, beginning in 2009-10, until the State Board of Education acts upon a recommendation for an alternative means of measurement for eligible students.

Programs Excluded from Categorical Flexibility Option. The Governor continues to exempt about 20 categorical programs from categorical flexibility. These programs include: Special Education, Economic Impact Aid, K-3 Class Size Reduction, After School Education and Safety, Home-to-School Transportation, Quality Education Investment Act, Child Nutrition, Student Assessments, Charter School Facility Grants, Year-Round School Grants, Partnership Academies, Apprenticeship Programs, Foster Youth, Adults in Correctional Facilities, County Office Oversight, K-12 High Speed Network, and Agricultural Education.

LAO COMMENTS: To help the Legislature in crafting its 2011‑12 education budget, the LAO surveyed school districts to gather information regarding how they were affected by recent federal and state actions. Most importantly, the LAO survey responses indicated that many districts:

(1) have reserved some federal Ed Jobs for 2011‑12;
(2) would find an additional deferral in 2011‑12 more difficult to accommodate;
(3) have benefited notably from existing flexibility provisions and desire additional flexibility; and
(4) already have increased class sizes notably, instituted furlough days, laid off some teachers, and shortened the school year.

Given these survey findings, the LAO identifies several ways the Legislature could provide school districts with more flexibility in the short term. Even with the extra flexibility, however, many underlying problems would remain with California's system of K-12 finance. Thus, the LAO provides the Legislature with a relatively simple approach for making more lasting improvements to California's K-12 finance system.

LAO RECOMMENDATIONS: The LAO makes various recommendations for providing school districts with more flexibility in the short term, improving the state's K-12 finance system in the long term, and then aligning state operations with the streamlined K-12 finance system.

The LAO's recommendations are based on its survey findings as well as its ongoing assessment of the state's K-12 programs and statutory requirements. The LAO figure below summarizes these recommendations, which the LAO will discuss in more detail at the Subcommittee hearings.

- **Increase Flexibility in Short Term**
  - ✓ Remove strings tied to K-3 Class Size Reduction and Home-to-School Transportation
  - ✓ Remove strings from After School Education and Safety program by repealing Proposition 49
  - ✓ Link flex funding to students
  - ✓ Eliminate certain mandated education activities
  - ✓ Ease restrictions on contracting out for non-instructional services
  - ✓ Ease restrictions regarding pay rates and priority for substitute teaching positions

- **Improve K-12 Finance System Moving Forward**
  - ✓ Consolidate virtually all K-12 funding into revenue limits and a few block grants moving forward

- **Align State Operations With New Finance System**
  - ✓ Minimize California Department of Education's (CDE) focus on compliance monitoring
  - ✓ Refocus CDE mission on data, accountability, and dissemination of best practices

STAFF COMMENTS:

- **Per LAO Survey, Districts Relying Heavily on Flexibility Options.** The LAO's survey responses largely confirm that districts are relying heavily on one-time federal funds and deferrals to support more programmatic spending. However, districts also are relying heavily on categorical flexibility provisions–dismantling or significantly downsizing certain categorical programs to redirect support to core classroom instruction. Most respondents also are taking advantage of other flexibility options, such as shortening the school year, to balance their budgets. Survey responses indicate these flexibility provisions are helping districts protect certain local priorities in the midst of shrinking budgets. Per LAO, nonetheless, districts still have had to make notable programmatic reductions for example, increasing class sizes, instituting employee furloughs, and laying off staff.

- **Governor's Categorical Flexibility Proposal Locks Most Programs into 2008-09 Proportions for Seven Years.** Since 2008-09, funding for about 40 categorical programs has been combined into a budget "flexibility item" that applies to across-the-board funding reductions. Under categorical flexibility, a district's allocation for each program is based on its share of total program funding – at the reduced level – either in 2007-08 or 2008-09, with the earlier year being used for certain participation-driven programs. Under the categorical flexibility program, no growth funding is been provided for growing districts, and districts with negative growth are held harmless from any loss of funding associated with lower student attendance.

- **LAO Continues to Recommend Mandate Reforms**. In addition to removing strings attached to certain categorical programs, the LAO also continues to recommend the state eliminate certain mandated education activities. (Per the LAO, categorical programs and education mandates are very similar functionally, with the primary difference being that the state typically funds categorical programs up front whereas it funds mandates only on a reimbursement basis.) Although the state removed some requirements associated with certain K-12 mandated activities in 2010-11, the LAO recommends that additional requirements be removed in 2011-12. Specifically, in its 2009 report, *Education Mandates: Overhauling a Broken System*, the LAO highlighted 26 mandates that the state could eliminate (that have not already been eliminated), including Notification of Truancy, The Stull Act, and Intra-District Transfers. Given all other competing priorities, the LAO thinks these types of activities are lower priority and requiring districts to undertake them, particularly in this environment and potentially at the expense of other higher priority student services, makes little sense and places unneeded pressure on limited districts resources. Furthermore, the LAO continues to recommend that the state consider options for simplifying the process of funding whatever mandates it continues to require. For example, for several of the active mandates, the state could create a block grant that would provide a standard rate to every district. In addition to simplifying the mandate finances system for districts and the state, a block grant approach would help reduce the notable inequities in the amounts districts now receive for performing the same mandated services.

STAFF RECOMMENDATIONS: Staff makes the following recommendations as the Subcommittee considers its decisions on the Proposition 98 package.

- **Support Extension of Program and Funding Flexibility Options Proposed by Governor in Short Term**. The Governor's proposal to extend most of the current flexibility options for two years provides extended flexibility for LEAs as they make budget plans in the short term. The Governor's proposal provides an important and timely signal to LEAs.

- **Support Additional Short Term Actions per LAO.** The LAO has suggested a few additional flexibility options that the LAO believes would give districts more tools to address immediate budget shortfalls, they also represent policy changes that would benefit districts in any fiscal climate. Moreover, taking these actions now will set the foundation for comprehensive improvements to the state's education finance structure moving forward..

  ✓ **Add K-3 CSR and Home-to-School Transportation Programs to Flexibility Program**. Per LAO, K-3 CSR and HTS transportation are strong candidates to be placed in the flex program based upon their recent survey of school districts. More than 60 percent of school districts support additional flexibility for these two programs. The Senate took this action last year which was also supported by the LAO's district survey findings at that time.

  For K-3 CSR, the LAO believes the current funding structure is only tenuously linked to the underlying policy objectives. That is, most districts are no longer meeting the program's central policy objective -- to reduce K-3 classes to 20 or fewer students.

  For HTS transportation, the LAO notes that the existing funding structure is widely recognized as antiquated and unfair -- resulting in district funding allocations that are very poor reflections of district's current underlying needs. The existing HTS formula also contains a "use it or lose it" provision that discourages districts from implementing more cost-effective practices, as decreasing costs in one year means losing funding.

  ✓ **Adopt LAO Recommendation to Link Flex Funding to Students in the Short Term**. Regardless of which specific programs are included in the flex item in 2011-12, the LAO recommends that the Legislature modify the methodology used to allocate flex-item funding to school districts. Specifically, the LAO recommends the Legislature develop a per-pupil rate for each district by dividing the amount it received for all flexed programs in 2010-11 by its total ADA. Linking this funding to students would help create a rational basis for making future funding adjustments per the LAO. If the Legislature chose to streamline its education finance system, the LAO believes transition to such a system also would be less disruptive if most existing state funding already were linked to students and adjusted annually according to changes in the student population.

- **Begin Work with Administration to Develop Options for School Finance Reform in the Long Term per LAO Recommendations.** While the Governor attempted partly to address this issue by extending the flexibility provisions two years, the LAO believes the state needs a more definitive exit strategy. That is, the LAO thinks this is an opportune time for the state to rethink its overall K-12 finance system and craft a better system. Rather than extend current categorical flexibility for two more years, the LAO recommends that the Legislature improve the state's K-12 finance system on a lasting basis. Regarding a new finance structure, the LAO recommends the Legislature consolidate virtually all K-12 funding into revenue limits and a few block grants. Unlike the current flex item, a few block grants would provide flexibility while also allowing more opportunity for the state to ensure that at-risk and/or high-cost students continue to receive the services they need.

SUGGESTED QUESTIONS:

1. Can the LAO clarify its recommendations for categorical reform in the short term and long term? What kind of process does the LAO envision?
2. In the short term, does the LAO have any concerns about the Governor's proposal to allow LEAs to retain lower reserves for economic uncertainty for an additional two years?
3. As a part of its survey, did the LAO determine if the public hearing and expenditure reporting provisions of the categorical flexibility statute were being implemented?

ISSUE 5. Federal Striving Readers Program (Information Only)

DESCRIPTION: The California Department of Education will provide an update on the development of a State Literacy Plan so that our state may soon compete for discretionary funds from a new federal grant program – the Striving Readers Comprehensive Literacy Program. If successful, CDE estimates California could receive up to $50 million for this new program in 2010-11 or 2011-12.

BACKGROUND:

The Striving Readers Comprehensive Literacy (SRCL) program is authorized as part of the Federal Fiscal Year (FFY) 2010 Consolidated Appropriations Act, which provides **$250 million** for the program. The SRCL program provides state **discretionary grants** for the purpose of creating a comprehensive literacy program to advance literacy skills, including pre-literacy skills, reading, and writing, for students from birth through grade 12, including limited-English-proficient students and students with disabilities.

Of the $250 million provided in FFY 2010, **$10 million** is reserved for **formula grants** to assist states in creating or maintaining a State Literacy Team with expertise in literacy development and education for children from birth through grade 12 and to assist States in developing a comprehensive literacy plan.

Formula Grants for Comprehensive Literacy Plan.

SRCL formula grants provide funds to states for development of comprehensive literacy plans that must address the needs of children from birth through grade twelve. The plans must also improve alignment and transition between grades. In addition, plans should include key components of an effective state literacy system, including clear standards; a system of assessments to inform instruction; guidance on the selection and use of curriculum and interventions; teacher preparation and professional development aligned with standards; and a system of data collection, evaluation, and program accountability.

The California Department of Education (CDE) California has received **$841,000** in 2010-11 in SRCL formula grant funding to support a State Literacy Team and to develop a comprehensive literacy plan for children from birth through grade 12.

These funds were authorized in January 2011 through a Department of Finance (DOF) Section 28.00 Budget Act Letter. According to the Budget Letter request, the team will be comprised primarily of literacy development and education experts for children from birth through grade 12, the majority of whom will be local representatives. The literacy plan will be reviewed by the State Board of Education (SBE) prior to the submittal of the plan to the US Department of Education (USDE) no later than March 16, 2011.

In its concurrence with the DOF Section Letter request, the Joint Legislative Budget Committee (JLBC) requested that CDE provide the State Literacy Plan to the JLBC and legislative policy committees when the plan is submitted to the SBE for review or by March 1, 2011, whichever is earlier.

The CDE reported last week that USDE has extended California's deadline for submitting the State Literacy Plan from March 16, 2011 to April 1, 2011. (The original deadline was February 1, 2011.)

Discretionary Grants.

Discretionary grants will be awarded competitively to State Educational Agencies (SEAs) that must sub-grant at least 95 percent of the funds to Local Educational Agencies (LEAs) and early childhood providers.

Entities eligible for SRCL Discretionary subgrants are LEAs or other nonprofit providers of early childhood education that partner with a public or private nonprofit organization or agency with a demonstrated record of effectiveness in improving the early literacy development of children from birth through kindergarten entry and in providing professional development in early literacy.

States must give priority to LEAs and other entities serving greater numbers or percentages of disadvantaged children.

Funds will be used by LEAs and other entities for services and activities that have characteristics of effective literacy instruction through professional development, screening and assessment, targeted interventions for students reading below grade level and other research based methods of improving classroom instruction and practice for all students.

Of the SRCL discretionary grants, subgranted funds to LEAs and other eligible entities:

- 15 percent of funds shall be used to serve children from birth through age 5;
- 40 percent of funds shall be used to serve children in kindergarten through grade 5; and
- 40 percent of funds shall be used to serve students in middle and high school including an equitable distribution of funds between middle and high schools.

The USDE will consider each state's comprehensive literacy plan as part of the SRCL discretionary grant program application. The USDE expects that applications for the discretionary grant program will be available in early 2011 and will be due back in spring 2011.

Per USDE, total discretionary grant awards for the FFY 2010 appropriation will range from **$10 million to $50 million per state**, with average grants estimated at $30 million per state. CDE estimates that California will be eligible for the maximum grant level of **$50 million**. The continuation of discretionary grant awards will be dependent on future federal appropriations.

STAFF COMMENTS:

- **Lessons Learned from Reading First.** The Striving Readers program is the President's new federal reading initiative. The Reading First program was another federal reading program initiated during the Bush Administration. The state's Reading First plan was developed and submitted to the U.S. Department of Education without input from the Legislature. As a result the Legislature had several concerns with the program and – against the recommendation of CDE in some cases – took a number of budget actions over the years to correct these problems.

- **Maximize Participation of Eligible Districts and/or Schools Statewide**. Approximately half of the eligible school districts never participated in the program. Some of the reasons for limited participation included, funding restrictions for services covered, grant extensions – beyond the original timeframe – for the original grantees, which limited access to new districts;

- **Ensure Access for English Learners.** When Reading First was first implemented, the State Board of Education determined that bilingual education programs were not eligible for Reading First grants because of the higher hourly English Language Arts requirements for programs. The Legislature took action by allowing "waivered classrooms" to participate in the program.

- **Ensure Access for Students with Disabilities.** The Reading First program limited participation to core curriculum teachers and excluded special education teachers, despite the specific mention of special education teachers in the federal law. A Special Education Pilot Program was added by the Legislature in 2007-08.

- **Allow Funds to Be Used More Flexibly To Improve Reading, Most Notably for Direct Services**. Reading First focused upon teacher training, and did not allow funds to be used for direct instruction for students. Some districts that chose not to participate cited onerous program requirements and an overly restrictive, top-down program design as reasons for not applying.

- **Ensure Transparency About Program Participation and Outcomes.** The Legislature had trouble accessing basic information about Reading First, such as the number and type of teachers participating and student outcomes. This was due in part to the decentralized governance structure that involved implementation centers and six regional lead agencies.

- **Collaboration Needed.** To avoid the problems of the past, it will be important for the State Board and CDE to work together and to engage with the Legislature on the development of the comprehensive reading plan and the subsequent proposal for a Striving Reader's discretionary grant proposal. This new federal program could make substantial, new funding available for a statewide literacy program to address struggling readers – birth to grade 12 – in our state.

SUGGESTED QUESTIONS:

1. Has the State Board officially selected the State Literacy Team for the Striving Readers Program? If so, how were members of the State Literacy Team selected?

2. Will the State Literacy Team work from a preliminary plan or framework and if so can the Administration or CDE share the components of that framework?

3. Will the plan allow direct reading instruction? If so, how will the plan identify struggling readers for purposes of services?

4. How will the plan maximize allocation of funding to LEAs? Will funds reach all eligible LEAs? The Reading First program diverted funds to Regional Assistance Centers. Will this approach be utilized again?

5. How will the State Literacy Plan ensure access for English learner students?

6. How will the State Literacy Plan ensure access for students with disabilities?

7. Does CDE have an update on the timeframe for the competitive implementation grant? When will the application be available and when will it be due back?

8. If California is successful in securing competitive implementation grant funds, when will those funds arrive? In what state fiscal year?

9. What is the outlook at the federal level for continued SRLB appropriations?

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Thursday, February 10, 2011
10:00 a.m. or upon adjournment of session
Room 3191, State Capitol

ISSUE 1: Hastings College of the Law Proposed Budget

Speakers:

- Chancellor Frank H. Wu, Hastings College of the Law
- David Seward, Hastings College of the Law
- Mollie Quasebarth, Department of Finance
- Steve Boilard, Legislative Analyst's Office

Issue. The issue before the Subcommittee is the Governor's proposed budget reduction to the Hastings College of the Law.

Background. Hastings College of the Law was founded in 1878 as the first law department of the University of California. Serranus Clinton Hastings, the first Chief Justice of the California Supreme Court, provided University of California with a $100,000 donation to start a law school. Justice Hastings attached two conditions to his donation: (1) the school must remain in San Francisco, near the courts; and (2) the school must be governed by its own board of directors. Thus, although Hastings is affiliated with the University of California, it is a stand-alone, independently governed law school not under the purview of the UC Regents.

<u>BUDGET:</u>

Hastings Budget History. Since 2007-08, the level of State General Fund support for Hastings has been steadily reduced. While the overall budget of the college has increased during the same time period, this increase is due to higher student fees and higher enrollment. In 2009, former Governor Schwarzenegger proposed to eliminate all state support for Hastings. The Legislature restored funding for the law school.

Governor's Budget. The 2011-12 Governor's Budget proposes to reduce Hastings by $1,429,000 General Fund. This represents 17 percent of the current General Fund support level.

Hastings College of the Law Budget

(Dollars in thousands)

Funding Source	2007-08 (Actual)	2008-09 (Actual)	2009-10 (Actual)	2010-11 (Approved)	2011-12 (Proposed)
General Fund	$10,631	$10,115	$8,270	$8,364	$6,935
Lottery	$144	$130	$146	$173	$173
University Funds	$29,386	$33,444	$39,107	$49,664	$48,821
Extramural Funds	$16,574	$26,734	$13,620	$14,740	$12,759
Total	**$56,735**	**$70,423**	**$61,143**	**$72,941**	**$68,688**

COST GROWTH:

Mandatory Costs. While the College has a decreasing state General Fund budget, it will see an increase in certain expenditures that could be considered mandatory. These are shown in the chart below:

Hastings Mandatory Cost Growth

	2009-10	2010-11	2011-12	Cumulative Change
UC Retirement System	$ 176,958	$ 755,584	$ 719,937	$ 1,652,479
Retiree Health Benefits	$ 738,934	$ 817,112	$ 1,004,796	$ 2,560,842
Health and Dental Benefits	$ 231,000	$ 280,000	$ 339,000	$ 850,000
Utility Costs	$ (50,000)	$ 102,000	$ 84,000	$ 136,000
TOTAL	**$ 1,096,892**	**$ 1,954,696**	**$ 2,147,733**	**$ 5,199,321**

COST REDUCTIONS:

Cost Cutting Measures Already Underway. Hastings College of the Law has undertaken multiple efforts to reduce costs, or halt increased expenditures, since 2007. These include:

- Elimination of general salary adjustments (none provided since October 2007)
- Five percent reduction to operating budget in January 2009
- Another five percent reduction to operating budget in January 2011
- Freeze on merit pay adjustments for faculty (none provided since 2008-09)
- Freeze on merit pay adjustments for staff (none provided since 2008-09)
- Freeze on reclassification and equity adjustments for staff (none provided since 2009-10)
- Library Holding Reductions ($200,000 savings)
- Deferred maintenance and information technology
- Deferred faculty hiring
- Senior faculty at the law school also committed to a principle of a teaching load 33% higher than junior faculty

OTHER OPTIONS:

Student Fee Level. One means of raising additional revenue is to raise the student fee levels. Currently, the Hastings College of the Law resident student fee level is $38,906. The average for other UCs is $45,541 annually for residents. The 2010-11 student fees are projected to bring Hastings about $45.5 million, of which $12.8 million is dedicated to financial aid. To receive an additional $1.5 million in student fee revenue, Hastings would have to raise student fees to about $41,987. Currently, Hastings is planning to raise resident student fees to $39,986 for the 2011-12 academic year.

Hastings Student Fees

	2007-08	2008-09	2009-10	2010-11
Resident	$ 24,120	$ 28,864	$ 32,468	$ 38,906
Non-Resident	$ 35,345	$ 40,089	$ 43,693	$ 50,131

Financial Aid. The State's support for the Hastings College of the Law has been steadily decreasing as a percentage of the Hastings total budget (12 percent in 2011-12). The State could ensure that the State support is provided to support the goal of preserving access to public legal education by scheduling the State General Fund contribution to financial aid assistance only. Currently, Hastings provides $12.8 million in student financial aid. Though the State's General Fund contribution falls short of that goal, limiting support to financial aid would ensure the State's support for the neediest students.

Suggested Questions:

1. How much revenue does Hastings think it can receive from additional student fee increases in 2011-12?
2. Has Hastings provided any salary increases to employees since 2008-09?
3. DOF: Hastings funding is now 88 percent private. What is the impact is Hastings becomes 100 percent private?
4. What are the obligations the state has to the Hastings College of the Law and at what level of funding support is the state no longer meeting those obligations?

ISSUE 2: California Student Aid Commission Budget Overview

Speakers:

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

Issue. The issue before the Subcommittee is the Governor's proposed budget for CSAC, including a significant funding shift and a General Fund increase for entitlement grants.

STUDENT FINANCIAL AID:

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

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

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

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

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

Institutional Financial Aid. Institutional financial aid is a financial aid program run by a higher education segment for the benefit of the students attending its institutions. The University of California and California State University both set aside one-third of their tuition revenue for financial aid to their economically disadvantaged students. The California Community Colleges offer Board of Governor's Waivers to financially needy students, which waives tuition fees entirely.

CALIFORNIA STUDENT AID COMMISSION:

Role of CSAC. The California Student Aid Commission (CSAC) was created by the Legislature in 1955. CSAC is the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. CSAC administers CalGrants and certain loan assumption programs.

Awards Provided

	Awards		Amount	
Award Type	**2010-11**	**2011-12**	**2010-11**	**2011-12**
CalGrant Entitlement	190,974	206,227	$ 1,153,930	$ 1,372,767
CalGrant Competitive	39,293	39,161	$ 129,560	$ 132,760
CalGrant C	9,074	9,247	$ 11,063	$ 11,316
Student Opportunity and Access Program	15	15	$ 7,349	$ 7,349
APLE*	11,278	11,375	$ 37,383	$ 38,670
Graduate APLE	115	115	$ 230	$ 230
State Nursing APLE for Nursing Faculty	48	77	$ 400	$ 642
State Nursing APLE for Nurses in State Facilities	2	4	$ 10	$ 20
National Guard APLE	60	0	$ 180	$ -
National Guard Education Assistance Award Program	438	438	$ 3,017	$ 3,017
Law Enforcement Personnel Dependents Scholarships	9	9	$ 99	$ 75
Byrd Scholarships	3,652	3,652	$ 5,671	$ 5,671
Child Development Teacher and Supervisor Grant Program	293	293	$ 304	$ 304
Chafee Foster Youth Program	2,634	2,634	$ 12,855	$ 12,855
John R. Justice Grant Program	200	200	$ 889	$ 889
Total	**258,085**	**273,447**	**$ 1,362,940**	**$ 1,586,565**

**Assumption Program of Loans for Education*

AB 187. AB 187 (Committee on Budget, 2009) created a pilot program to decentralize financial aid programs administered by the CSAC. AB 187 prohibits CSAC from implementing the pilot alternative delivery system until prescribed conditions are met, including receiving commitments from at least 30, but not more than 35, qualifying institutions electing to participate in the alternative delivery system and to pay the costs associated with developing and implementing the pilot alternative delivery system.

CSAC developed the emergency regulations for the AB 187 pilot program in June 2010, and requested that those emergency regulations be extended in January 2011. The final regulations have not yet been developed. To date, CSAC has not received enough commitments from public higher education institutions to start the pilot program.

BUDGET:

Governor's Proposal. The Governor's proposed budget provides CSAC with about $1.6 billion, which is about $221 million more than in 2010-11. The Governor's proposal main components are the TANF backfill, an increase to General Fund, and some technical and small changes. The Governor's proposal also includes current year changes. Each of these is discussed below.

CSAC Budget

(dollars in millions)

	2009-10	2010-11	2011-12
General Fund	$ 1,043	$ 1,224	$ 577
Student Loan Operating Fund	$ 115	$ 180	$ 30
Federal Trust Fund	$ 18	$ 26	$ 20
Reimbursements	$ 18	$ 23	$ 970
Total	**$ 1,194**	**$ 1,453**	**$ 1,597**

TANF Backfill. The Governor's budget proposal relies on a funding swap of $946.8 million in Temporary Assistance to Needy Families (TANF) funds from General Fund to keep CalGrants fully funded. However, the TANF funds are only available for CSAC because of the reductions the Governor is proposing to CalWORKs. If the Legislature chooses not to accept all of the Governor's cuts to CalWORKs, then not all of the TANF funding would be available for CalGrants.

Increase to General Fund. The Governor's budget proposal increases the amount of General Fund for CalGrants to do the following:

1. $279 million for increased CalGrant participation
2. $17.6 million for the CSU five percent fee increase in 2010-11
3. $25 million for the CSU fee increases approved for 2011-12
4. $48 million for UC fee increases approved for 2011-12

Technical and Small Changes to 2011-12 Budget. The Governor's budget proposal contains some technical or small changes:

1. Backfill $100 million of one-time Student Loan Operating Fund (SLOF) revenues with General Fund;
2. Increase of $2.3 million General Fund for loan assumption program costs;
3. Increase of $842,000 General Fund for replacement of shared services previously provided by EdFund to CSAC;
4. Increase of $941,000 in federal funds through an interagency agreement with CalEMA for the John R. Justice Grant Program to attract and retain qualified individuals to serve as public defenders and prosecutors; and
5. Decrease of $5.6 million in federal funds for educational assistance partnerships.

Current Year Changes. The Governor's proposal also includes several changes to the 2010-11 budget. These are:

1. Increase of $141.4 million General Fund for CalGrants to meet the higher number of CalGrant entitlement awards provided in 2010-11 than originally projected;
2. Increase of $5.8 million General Fund for increased CalGrant amounts to cover the mid-year five percent student fee increase at CSU;
3. Increase of $1 million General Fund for increased Loan Assumption Programs costs;
4. Decrease of $1.2 million General Fund for replacement of shared services that the EdFund used to provide to CSAC;
5. Increase of $389,000 in federal funds for educational assistance partnerships; and
6. Increase of $941,000 in federal funds through an interagency agreement with CalEMA for the John R. Justice Grant Program to attract and retain qualified individuals to serve as public defenders and prosecutors.

Staff Comment. The reduction to CalWORKs programs will be decided in Senate Budget Subcommittee No. 3, and the backfill of TANF for General Fund in CalGrants will be a conforming decision.

Should the Senate Budget Subcommittee No. 3 not accept the entire Governor's proposal as it relates to the reduction of CalWORKs, there would be a shortfall in funding for CalGrants. The Legislature may wish to consider alternatives for creating savings within the CalGrant Program in case the funding transfer does not materialize.

Suggested Questions:

1. If the TANF funds are not transferred to CSAC for CalGrants awards, what happens to the CalGrants program?
2. Does California need a waiver from the federal government to use TANF funds for CalGrants?

ISSUE 3: CalGrant Savings Alternatives

Speakers:

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

Issue. The issue before the Subcommittee is a series of options for cost-savings in the CalGrants program.

<u>Option 1: Change GPA Requirements</u>

Current Grade Point Average (GPA) Requirements. Under the CalGrant High School Entitlement program, students must attain a high school GPA of 3.0 to qualify for a Cal Grant A which provides full fee coverage for four years. With a 2.0 GPA students may qualify for the CalGrant B, which provides a stipend of $1,551 each year and full fee coverage after the first year.

Success Rate of Low-GPA Students. Students with a GPA of 2.0 have extremely low rates of success in college. Estimates show fewer than 20 percent of students with a high school GPA of 2.0 or less graduate from the CSU in six years or more.

LAO Recommendation. Raising the GPA requirement to 2.5 would eliminate about 13,500 students from entitlement program eligibility, and **save $13 million**.

<u>Option 2: Limit Competitive CalGrants</u>

Competitive CalGrants. The Competitive CalGrant program is available for those students who graduated high school more than 18 months ago. Each year 22,500 Competitive CalGrants are offered, but the number of applicants is much higher (in 2008-09 there were 162,044 applications for Competitive CalGrants).

Most Competitive CalGrant Recipients Attend Community College. Currently, community college students receive three-quarters of new competitive 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 community college students do not receive fee coverage as part of their grant awards. (They qualify for BOG fee waivers, and from their CalGrant receive a $1,551 annual stipend to cover expenses other than fees.)

LAO Recommendation. The LAO recommends limiting all new Competitive CalGrants to community colleges. Restricting all new competitive awards to a $1,551 annual stipend would not affect the three-quarters of new recipients who are already going to CCC. Other students would have the option to attend a community college for two years with fee waivers and stipends, or seek additional financial aid at other institutions. Restricting Competitive CalGrants in this way would create about **$20 million** in General Fund savings.

Option 3: Limit Grants for Private For-Profit Colleges

CalGrants Available for Any California College. Currently a student who qualifies for a CalGrant based on income and GPA can take that CalGrant to any college within California. However, the CalGrant payment to the colleges can vary greatly. The current payments are:

- California Community Colleges: $1,551 annually
- UC and CSU: Full resident student fees covered
- Independent Colleges: Up to $9,708 (these are non-profit colleges)
- Private Career Colleges: Up to $9,708

Private Career Colleges. The Private Career Colleges are for-profit enterprises that mostly specialize in providing students with career technical degrees, though some do provide bachelor's degrees. Private career colleges that offer career technical education frequently charge tuition comparable to the University of California system, but offer degrees that could be attained at a community college.

About 14 Percent of CalGrant Recipients Attend Private Career Colleges. In 2009-10, there were a total of 20,278 award offers (10,341 new and 9,937 renewal) for CalGrants to private career colleges. This is a 155 percent increase in award offers over 2000-01. The total cost of these awards for 2009-10 was $94 million, for an average award cost of $4,635.

Staff Recommendation. Staff recommends that the Legislature consider limiting the CalGrant award amount for private career colleges to the level of the comparable California public education institution (not to exceed CSU student fee levels for those students working toward a bachelor's degree in those private career colleges that offer bachelor's degrees). This would limit a CalGrant toward private for-profit college tuition for career technical degrees to the $1,551 awarded to community college students. Those students seeking a bachelor's degree could receive an award equivalent to CSU student fees.

In 2009-10, there were 20,278 awards offered to students attending for-profit private career colleges at a cost of $94 million to the state. If these students were limited to the award amount for community college students ($1,551 per year, rather than the current average of $4,635), the state would save up to tens of millions annually.

Option 4: Income Verification

Currently Income Verification Occurs Only When Students First Apply For Grant. Once a student is awarded a CalGrant, they have that grant for four years. Once the grant is awarded, there is no further verification of income eligibility. During the time the student is receiving the grant, they do have to annually file the Free Application for Federal Student Aid (FAFSA) and show that they have at least $100 dollars of financial need. However, "financial need" includes a set amount for living expenses (which can vary by campus, depending on the local housing costs).

<u>Eligibility for CalGrants Has Increased.</u> Approximately 15,000 more students are expected to participate in the CalGrant entitlement program in 2011-12 than participated in 2010-11. Much of this increased participation rate may be due to the high unemployment rate in California, which has left many families with decreased incomes. However, as the economy improves and more people return to work, families may see their incomes increase and student fees become once again a manageable expense for the family.

Staff Recommendation. Staff recommends that the Legislature consider requiring CalGrant recipient students to report income annually. Currently, income is verified only when the grant is initially awarded. The federal government requires annual income verifications for financial aid and loans. CSAC could take the income numbers from the FAFSA documents the students are already required to file to verify income eligibility.

This proposal would disqualify from CalGrants all those students whose parental income increases above the CalGrant eligibility ceiling while they are in school. Parental income is not counted for students 24 and over. Those students that would not have their CalGrants renewed would have increased financial resources available to them through their parents. The savings from this proposal are unknown.

<u>Option 5: Limit Time Allowed on Academic Probation</u>

Current Practice. Once awarded, a CalGrant stays with a student for four years. There are very few requirements the student must fulfill, but these include enrollment for 12 units a semester, making Satisfactory Academic Progress (SAP), and as stated above, filling out the FAFSA annually. Currently, a student loses their CalGrant if he or she does not make SAP for more than two semesters or three quarters. The SAP standards are set by each college, though UC and CSU each set their standards system-wide.

Staff Recommendation. Staff recommends that the Legislature consider limiting the time allowed for the student not to meet SAP to one semester or two consecutive quarters. The savings from this proposal are unknown.

Suggested Questions:

1. How would these proposals impact students who are currently in school seeking their degrees with CalGrant funding?
2. What is the overall graduation rate of CalGrant recipients? Is this number higher or lower for private career colleges? What about for Competitive CalGrant recipient and Entitlement CalGrant recipients?

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Thursday, May 5, 2011
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 1. K-14 EDUCATION MANDATES WORKING GROUP REPORT

DESCRIPTION: The Legislative Analyst's Office (LAO) will present a report of the K-14 Mandates Working Group required by Chapter 724, Statutes of 2010. In so doing, the LAO will present a "white paper" which transmits the working group's findings and recommendations to the Legislature. More specifically, the paper:

(1) Identifies problems with the current mandate system,
(2) Discusses three ways to improve the overall mandate system,
(3) Lays out three options for addressing specific K-12 mandates as well as mandates affecting both school districts and community colleges, and
(4) Provides a generally comprehensive reform package for addressing CCC-only \ mandates.

The LAO points out that while the work group is submitting a collective report to the Legislature, the options included in the report were not agreed upon unanimously and do not necessarily reflect the opinion of any given work group member. As such, the options should only be viewed as ideas for the Legislature to consider and may be modified or combined to best meet its objectives.

BACKGROUND ON WORKING GROUP:

Chapter 724, Statutes of 2010 (AB 1610, Committee on the Budget), required the LAO to convene a work group to discuss the future of school district and community college mandates.

The work group included representatives from the LAO, Department of Finance, California Department of Education (CDE), California Community College (CCC) Chancellor's Office, and staff of the fiscal and policy committees of the Legislature. The legislation also required the work group to consult with appropriate stakeholders and develop recommendations, including whether to preserve, modify, or eliminate particular K-14 mandates.

To carry out its directive, the work group divided into two subgroups: one to discuss the 35 mandates that affect K-12 education only and the other to discuss the ten CCC-only mandates. The subgroups met separately throughout late 2010 and early 2011.

SUMMARY OF WORKING GROUP REPORT (WHITE PAPER)

PROBLEMS WITH THE CURRENT MANDATE SYSTEM

The section identifies problems with the current education mandate system. As reflected in Figure 1, the current system creates many problems for both the state and districts. Though the list of problems listed below is not exhaustive, the work group believed these problems generally encompassed the most pervasive system-wide shortcomings.

Figure 1

Problems With the Current Education Mandate System

- ✓ System not responsive to changing needs.
- ✓ State costs can be higher than anticipated.
- ✓ Regulations also can create mandates, further increasing state costs without legislative input.
- ✓ High percentage of audited district claims ultimately disallowed.
- ✓ Districts face considerable uncertainty regarding timing and amount of reimbursements.
- ✓ Reimbursement process ignores effectiveness.
- ✓ Reimbursement process can reward inefficiency.
- ✓ Reimbursement rates can vary greatly without justification.
- ✓ Claiming process creates significant administrative burden for districts.

THREE WAYS TO IMPROVE OVERALL SYSTEM

This section discusses three ways to improve the overall education mandate system. The group generally believed these three goals should guide reform efforts and considered various options to achieve them, which are outlined below. However, despite broad agreement on these goals, there was not consensus on how exactly to achieve them or how to apply them to individual mandates.

(1) ***Reduce Cost of Current Mandates to the Extent Appropriate Given Policy Implications.*** Though Chapter 724 took several actions to reduce K-14 mandate costs, annual costs continue to exceed $100 million. The group generally believed these costs could be further reduced without undermining important state policies. To this end, the group identified four basic options the Legislature has at its disposal to further reduce state mandate costs, though not all work group members supported each approach. These options are discussed below.

- Keep Mandate but Modify Funding Source.
- Eliminate Specific Mandated Activities but Retain Overarching Policy Objective.
- Suspend Mandate.
- Eliminate Mandate in Whole or Part.

(2) ***Simplify K-14 Mandate Finance System.*** In general, the group also believes the K-14 mandates finance system should be simplified to the extent possible. Simplifying the

finance system could help address many of the problems with the current system. For example, a more streamlined finance system, if designed effectively, could reduce the administrative burden for districts associated with claiming and auditing. For the state, such a system could also help contain costs and reduce the high variability in mandate claims from year to year. In addition, a new system could provide more opportunities for the state to monitor effectiveness by shifting the emphasis of the audit process from compliance to outcomes. To achieve these goals, the work group focused primarily on two specific options.

- **Pay for More Mandates Using RRM**. The first option, developing a formula-based approach to reimbursement called a "Reasonable Reimbursement Methodologies" (RRMs) for each mandate, would standardize reimbursement rates for districts on a case-by-case basis. This particular approach would yield relatively minor benefits because it would continue to fund mandates using the same overall reimbursement system and probably could not apply to all K-14 mandates (due partially to these factors, this option is now available but rarely used for K-14 mandates).

- **Replace Existing Reimbursement System With Block Grant**. The second option, developing an education mandates block grant, would create a new system for funding mandates and has the potential to do even more to address the problems with the current system than an RRM, though a poorly designed block grant could undermine many of these benefits.

(3) ***Create More Direct Process for Legislature to Consider Cost of New Mandates***.
As previously discussed, several aspects of the mandate finance system make it difficult for the Legislature to accurately estimate associated costs. Given this challenge, several members of the work group (and several representatives from constituency groups) recommended finding a way for the Legislature to reconsider mandates when associated costs become more certain. For example, the Legislature could have a process for reconsidering original authorizing legislation and attaching an appropriation to it once an associated cost estimate is available. That is, rather than have the Legislature only consider mandate costs on an ad-hoc basis (which often means the costs are never evaluated by the appropriate committees), the state would have an official trigger to re-open laws that create mandates when costs are established.

THREE OPTIONS FOR ADDRESSING SPECIFIC K-12 MANDATES AND SHARED K-14 MANDATES

In addition to these three overarching ways for improving the overall mandate system, the group agreed that specific mandates should be maintained only if they serve a fundamental statewide interest. Group members disagreed, however, on how to define "statewide interest," as well as which mandates fit a particular definition. Given the group was not able to reach consensus on a single definition and associated mandates, we provide three options that could be used to address specific K-12 and shared K-14 mandates Specifically, some of the work group members recommended defining statewide interest narrowly, for instance limiting funded mandates to those related to parental notification (Option 1). Others supported a somewhat broader definition, for instance expanding the list of funded mandates to include health, safety, and oversight mandates (Option 2). The LAO's report takes this approach. By contrast, other members recommended defining statewide interest quite broadly, funding some mandates, reducing the cost of others, and sending most of remaining mandates to policy committees for further review.

In Figure 2 below, each option is ordered from the most to least restrictive definition of a statewide interest (rather than being ordered by priority or level of group support). Figure 2 also provides cost estimates for each of the three illustrative packages. Figure 3 (see Attachment A) shows how each specific K-12 mandate might be treated under the three packages. Taken collectively, these options provide a range of approaches to identify mandates that should be maintained, though the group does not unanimously support or recommend any of the three options. Moreover, the group did not unanimously agree on which mandates should be identified under each definition of statewide interest in Figure 3 (Attachment A).

Figure 2

Cost Estimates for Three Potential K-14 Mandate Packages

(In Millions)

	Definition of "Statewide Interest:"					
	Narrow		Broader		Broadest	
	Number	Cost[a]	Number	Cost[a]	Number	Cost[a]
Fund without modification	6	$18.3	10	$14.3	13	$24.2
Reduce costs and fund[b]	6	20.6	12	31.1	12	49.3
Eliminate	27	—	17	—	2	—
Review by policy committees	—	—	—	—	12	13.4
Totals	**39**	**$38.9**	**39**	**$45.4**	**39**	**$86.9**

[a] Cost estimates include community college claims for shared K-14 mandates.
[b] Cost estimate assumes changes to the mandates reduce annual claims by 25 percent.

Option 1: Eliminate All Mandates Except Those Related to Parental Notification. One option is to define statewide interest very narrowly to include only those policies that give parents educational choices and provide them the information they need to make associated decisions. Under this option, school districts would still provide data through School Accountability Report Cards (SARCs) about their academic performance and environment, notify parents annually of certain school- or district-wide policies, and allow students to transfer within or across districts and attend charter schools. Otherwise, school districts would largely be relieved from performing the mandated activities now required of them. This approach would drastically reduce the workload that mandates create for school districts and eliminate much of the state's costs. The LAO estimates a mandate package that used this approach would cost the state roughly $30 million annually. (Current claims for K-12 mandates total just over $100 million annually per the LAO.)

Option 2: Preserve Only Mandates Related to Accountability, Health, and Safety. Another option is to expand the definition of statewide interest to include the above mandates as well as those mandates necessary for the state to oversee and hold schools accountable, as well as keep students safe. This approach would eliminate all but roughly a dozen mandates and reduce annual costs to roughly $40 million. This approach has been laid out in detail in a 2008 report by the Legislative Analyst's Office, *Education Mandates: Overhauling a Broken System*.

Option 3: Reduce Costs for Many Mandates; Send the Rest to Policy Committees. Another option is to reduce the cost of existing mandates to the extent possible, permanently eliminate a handful of mandates that are already suspended, and then allow policy committees to define which remaining mandates serve a statewide interest. One possible mandates package using this approach would fund roughly 12 mandates without modification, reduce costs for 11 mandates, eliminate 2 mandates, and address an additional 13 mandates through policy committees. Though the exact cost of this package would depend on its details, a rough estimate suggests costs could total over $85 million annually and could be reduced further depending on the outcome of the policy committee process.

Despite Different Options, General Agreement that Some Specific Mandates Could be Less Costly. Despite the different definitions of "statewide interest" that various members of the group supported, there was general agreement among group members that certain mandates could be operated more cost effectively. All three options would reduce costs for six mandates. For example, group members largely agreed the state cost of mandates related to charter schools and criminal background checks could be reduced by changing local fee authority. Another five mandates were identified in all three options either for cost reduction or outright elimination. For instance, group members generally agreed options were available to reduce the cost of comprehensive school safety plans, such as avoiding overly prescriptive requirements or only requiring plans to be updated every other year rather than the current annual requirement. By examining these 11 mandates more closely, the state could potentially reduce costs for over a quarter of existing K-12 and shared K-14 mandates.

REFORM PACKAGE FOR ADDRESSING COMMUNITY COLLEGE MANDATES

Although the K-12 subgroup was unable to settle on one K-12 mandate package, the CCC subgroup achieved some notable agreement and developed a generally comprehensive CCC mandate reform package. Attachment B summarizes each of the ten CCC-only mandates and indicates the subgroup's position (or positions) on each one. While some areas of disagreement remain, members of the CCC subgroup were able to reach general agreement on the potential treatment of several mandates.

GENERAL BACKGROUND ON MANDATES

RECENT BUDGET ACTIONS ON K-14 MANDATES:

2010-11 Budget Actions: Adopted K-14 mandate reforms, as an alternative to the Governor's across the board, one-year suspension of K-14 mandates. These reforms include:

- Suspending six full mandates and two partial mandates for three years (through 2012-13) consistent with the timeframe for categorical flexibility;

- Modifying four mandates to preserve the underlying statute while reducing or eliminating mandate costs, including two of the most expensive mandates - Behavior Intervention Plans and High School Science Graduation Requirement;
- Updating statutes for one mandate program that is no longer fully operational;
- Requesting redetermination of one K-14 education mandate;
- Funding remaining K-14 mandates in 2010-11 with **$90 million** in Proposition 98 settle-up funds; and
- Creating a working group led by the LAO to examine K-14 mandates and make recommendations to the Legislature for future fiscal and policy action.

The 2010-11 budget act provided **$300 million** in Proposition 98 "settle-up" funds in 2010-11, which are attributable to revised minimum funding obligations for 2009-10.

Of this amount, **$210 million** is provided on a per pupil basis to K-12 schools (based upon average daily attendance) and community colleges (based upon full-time equivalent students). These funds will count as payment against prior-year mandates claims. The remaining **$90 million** is appropriated to K-12 and community colleges for annual mandate claims in 2010-11.

Governor's 2011-12 Budget Proposal: The Governor proposes ongoing funding of **$89.9 million** for reimbursement of K-14 mandates in 2011-12, including **$80.4 million** for K-12 mandates and **$9.5 million** for community college mandates. This action continues reimbursements for all K-14 mandates that were funded in 2010-11. In addition, the Governor continues to suspend those mandates suspended in 2010-11. As a part of the proposal, the Administration signaled its continued participation in the working group on mandate reform established pursuant to Chapter 724, Statutes of 2010. In the short-term, the Legislature adopted the Governor's proposal in 2011-12 Budget Bill (SB 69) passed by the Legislature in March (in enrollment), while looking toward the mandates working group to develop longer term budget options. Related provisions were enacted in SB 70 – the education budget trailer -- as enacted in Chapter 7, Statutes of 2011.

LAO COMMENTS/RECOMMENDATION: Consistent with their previous position, the LAO continues to recommend that the state eliminate certain mandated education activities. Although the state removed some requirements associated with certain K-12 mandated activities in 2010-11, the LAO recommends that additional requirements be removed in 2011‑12. Specifically, in its 2009 report, *Education Mandates: Overhauling a Broken System*, the LAO highlighted 26 mandates that the state could eliminate (that have not already been eliminated), including Notification of Truancy, The Stull Act, and Intra-District Transfers. Given all other competing priorities, the LAO thinks these types of activities are lower priority and requiring districts to undertake them, particularly in this fiscal environment and potentially at the expense of other higher priority student services, makes little sense and places unneeded pressure on limited districts' resources.

Furthermore, the LAO continues to recommend that the state consider options for simplifying the process of funding whatever mandates it continues to require. For example, for several of the active mandates, the state could create a block grant that would provide a standard rate to every district.

In addition to simplifying the mandate finances system for districts and the state, a block grant approach would help reduce the notable inequities in the amounts districts now receive for performing the same mandated services.

RELATED LEGISLATION:

SB 64 (Liu). Addresses the underlying need to reform the process for mandate evaluation and reimbursement and designed to make the mandates system simpler, timely, and equitable. More specifically, the bill would:

1. Create a collaborative process for educators and state agencies to resolve most mandate questions without litigation or excessive delays.
2. Require routine reviews of mandated cost guidelines so that inequities or excessive costs are avoided.
3. Require the Commission on State Mandates, for purposes of a school district test claim, to adopt parameters and guidelines reflecting reimbursement methodology preferences, as specified.

Status: Senate Appropriations

SB 887 (Emmerson). Enacts the Streamlined Temporary Mandate Process Act of 2011 as a voluntary, temporary, streamlined alternative mandate reimbursement process for LEAs from 2011–12 through 2014–15. The bill would suspend, but fund 38 mandates currently applicable to local educational agencies during this timeframe. LEAs would annually self-certify they have complied with intent of statutes and regulations for each of the mandates, except for any requirements regarding compliance and claiming issues.

Funding would be based upon an equal amount per unit of prior-year enrollment for LEAs, determined by an appropriation made in the annual budget act, providing no less than an unspecified amount that would be adequate to encourage participation by eligible local educational agencies in the streamlined temporary mandate process. The Superintendent of Public Instruction would establish and convene a task force charged with developing a permanent state process for mandate reimbursement that is cost effective for local educational agencies and responsive to state policy goals**.** **Status**: Senate Education Committee

<u>AB 202</u> (Brownley). Requires a periodic review of statutes creating a reimbursable state mandate, and a determination by the Legislature whether they should be amended, repealed or remain unchanged. The bill intends to reduce administrative costs that the mandate process places on local educational agencies; streamline procedures and reduce workloads for everyone involved to shrink processing time for claims; and reduce long - term liability to the state for mandate reimbursements.
Status: Assembly Appropriations Committee

SUGGESTED QUESTIONS:

K-14 Mandates Overall:

1. **Update on LAO Recommendations.** Can the LAO update the Subcommittee on their specific recommendations for mandate reform and how they may relate to some of the options identified by the working group report?

2. **Latest Controller's Claims Costs**. Can the LAO provide an update on the full costs of funding K-14 mandates in 2011-12, as reflected by the final claims from the State Controller's Office for 2009-10? Can the LAO provide some thoughts on the fiscal trade-offs of simply funding the existing system?

3. **Reasonable Reimbursement Methodology**. Can the LAO provide more background on the Reasonable Reimbursement Methodology (RRM), which is referenced in the working group report?
   a. How has RRM been utilized for K-14 mandates?
   b. What are the benefits and risks?
   c. Who is typically at the table negotiating RRM?

K-12 Mandates:

1. **Status of Behavior Intervention Plan (BIP) Mandate.** What is the status of the BIP mandate?
   a. Can you review the costs of this mandate – prior year and ongoing?
   b. Is a RRM process being utilized?
   c. Who is negotiating the RRM?
   d. What is the basis of the RRM rate being discussed?
   e. What are the cost concerns with the rate?
   f. What steps can the Legislature take to address these concerns?

2. **Status of High School Graduation Mandate.** What is the status of the High School Graduation Mandate?
   a. Can you review the costs of this mandate – prior year and ongoing?
   b. Is a RRM process being utilized?
   c. Who is negotiating the RRM?
   d. What is the basis of the RRM rate being discussed?
   e. What are the cost concerns with the rate?
   f. What steps can the Legislature take to address these concerns?

3. **Finance and Categorical Reform Options.** As discussed later in the Subcommittee Agenda, what opportunities exist for reducing the costs of mandates through school finance and categorical reform? For example, could the costs of annual school fiscal audits – arguably a cost of doing business for most school districts - become a new condition for eligibility for a new revenue limit block grant? Could notification of student absences –

arguably another basic school service - become a new condition for a student improvement block grant?

Community College Mandates:

1. **Improperly Claimed Mandates:** When the Controller's Office audits the CCC mandate claims, what is the error or disallowance rate that they find?

2. **Enrollment Fee Collection and Waivers Mandate:** Did the mandates working group suggest solutions for how to reduce the cost of the enrollment fee mandate (currently over $23 million annually)? What would be the policy implication of eliminating the enrollment fee mandate? Would some students potentially lose their BOG waivers? Would campuses be able to afford to allow students to attend for free, especially when state support has been reduced? Would eliminating the enrollment fee mandate promote an unequal system where some colleges charge for classes and others do not?

3. **Health Fees and Services Mandate:** This mandate only applies to those districts that provided health services in 1986-87. How many districts currently have to comply with this mandate? Is there any compelling policy reason to have a mandate that applies only to some community college districts and not to others? If the students were to pay for these health services themselves, approximately how much per semester would a student pay at a college that currently receives a state mandate payment?

4. **Integrated Waste Management:** During the Subcommittee's discussions last year there was no cost discussed for this mandate, and now the mandate has a cost of over $6 million. When this mandate was suspended, it was because the Subcommittee had reason to think that districts were actually making money from the recycling efforts. The recommendation for this mandate is that community college recycling be made voluntary just like K-12 schools. Does the LAO have information on about what percentage of K-12 schools choose to recycle? Would it be reasonable to anticipate a similar recycling participation rate from community colleges?

5. **New Mandates:** Since the Subcommittee discussed community college mandates last year, has the State Commission on Mandates approved any new mandates for community colleges? Do we know what the cost is for those mandates?

ISSUE 2. DOF April Letters – Various K-12 State Operations and Local Assistance Fund Adjustments (Consent Vote)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to various K-12 state operations and local assistance items in the 2011-12 budget. These revisions are proposed by the DOF April 1 Budget Letter. These issues 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 Items

1. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, Reappropriate Carryover of Federal Funds for the California Modified Assessment Alignment Study (Issue 080).** It is requested that Item 6110-001-0890 be increased by $600,000 ($200,000 federal Title I carryover funds and $400,000 federal Title VI carryover funds), and that Item 6110-001-0001 be amended to support an alignment study of the California Modified Assessment (CMA) by an independent contractor. As a result of a 2010 peer review, and to approve the CMA as meeting the requirements of the No Child Left Behind Act of 2001, the United States Department of Education requires an alignment study of the CMA to ensure validity, technical quality, inclusivity, and alignment to the state's content standards. The 2010 Budget Act provided these funds for this purpose, however, the Department of Education (SDE) reports they will be unable to complete the request for proposal process and encumber the funds in the current year, and therefore, the SDE requests to carryover the funds into fiscal year 2011-12.

   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, $200,000 federal Title I and $400,000 federal Title VI funds are available on a one-time basis to conduct a validation study of the California Modified Assessment.

2. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, Add One-Time Carryover Authority for Document Translation Workload (Issue 278). I**t is requested that Item 6110-001-0890 be increased by $250,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds. These funds will support the continued translation of parental notification and information forms in multiple languages to assist school districts in complying with the requirements of current law. The carryover is a result of delays in securing contracts with vendors to translate parental notification documents.

   The Governor's Budget eliminated $250,000 in one-time carryover funding available in 2010-11; however, the provisional language was not removed. Therefore, no change to provisional language is necessary to conform to this action.

3. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, Administration of Commodity Supplemental Food Program (Issue 721).** It is requested that Item 6110-001-0890 be increased by $33,000 Federal Trust Fund and that

Item 6110-001-0001 be amended to provide up to $108,000 in administrative funds for the Commodity Supplemental Food Program, which supplements the diets of low-income mothers and children with nutritious commodity foods from the United States Department of Agriculture. This funding will support one analyst position, temporary help, and other costs associated with administering the program.

We note that Provision 26 of Item 6110-001-0890 currently states that $45,000 is available for the administration of the program. However, $75,000 is the actual amount of authority currently available.

It is further requested that provisional language be amended in Item 6110-001-0890 to clarify and update the total amount of authority available for this program as follows to conform to this action:

> "26. Of the funds appropriated in this item, ~~$45,000~~ <u>up to $108,000</u> is for the administration of the Commodity Supplemental Food Program, contingent on approval from the United States Department of Agriculture."

Federal Funds – Local Assistance Items

4. **Item 6110-102-0890, Local Assistance, Learn and Serve America Program (Issue 480).** It is requested that this item be increased by $138,000 Federal Trust Fund to reflect the availability of $200,000 in one-time carryover funds and a $62,000 reduction to the federal grant for the Learn and Serve America Program, which provides opportunities for students to engage in academic-based, service-learning projects.

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

   > X. Of the funds appropriated in this item, $200,000 is provided in one-time carryover funds to support the existing program.

5. **Item 6110-112-0890, Local Assistance, Public Charter Schools Grant Program (Issue 802).** It is requested that this item be increased by ~~$14,072,000~~ <u>$14,091,000</u> Federal Trust Fund to reflect an increase in the federal grant. The PCSGP provides planning and implementation grants to new startup and conversion charter schools. In 2011-12, it is anticipated that 117 new charter schools will receive grants through the PCSGP.

6. **Item 6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 301).** It is requested that this item be decreased by $692,000 federal Title I Neglected and Delinquent Children funds to reflect the anticipated federal grant award for 2011-12. Local Education Agencies (LEAs) will use these funds for services to educate neglected and delinquent or incarcerated youth.

7. **Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 291, 292, 297, and 298).** It is requested that Schedule (1) of this item be increased by $333,000 federal Title I funds. This adjustment includes a decrease of $1,367,000 to align the Migrant Education Program with the anticipated federal grant award and an increase of $1.7 million to reflect the availability of one-time federal

carryover funds. The LEAs will use these funds for educational and support services to meet the needs of highly-mobile children.

It is also requested that Schedule (2) of this item be increased by $5,173,000 federal Title III funds. This adjustment includes a decrease of $6,327,000 to align the English Language Acquisition Program with the anticipated federal grant award and an increase of $11.5 million to reflect the availability of one-time federal carryover funds. The LEAs will use these funds for services to help students attain English proficiency and meet grade-level standards.

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

> X. Of the funds appropriated in Schedule (1), $1,700,000 is provided in one-time carryover funds to support the following existing program activities: (1) extended day/week and summer/intersession programs to help prepare middle and secondary students for the high school exit exam, (2) investments aimed at upgrading curricula, instructional materials, educational software, and assessment procedures, (3) tutorials and intensified instruction, and (4) investments in technology used to improve the proficiency of limited English proficient students.
>
> X. Of the funds appropriated in Schedule (2), $11,500,000 is provided in one-time carryover funds to support the existing program.

8. **Item 6110-134-0890, Local Assistance, Federal Title I Basic Elementary and Secondary Education Act Program (Issue 085).** It is requested that Schedule (4) of this item be increased by $2,413,000 federal Title I funds to align the Title I Basic Elementary and Secondary Education Act Program appropriation with the anticipated federal grant. LEAs will use these funds to support services that assist low-achieving students enrolled in the highest poverty schools.

9. **Item 6110-134-0890, Local Assistance, Federal Title I Set Aside for the Local Educational Agency Corrective Action Program (Issue <u>087</u> ~~086~~).** It is requested that Schedule (2) of this item be <u>decreased</u> ~~increased~~ by <u>$962,000</u> ~~$334,000~~ federal Title I Set Aside funds for the LEA Corrective Action Program to align the appropriation with the anticipated federal grant. The program provides funding for technical assistance to LEAs entering federal Corrective Action.

   It is further requested that provisional language be added as follows to identify available one-time carryover funds. This provisional language was omitted from the Governor's Budget:

   > X. Of the funds appropriated in Schedule (2), $5,700,000 is provided in one-time carryover funds to support the existing program.

10. **Item 6110-134-0890, Local Assistance, Federal School Improvement Grant Program (Issue <u>086</u> ~~087~~).** It is requested that Schedule (3) of this item be <u>increased</u> ~~decreased~~ by <u>$334,000</u> ~~$962,000~~ federal School Improvement funds to align the appropriation with the anticipated federal grant. The School Improvement Grant Program provides grants to the lowest-achieving Title I schools identified for federal Program Improvement, Corrective Action, or Restructuring to implement evidence-based strategies for improving student achievement.

    It is further requested that provisional language be added as follows to identify available one-time carryover funds. This provisional language was omitted from the Governor's Budget:

X. Of the funds appropriated in Schedule (3), $226,000 is provided in one-time carryover funds to support the existing program.

11. **Item 6110-136-0890, Local Assistance, McKinney-Vento Homeless Children Education Program and Title I Even Start Program (Issues 293, 294, 295, and 296).** It is requested that Schedule (1) of this item be increased by $565,000 federal Title I funds. This adjustment includes a decrease of $35,000 to align the McKinney-Vento Homeless Children Education Program with the anticipated federal grant award and an increase of $600,000 to reflect the availability of one-time federal carryover funds. The LEAs will use these funds to provide services to homeless students.

    It is also requested that Schedule (2) of this item be increased by $1,013,000 federal Title I funds. This adjustment includes an increase of $43,000 to align the Even Start Program with the anticipated federal grant award and an increase of $970,000 to reflect the availability of one-time carryover funds. The LEAs will use these funds to improve the educational opportunities of low-income families and to support a unified literacy program that integrates early childhood education and parenting education.

    It is further requested that provisional language be added as follows to conform to these actions:

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

    X. Of the funds appropriated in Schedule (2), $970,000 is provided in one-time carryover funds to support the existing program.

12. **Item 6110-137-0890, Local Assistance, Rural and Low Income Assistance Program (Issues 303 and 304).** It is requested that this item be increased by $28,000 federal Title VI funds. This adjustment includes a decrease of $34,000 to align the Rural and Low Income Assistance Program with the anticipated federal grant award and an increase of $62,000 to reflect the availability of one-time federal carryover funds.

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

    X. Of the funds appropriated in this item, $62,000 is provided in one-time carryover funds to support the existing program.

13. **Item 6110-166-0890, Local Assistance, Vocational Education Program (Issue 484).** It is requested that this item be increased by $6,284,000 federal Title I carryover funds for the Vocational Education Program, which develops the academic, vocational, and technical skills of students in high schools, community colleges, and Regional Occupational Centers and Programs.

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

    X. Of the funds appropriated in this item, $6,284,000 is provided in one-time carryover funds to support the existing program.

14. **Item 6110-180-0890, Local Assistance, Education Technology, (Issues 299 and 300).** It is requested that this item be decreased by $255,000 Federal Trust Fund. This adjustment includes a decrease of $748,000 to align the Education Technology program with the anticipated federal grant award and an increase of $493,000 to reflect the availability of one-time federal carryover funds. A decrease of $827,000 would be applied to competitive grants and formula grants, while a base increase of $79,000 would be made available to support the California Technology Assistance Project. One-time carryover funds would be distributed to both competitive and formula grants, as well as the California Technology Assistance Project.

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

    (3) 20.10.025.013–California Technical Assistance Project ………………………………. 309,000

    X. Of the funds appropriated in Schedule (3), $309,000 is provided for the California Technology Assistance Project to provide technical assistance and support to the program. Of the funds appropriated in this schedule, $230,000 is provided in one-time carryover funds.

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

    "1. The funds appropriated in Schedule (1) shall be allocated as formula grants to school districts pursuant to the federal Enhancing Education Through Technology program. Of the funds appropriated in this schedule, $258,000 is provided in one-time carryover funds.
    2. The funds appropriated in Schedule (2) are available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of Division 4 of Title 2 of the Education Code and the federal Enhancing Education Through Technology program. The eligibility criteria for these grants shall be consistent with federal law and target local educational agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal school improvement or demonstrating substantial technology needs. Of the funds appropriated in this schedule, $5,000 is provided in one-time carryover funds."

15. **Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issue 563).** It is requested that this item be increased by $4,065,000 federal Title II funds to reflect $4.0 million in one-time carryover and a $65,000 increase in the federal grant. The Mathematics and Science Partnership Program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support to mathematics and science teachers.

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

    X. Of the funds appropriated in this item, $4,000,000 is provided in one-time carryover funds.

16. **Item 6110-195-0890, Local Assistance, Improving Teacher Quality Grant Program and Administrator Training Program (Issues 561 and 562).** It is requested that Schedule (1) of this item be increased by $866,000 federal Title II funds to reflect $454,000 in one-time

carryover and a $412,000 increase in the federal grant. The Improving Teacher Quality Grant Program funds LEAs on a formula basis for professional development activities focused on preparing, training, and recruiting highly-qualified teachers.

It is also requested that Schedule (2) of this item be increased by $612,000 federal Title II funds to reflect one-time carryover funds. The Administrator Training Program provides K-12 school principals and vice-principals instruction and coaching on leadership skills, financial and personnel management, the inter-relation of academic standards, instructional materials and curriculum frameworks, and the effective use of pupil assessments.

It is further requested that Provisions 4 and 5 be amended as follows to conform to these actions:

> "4. Of the funds appropriated in Schedule (1), ~~$21,000~~ $475,000 is provided in one-time carryover for Improving Teacher Quality Local Grants. None of these funds shall be used for additional indirect administrative costs.
>
> 5. Of the funds appropriated in Schedule (2), ~~$495,000~~ $1,107,000 is provided in one-time carryover for the Administrator Training Program. None of these funds shall be used for additional indirect administrative costs."

17. **Item 6110-240-0890, Local Assistance, Advanced Placement Fee Waiver Program (Issue 724).** It is requested that this item be increased by $1,000 Federal Trust Fund to align the appropriation with the federal grant award for the Advanced Placement (AP) Fee Waiver Program, which reimburses school districts for specified costs of AP test fees paid on behalf of eligible students. The AP program allows students to pursue college-level course work while still in secondary school.

General Fund and Other Adjustments

18. **Item 6110-001-0001, Support, State Department of Education, Restore Positions Removed in Error (Issue 486).** It is requested that 3.5 limited-term positions that were removed in error be restored to the State Department of Education. Specifically, 1.5 expiring limited-term positions for the Green Technology Partnership Academy Program and 2.0 expiring limited-term positions for the Enhancing Education for Technology Program were removed twice from the Governor's Budget. The correct amount of funding was removed.

19. **19. Item 6110-170-0001, Local Assistance, Add Carryover for the Career Technical Education Program (Issue 485).** It is requested that this item be increased by $3,486,000 to reflect one-time reimbursement carryover for the Career Technical Education Program, which would allow the completion of four 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, $3,486,000 is provided in one-time reimbursement carryover funds to support the existing program.

20. **Item 6110-001-3170, Support, Provide Authority to Fund Heritage School Registration (Issue 471**). It is requested that expenditure authority of $40,000 in fee revenue from the

Heritage Enrichment Resource Fund be approved to partially address costs incurred in the current year and to cover costs estimated for the budget year related to the registration of heritage schools, pursuant to Chapter 286, Statutes of 2010 (SB 1116). Heritage schools offer foreign language education or cultural education relating to a foreign country to school-age children.

It is further requested that Item 6110-001-3170 be added as follows to conform to this action:

6110-001-3170—For support of Department of Education, payable from the Heritage Enrichment Resource Fund……………………………………………………………40, 000

Provisions:

X. The funds appropriated in this item shall be available to the State Department of Education to process payments for the registration of heritage schools and to provide necessary technical assistance, pursuant to Chapter 286 of the Statutes of 2010. Of the amount appropriated in this item, $16,200 may be used to mitigate costs incurred in the 2010-11 fiscal year to develop and administer the registration process.

X. The department shall ensure that the registration fee for the 2011-12 fiscal year not exceed the costs of registering heritage schools pursuant to Section 33195.5 of the Education Code.

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

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. According to the First Interim Report for 2010-11 – the most recent report available – there are currently **13 school districts with negative certifications** (compared to 12 school districts last year) and **97 school districts with qualified certifications** (compared to 114 districts last year). In summary, the total number of school districts on the negative list have increased by one district from 2009-10 to 2010-11. In contrast, the number of districts on the qualified list actually fell by 17 districts during this same period.

The 13 school districts with negative certifications at First Interim in 2010-11 – listed below -- will not be able to meet their financial obligations for 2010-11 or 2011-12.

Negative Certifications, First Interim Report, 2010-11

	District	County	Budget ($)
1	Hayward Unified	Alameda	195 million
2	Inglewood Unified	Los Angeles	128 million
3	Vallejo City Unified	Solano	138 million
4	Natomas Unified	Sacramento	69 million
5	Cotati-Rohnert Park Unified	Sonoma	50 million
6	Banning Unified	Riverside	42 million
7	Travis Unified	Solano	40 million
8	Hollister Elementary	San Benito	40 million
9	Southern Kern Unified	Kern	25 million
10	King City Joint Union High	Monterey	19 million
11	Dos Palos-Oro Loma Unified	Merced	19 million
12	Healdsburg Unified	Sonoma	18 million
13	Cloverdale Unified	Sonoma	12 million

Attachment C provides a complete list of LEAs with negative or qualified certifications for the First Interim Report for 2010-11.

Preliminary FCMAT Reports for Second Interim. According to FCMAT, the Second Interim Report for 2010-11 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. The First Interim Fiscal Reports for 2010-11 were prepared by LEAs in Fall 2010, prior to release of the Governor's January 2011-12 budget, which included an additional inter-year payment deferral of $2.1 billion for K-12 LEAs in 2011-12. This new deferral was enacted last March by SB 70 (Chapter 7; Statutes of 2011).

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 D summarizes the amounts of these emergency loans, interest rates on loans, and the status of repayments.) Two of these districts – Emery Unified and Coachella Valley Unified – have paid off their loans. Six school districts are currently receiving state emergency loans – Emery Unified, King City Joint Union High School, Oakland Unified, Richmond/West Contra Costa Unified, Vallejo City Unified, and West Fresno Elementary.

Of the six districts with current emergency loans from the state, four remain on the negative or qualified lists at First Interim 2010-11. (King City Joint Union Higher and Vallejo City Unified are on the negative list; Emery Unified and Oakland Unified are on the qualified list.) The remaining two districts -- West Fresno Unified and West Contra Costa Unified – are not currently on either the negative or qualified certification lists for the 2010-11 First Interim Report.

King City Joint Union High School District. King City Joint Union High School was the most recent addition to the state emergency loan list in 2009. **Chapter 20; Statutes of 2009** provided a **$5.0 million** emergency loan appropriation and specified the terms for loan repayment. The bill authorized the district to augment the emergency loan with an additional **$8 million** of lease financing, to effectively increase the loan to **$13 million**. The bill also requires the district to enter into a lease financing arrangement through the California Infrastructure and Economic Development Bank for the purpose of financing the emergency apportionment, including a restoration of the initial General Fund apportionment from the state. The bill authorizes the district to sell property and use the proceeds to reduce or retire the loan, and would make the district ineligible for financial hardship assistance under the State School Facilities Program. As a requirement of the emergency loan, the Superintendent of Public Instruction (SPI), in consultation with the Monterey County Superintendent, assumed all legal rights, duties and powers of the district's governing board, and appointed a state administrator to act in his behalf, until certain conditions are met.

Legislative Review of Qualifying Districts. Statute added by AB 1200 (Chapter 1213; Statutes of 1991) states intent that the legislative budget subcommittees annually conduct a review of each qualifying school district. Specifically, Education Code 41326 (i) states the following:

It is the intent of the Legislature that the legislative budget subcommittees, annually conduct a review of each qualifying school district that includes an evaluation of the financial condition of the *district, the impact of the recovery plans upon the district's educational program, and the efforts made by the state-appointed administrator to obtain input from the community and the governing board of the district*.

STAFF COMMENTS:

- **Number of LEAs with Qualified Fiscal Status Will Likely Increase Between First and Second Interim.** According to FCMAT, the number of school districts with qualified certifications will likely increase between First Interim and Second Interim to reflect the Governor's January Budget deferral, as enacted last March. Very preliminarily, FCMAT predicts the number of districts on the negative list will likely **remain at 13 districts** at Second Interim; however, the number of number of districts on the qualified list will likely **increase from 97 districts** to **124 districts.** It is not uncommon to see increases in the number of districts on the qualified lists at Second Interim, because it reflects more up-to-date budget information.

- **Number of LEAs with Negative or Qualified Fiscal Status at Second Interim Could Be Lower than Prior Year.** A comparison of FCMAT's preliminary figures for Second Interim also indicates that the total number of districts qualified status may drop from **160 districts** in 2010-11 – the highest ever - to **124 districts** in 2010-11. However, FCMAT believes that the number of districts on their preliminary qualified list will likely increase when Second Interim is certified by CDE in late June or July.

SUGGESTED QUESTIONS:

1. FCMAT predicts that the number of districts on negative list will remain at about 13 districts and the number of districts on the qualified list will increase from 97 to 124 districts between First Interim and Second Interim. How have districts built their budgets for their Second Interim reports? Are districts already assuming additional cuts of about $350/pupil if the tax extensions do not pass? How would the number of districts on the negative or qualified list change if further reductions were needed?

2. Per FCMAT's preliminary estimates, the number of districts on the qualified list may decrease from 160 at Second Interim in 2009-10 – an all-time high -- to 124 districts at Second Interim in 2010-11. Can you explain this drop?

3. 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?

4. What is the extent of FCMAT's work with the six school districts currently receiving state emergency loans? How are these districts progressing?

5. Attachment D of this Subcommittee Agenda summarizes the interest rates for LEAs with emergency loans. Can you discuss why the emergency loan interest rate is so much higher for the King City Unified School District than for other districts? How does this higher rate affect the ability of King City Unified to make loan repayments and recover financially?

6. Are you aware of any other LEAs that may be facing financial insolvency and requiring a state emergency loan? For example, a FCMAT letter to the Los Angeles County Office of Education on April 14, 2011, recommends that the Inglewood Unified School District begin the process of securing a state emergency loan.

7. How are payment deferrals affecting LEAs, especially in light of the new intra-year and inter-year deferrals enacted in March for 2011-12? Are there some types of districts that face more of a challenge with deferrals than others?

8. Do the hardship provisions for the new intra-year and ongoing June to July inter-year deferrals in 2010-11 provide adequate protection for districts and charter schools facing serious financial problems?

9. Can you describe the most common problems faced by school districts on the negative list?

10. Has categorical flexibility helped LEAs balance their budgets? Would additional categorical flexibility be helpful to LEAs moving forward?

11. The 2009 budget package reduced the minimum state requirement for reserves for economic uncertainty for districts to one-third of the previously required level for 2009-10. As proposed by the Governor in January, Chapter 7 enacted in March 2011, extended these provisions through 2011-12, or two additional years. What is the effect of these changes on the fiscal health of districts?

12. There are more than 1,000 school districts of all sizes in California. As a result of budget shortfall, is there any movement among school districts toward unification as a means of achieving efficiencies?

ISSUE 4. Long-Term Categorical Flexibility -- LAO Report on School District Finance & Flexibility

DESCRIPTION: The Governor's January budget proposed to extend for two years a number of K-12 program and funding flexibility options for local educational agencies (LEAs) that were enacted in 2009. These options were intended to give LEAs more flexibility in handling ongoing budget reductions. The Legislature approved the Governor's January proposals - enacted by SB 70 (Chapter 7; Statutes of 2011) – that extend most categorical flexibility options from 2008-09 through 2014-15 or seven years.

While the Legislature has taken important action to signal the continuation of categorical flexibility in the short-term, the LAO will present other short-term and long-term options categorical flexibility. These options are the result of findings and recommendations from a two-year survey of LEAs published in the February LAO report entitled *Update on School District Finance in California.* The LAO will present findings and recommendations from this report to the Subcommittee.

GOVERNOR'S BUDGET PROPOSAL RECENTLY ENACTED BY CHAPTER 7, STATUTES OF 2011:

Categorical and Program Flexibility Options. In an effort to ease local impacts of state budget cuts, the February and July 2009 budget packages included a number of significant flexibility options intended to loosen program funding restrictions and to give school districts more control over spending decisions. Most of these flexibility options were authorized for a **five year period** -- from **2008-09 through 2012-13**. Some options had shorter timeframes. As proposed by the Governor's January Budget, Chapter 7 extends most of these program and funding flexibility options for local educational agencies (LEAs) by two additional years **– through 2014-15** -- or **seven years** total, as follows:

- **Categorical Program Flexibility.** Allows LEAs to use funding from about 40 K-12 categorical programs for any education purpose through 2014-15 (seven years), instead of 2012-13, as currently authorized. Since 2008-09, funding for these categorical programs have been combined into a budget "flexibility item" and were also subject to across-the-board funding reductions. Under categorical flexibility, a district's allocation for each program is based on its share of total program funding either in 2007-08 or 2008-09 -- with the earlier year being used for certain participation‑driven programs.

- **Instructional Time Requirements.** Authorizes school districts to reduce the number of instructional days by five – from 180 to 175 days per year -- through 2014-15 without losing longer-year incentive grants.

- **Instructional Material Purchases.** Allows LEAs to use standards-aligned instructional materials adopted prior to July 1, 2008, instead of purchasing new materials, through 2014-15.

- **K-3 Class Size Reduction (CSR).** Continues the existing reduction in penalties for not meeting the K-3 CSR requirements through 2013-14, which is one year less than the flexibility provided for most other flexibility programs. Existing penalty reductions are currently authorized through 2011-12.

- **Sale of Surplus Property**. Allows school districts to direct the proceeds from the sale of surplus property for general fund purposes through January 1, 2014, instead of 2012 per current law. Only proceeds from the sale of non-state funded property are eligible for this additional flexibility, which commenced in 2009-10.

- **Routine Maintenance Contributions**. Suspends the remaining routine maintenance reserve requirement of one percent for school districts that meet the facility requirements of the Williams settlement 2014-15. Allows remaining LEAs to reduce contributions for routine maintenance of school facilities from three percent to one percent of General Funds through 2014-15.

- **Deferred Maintenance Program Matching Requirements**. Suspends previously required General Fund set-asides for LEAs receiving Deferred Maintenance funds for school facilities through 2014-15.

Fiscal Oversight Relief. The Governor also proposed to extend one other provision - originally enacted in 2009 - that lessens fiscal oversight for school districts that reduce their reserves for economic uncertainty. This proposal was also enacted by Chapter 7, as follows:

- **School District Budget Reserves**. Continues the authorization for districts to reduce their minimum budget reserves for economic uncertainty to one-third of previously required levels through 2011-12, instead of 2009-10 as currently required. Requires LEAs to make annual progress in restoring reserves in 2012-13, instead of 2010-11, and restores previously required reserve levels in 2013-14, instead of 2011-12.

Programs Excluded from Categorical Flexibility Option. The Governor continues to exempt about 20 categorical programs from categorical flexibility. These programs include: Special Education, Economic Impact Aid, K-3 Class Size Reduction, After School Education and Safety, Home-to-School Transportation, Quality Education Investment Act, Child Nutrition, Student Assessments, Charter School Facility Grants, Year-Round School Grants, Partnership Academies, Apprenticeship Programs, Foster Youth, Adults in Correctional Facilities, County Office Oversight, K-12 High Speed Network, and Agricultural Education.

LAO Report on School Finance and Flexibility

LAO COMMENTS: To help the Legislature in crafting its 2011‑12 education budget, the LAO surveyed school districts for a second year to gather information regarding how they were affected by recent federal and state actions. The results of the survey are contained in the LAO report entitled *Update on School District Finance in California.* Overall, the LAO survey results found that many districts:

(1) have reserved some federal Ed Jobs for 2011‑12;
(2) will find an additional deferral in 2011‑12 more difficult to accommodate;
(3) have benefited notably from existing flexibility provisions and desire additional flexibility; and
(4) have increased class sizes notably, instituted furlough days, laid off some teachers, and shortened the school year.

Given these survey findings, the LAO identifies several ways the Legislature could provide school districts with more flexibility in the short term. However, even with the extra flexibility, the LAO believes that many underlying problems would remain with California's system of K-12 finance. As a result, the LAO provides the Legislature with the following approach for making more lasting improvements to California's K-12 finance system.

LAO RECOMMENDATIONS: The LAO makes various recommendations for providing school districts with more flexibility in the short term, improving the state's K-12 finance system in the long term, and then aligning state operations with the streamlined K-12 finance system.

The LAO's recommendations are based on its survey findings as well as its ongoing assessment of the state's K-12 programs and statutory requirements. The LAO will discuss each of these recommendations – as summarized below - in more detail at the Subcommittee hearing.

- **Increase Flexibility in Short Term**
    - ✓ Remove strings tied to K-3 Class Size Reduction and Home-to-School Transportation
    - ✓ Remove strings from After School Education and Safety program by repealing Proposition 49
    - ✓ Link flex funding to students
    - ✓ Eliminate certain mandated education activities
    - ✓ Ease restrictions on contracting out for non-instructional services
    - ✓ Ease restrictions regarding pay rates and priority for substitute teaching positions

- **Improve K-12 Finance System Moving Forward**
    - ✓ Consolidate virtually all K-12 funding into revenue limits and a few block grants moving forward

- **Align State Operations With New Finance System**
    - ✓ Minimize California Department of Education's (CDE) focus on compliance monitoring
    - ✓ Refocus CDE's mission on data, accountability, and dissemination of best practices

STAFF COMMENTS:

- **Per LAO Survey, Districts Relying Heavily on Flexibility Options.** The LAO's survey responses largely confirm that districts are relying heavily on one-time federal funds and deferrals to support more programmatic spending. However, districts also are relying heavily on categorical flexibility provisions‒dismantling or significantly downsizing certain categorical programs to redirect support to core classroom instruction. Most respondents also are taking advantage of other flexibility options, such as shortening the school year, to balance their budgets. Survey responses indicate these flexibility provisions are helping districts protect certain local priorities in the midst of shrinking budgets. Per LAO, nonetheless, districts still have had to make notable programmatic reductions for example, increasing class sizes, instituting employee furloughs, and laying off staff.

- **Governor's Categorical Flexibility Proposal – As Enacted - Locks Most Programs into 2008-09 Proportions for Seven Years.** Since 2008-09, funding for about 40 categorical programs has been combined into a budget "flexibility item" that applies to across-the-board funding reductions. Under categorical flexibility, a district's allocation for each program is based on its share of total program funding – at the reduced level – either in 2007-08 or 2008-09, with the earlier year being used for certain participation‑driven programs. Under the categorical flexibility program, no growth funding is been provided for growing districts, and districts with negative growth are held harmless from any loss of funding associated with lower student attendance.

- **LAO Continues to Recommend Mandate Reforms**. In addition to removing strings attached to certain categorical programs, the LAO also continues to recommend the state eliminate certain mandated education activities. (Per the LAO, categorical programs and education mandates are very similar functionally, with the primary difference being that the state typically funds categorical programs up front whereas it funds mandates only on a reimbursement basis.) Although the state removed some requirements associated with certain K-12 mandated activities in 2010-11, the LAO recommends that additional requirements be removed in 2011‑12. Specifically, in its 2009 report, *Education Mandates: Overhauling a Broken System*, the LAO highlighted 26 mandates that the state could eliminate (that have not already been eliminated), including Notification of Truancy, The Stull Act, and Intra-District Transfers. Given all other competing priorities, the LAO thinks these types of activities are lower priority and requiring districts to undertake them, particularly in this environment and potentially at the expense of other higher priority student services, makes little sense and places unneeded pressure on limited districts resources. Furthermore, the LAO continues to recommend that the state consider options for simplifying the process of funding whatever mandates it continues to require. For example, for several of the active mandates, the state could create a block grant that would provide a standard rate to every district. In addition to simplifying the mandate finances system for districts and the state, a block grant approach would help reduce the notable inequities in the amounts districts now receive for performing the same mandated services.

STAFF RECOMMENDATIONS: The extension of short term flexibility options through Chapter 7 sends an important signal to the LEAs. More specifically, extending most existing flexibility options for another two years – seven years total -- provides a timely signal that will assist LEAs in making budget plans in the short term.

Staff makes the following recommendations to the Subcommittee as it considers possible refinements to categorical funding enacted to date for 2011-12 and beyond.

- **Consider Additional <u>Short Term</u> Actions Suggested per LAO, Especially if Additional Budget Reductions are Necessary.** The LAO has suggested a few additional flexibility options that the LAO believes would give districts more tools to address immediate budget shortfalls. Based upon the LAO's survey, staff believes these additional options would be particularly useful to LEAs if K-12 programmatic funding drops below the Governor's January levels. However, the LAO believes these additional options would benefit districts in any fiscal climate. Moreover, per the LAO, taking these actions now will set the foundation for comprehensive improvements to the state's education finance structure moving forward.

  - ✓ **Add K-3 CSR and Home-to-School Transportation Programs to Flexibility Program**. Per LAO, K-3 CSR and HTS transportation are strong candidates to be placed in the flex program based upon their recent survey of school districts. More than 60 percent of school districts support additional flexibility for these two programs. The Senate took these actions last year which was also supported by the LAO's district survey findings at that time.

    For K-3 CSR, the LAO believes the current funding structure is only tenuously linked to the underlying policy objectives. That is, most districts are no longer meeting the program's central policy objective -- to reduce K-3 classes to 20 or fewer students.

    For HTS transportation, the LAO notes that the existing funding structure is widely recognized as antiquated and unfair -- resulting in district funding allocations that are very poor reflections of a district's current underlying needs. The existing HTS formula also contains a "use it or lose it" provision that discourages districts from implementing more cost-effective practices, as decreasing costs in one year means losing funding.

  - ✓ **Adopt LAO Recommendation to Link Flex Funding to Students in the Short Term**. Regardless of which specific programs are included in the flex item in 2011-12, the LAO recommends that the Legislature modify the methodology used to allocate flex-item funding to school districts. Specifically, the LAO recommends the Legislature develop a per-pupil rate for each district by dividing the amount it received for all flexed programs in 2010-11 by its total ADA. Linking this funding to students would help create a rational basis for making future funding adjustments per the LAO. If the Legislature chose to streamline its education finance system, the LAO believes transition to such a system also would be less disruptive if most existing state funding already were linked to students and adjusted annually according to changes in the student population.

- **Begin Work with Administration to Develop Options for School Finance Reform in the Long Term per LAO Recommendations.** While the Governor and Legislature have already acted to extend the flexibility provisions two years, the LAO believes the state needs a more definitive exit strategy. That is, the LAO thinks this is an opportune time for the state to rethink its overall K-12 finance system and craft a better system. Rather than extending current categorical flexibility for two more years, the LAO recommends that the Legislature improve the state's K-12 finance system on a lasting basis. Regarding a new finance structure, the LAO recommends the Legislature consolidate virtually all K-12 funding into revenue limits and a few block grants. Unlike the current flex item, a few block grants would provide flexibility while also allowing more opportunity for the state to ensure that at-risk and/or high-cost students continue to receive the services they need.

RELATED LEGISLATION:

SB 140 (Lowenthal). Establishes a streamlined process for the state-level adoptions of instructional materials that are aligned with the common core academic standards and expands the authority of local school boards to adopt instructional materials to include K-8 schools. **Status:** Senate Appropriations.

AB 18 (Brownley). Consolidates funding, commencing in 2014-15, for most categorical programs into three categorical block grants. More specifically, this measure would place combine 25 revenue limit and other categorical programs into a Total Revenue Limit Grant distributed on pupil average daily attendance (ADA); combine eight categorical programs into a Targeted Pupil Equity Grant distributed on the basis of low-income and English learner students; and combine nine other categorical programs into a Quality Instruction Grant distributed based upon ADA. **Status:** Assembly Education Committee

SUGGESTED QUESTIONS:

1. Can the LAO clarify its recommendations for categorical reform in the short term, since the two year extension of categorical flexibility options proposed by the Governor last January have already been enacted in Chapter 7?

2. The LAO thinks the time is right to rethink the overall K-12 finance system and craft a better system. Rather than extending current categorical flexibility for two more years, the LAO recommends that the Legislature improve the state's K-12 finance system on a lasting basis. What process does the LAO envision (who, what, when), for achieving these long term recommendations?

3. In the long term, the LAO specifically recommends the Legislature consolidate virtually all K-12 funding into revenue limits and a few block grants which would provide flexibility while also allowing more opportunity for the state to ensure that at-risk and/or high-cost students continue to receive the services they need.

    a. How would the LAO recommended system be more equitable, efficient, or effective than maintaining approximately 60 separate state categorical funding programs?
    b. How does the LAO recommended system compare to the conclusions of the 23 research studies summarized as a part of California's Getting Down to Facts report in March 2007?
    c. How does the LAO recommended system compare to the recommendations of the Governor's Committee on Education Excellence published in November 2007?

4. In the short term, does the LAO have any concerns about provisions of Chapter 7 that allow LEAs to retain lower reserves for economic uncertainty – without inviting fiscal oversight - for an additional two years?

5. As a part of its survey, did the LAO determine if the public hearing and expenditure reporting provisions of the original categorical flexibility statute enacted in 2009 (and continued in Chapter 7) were being implemented?

ISSUE 5. Federal Striving Readers Program

DESCRIPTION: The California Department of Education (CDE) will provide an update on California's State Literacy Plan – pursuant to the new, federal Striving Readers Comprehensive Literacy (Striving Readers) program. The State Board of Education submitted a first draft of the State Literacy Plan to the U.S. Department of Education on April 1st. The Department of Education will also present a draft application for competitive Striving Readers discretionary grants, which could result in up to **$70 million** in one-time federal funds for our state. The draft application was released on May 2nd and is due to the U.S. Department of Education on May 9th.

BACKGROUND:

The Striving Readers Comprehensive Literacy (Striving Readers) program is authorized as part of the Federal Fiscal Year (FFY) 2010 Consolidated Appropriations Act, which originally provided **$250 million** for the program. Ultimately, $50 million of this amount was redirected to the federal Education Jobs Funds, leaving a total of **$200 million** for the Striving Readers program in FFY 2010. These funds are available to our state beginning in state fiscal year 2010-11.

Of the $200 million provided, **$10 million** is reserved for **formula grants** to assist states in creating or maintaining a State Literacy Team with expertise in literacy development and education for children from birth through grade 12 and to assist states in developing a comprehensive literacy plan.

Of approximately $190 million in remaining Striving Readers funds, **$178 million** are available for state **discretionary grants** for the purpose of creating a comprehensive literacy program to advance literacy skills, including pre-literacy skills, reading, and writing, for students from birth through grade 12, including limited-English-proficient students and students with disabilities.

No funding has been provided for the Striving Readers program in federal FFY 2011 budget appropriations. Future funding for the program, including state discretionary grants, is very unclear at this time.

Formula Grants for Comprehensive Literacy Plan.

Striving Readers formula grants provide funds to states for development of comprehensive literacy plans that must address the needs of children from birth through grade twelve. The plans must also improve alignment and transition between grades. In addition, plans should include key components of an effective state literacy system, including clear standards; a system of assessments to inform instruction; guidance on the selection and use of curriculum and interventions; teacher preparation and professional development aligned with standards; and a system of data collection, evaluation, and program accountability.

The California Department of Education (CDE) California has received **$841,000** in 2010-11 in Striving Readers formula grant funding to support a State Literacy Team and to develop a comprehensive literacy plan for children from birth through grade 12.

These funds were authorized in January 2011 through a Department of Finance (DOF) Section 28.00 Budget Act Letter. According to the Budget Letter request, the team will be comprised primarily of literacy development and education experts for children from birth through grade 12, the majority of whom will be local representatives. The literacy plan will be reviewed by the State Board of Education (State Board) prior to the submittal of the plan to the US Department of Education (USDE) no later than March 16, 2011.

In its concurrence with the DOF Section Letter request, the Joint Legislative Budget Committee (JLBC) requested that CDE provide the State Literacy Plan to the JLBC and legislative policy committees when the plan is submitted to the State Board for review or by March 1, 2011, whichever is earlier. The USDE ultimately extended California's deadline for submitting the State Literacy Plan from March 16, 2011 to April 1, 2011. (The original deadline was February 1, 2011.)

Status of State Literacy Plan.

The State Literacy Team – composed of 28 members selected by the State Board of Education -- commenced work on development of the State Literacy Plan on **February 17, 2011**. In **March 2011,** the State Board authorized the Board President, in consultation with the Superintendent of Public Instruction, to submit a draft State Literacy Plan as developed by the State Literacy Team to the USDE for review and consideration.

The Legislature received a copy of the first pre-draft of the State Literacy Plan on **March 30, 2011;** a final first draft was forwarded to the USDE on **April 1, 2011**. The State Literacy Plan was also posted on the CDE website on April 1, 2011. An email account was established to receive public comment on the plan.

According to CDE, California's first draft State Literacy Plan submitted to the USDE is a living document that will be updated and refined in future months by the State Literacy Team.

Discretionary Grants.

Discretionary grants will be awarded competitively to State Educational Agencies (SEAs) that must sub-grant at least 95 percent of the funds to Local Educational Agencies (LEAs) and early childhood providers. An SEA may use up to 5 percent of the awarded funds to provide leadership activities, including technical assistance and training, data collection, reporting, and administration.

Entities eligible for Striving Readers discretionary sub-grants are LEAs or other nonprofit providers of early childhood education that partner with a public or private nonprofit organization or agency with a demonstrated record of effectiveness in improving the early literacy development of children from birth through kindergarten entry and in providing professional development in early literacy.

States must give priority to LEAs and other entities serving greater numbers or percentages of disadvantaged children.

Funds will be used by LEAs and other entities for services and activities that have characteristics of effective literacy instruction through professional development, screening and assessment, targeted interventions for students reading below grade level and other research based methods of improving classroom instruction and practice for all students.

Of the SRCL discretionary grants, sub-granted funds to LEAs and other eligible entities are as follows:

- 15 percent of funds shall be used to serve children from birth through age 5;
- 40 percent of funds shall be used to serve children in kindergarten through grade 5; and
- 40 percent of funds shall be used to serve students in middle and high school including an equitable distribution of funds between middle and high schools.

According to the grant application, the USDE expects to award $178 million for 3 to 18 state grants under this competition, which are expected to be awarded in August 2011 (no later than August 30th). USDE expects that state grants will range between $3 million and $70 million for a four-year period with average size of awards being $25 million. The USDE will award the grants on a competitive basis for a project period of up to five years.

If successful in the competition, the USDE grant application lists California and Texas as the only two states eligible for up to **$70 million** in discretionary grant funds.

Status of State Discretionary Grant Application.

The USDE released the Striving Readers discretionary grant application to states on **March 10, 2011.** State applications are due back to the USDE by **May 9, 2011.**

The State Literacy Team reviewed the grant application and discussed priorities for the application on March 16, 2011 and March 23, 2011. The CDE began work on a preliminary competitive grant draft. On April 19, 2011, the State Literacy Team reviewed an initial draft of the discretionary grant application prepared by CDE.

On April 21, 2011, the State Board of Education delegated authority to Board President Michael Kirst to submit California's Striving Readers discretionary grant application to the USDE by May 9, 2011. The CDE staff continued to revise the application and prepare a final document for the State Board President's review on April 27, 2011.

The CDE released a draft grant application to the State Literacy Team on **Monday, May 2nd**, which was shared with legislative staff following transmittal to the team. Per CDE, the state grant application focuses efforts on:

- Infusing the California Common Core Standards, the Infant Toddler Learning and Development Foundations, and the Preschool Learning Foundations into the education system through a feeder pattern of schools within the LEAs and early childhood center providers.

- Addressing the language and literacy needs of economically disadvantaged students.

Further per CDE, the grant application stresses the building of early literacy skills, moving students from early literacy to advanced literacy through a Response to Instruction and Intervention (RtI^2) approach, and assisting educators with infusing the literacy skills into the secondary content courses.

CDE has outlined the following timeline for review and completion of the draft application during the coming week.

Date	Event/Activity
May 3, 2011	State Literacy Team review of grant application and public comments.
May 4, 2011	All comments due to the CDE.
May 6, 2011	Final draft application completed. All documents uploaded to grants.gov site.
May 9, 2011	Review and submit application to USDE by 4:00 p.m.

If California is successful in receiving a federal grant, CDE has outlined the following timeline for Striving Readers sub-grants to LEAs and non-profit early childhood education providers.

Date	Event/Activity
August 2011	Anticipated announcement of state discretionary grant recipients
Late Sept. 2011	Anticipated state sub-grant application released
Nov. 2011	Anticipated applications due from sub-grantees
Mid-late Jan 2011	Grant award letters to sub-grantees

Federal Criteria of Selection of Discretionary Grants.

The Striving Readers discretionary grant application identifies the following priorities for states:

- **Absolute Priorities**: These priorities are absolute priorities. Only applications that meet these priorities will be considered.

  Priority 1: Improving Learning Outcomes.
  To meet this priority, an applicant must propose a project that is designed to improve school readiness and success through grade 12 in the area of language and literacy development for disadvantaged students.

  Priority 2: Enabling More Data-Based Decision-Making.
  To meet this priority, an applicant must propose a project that is designed to collect, analyze, and use high-quality and timely data, especially on program participant outcomes, in accordance with privacy requirements, to improve instructional practices, policies, and student outcomes in early learning settings and in elementary and secondary schools.

- **Competitive Preference Priorities**: The following priority is a competitive preference priority. States can be awarded up to an additional five points to an application that meets this priority.

  Competitive Preference Priority: Effective Use of Technology.
  To meet this priority, an applicant must (1) propose to use technology, which may include technology to support principles of universal design for learning to address student learning challenges; and (2) provide, in its application, an evidence-based rationale that its proposed technology program, practice, or strategy will increase student engagement and achievement or increase teacher effectiveness.

The USDE will consider each state's literacy plan as part of the Striving Readers discretionary grant program application.

LAO COMMENTS: Based upon their review of the May 2nd draft grant application, the LAO offers the following comments.

- **Significant timing challenges with inclusion of California Common Core Standards (CCCS) as a priority for all sub-grantees.** Although the CCCS have been adopted, much work needs to be done so that LEAs have what they need to implement them in the classroom (including curriculum frameworks, instructional materials, professional development, and assessment tools).

- **Eligible applicant pool is too large**. CDE plans to use an LEA's low income status as a proxy for high literacy needs, with districts that have 40 percent or more of their students receiving free or reduced priced meals eligible for the grant. Under this proposed threshold, over 600 school districts and many charters that are considered LEAs are eligible for the funds.

- **Selection criteria and budget details are vague**. The grant application specifies that 30 LEAs will be grant recipients, but did not specify the target amount for the grant or how CDE will determine the dollar amount for each sub-grantee.

STAFF COMMENTS:

- **Timing of State Grant Application Makes Legislative Analysis and Input Difficult.** The Striving Readers draft discretionary grant application was released **late on May 2nd** and does not provide enough time for a thorough analysis in this agenda. This is an important grant application, which could provide significant, new funding – albeit one-time thus far -- available as a part of a statewide literacy program to address struggling readers, birth to grade 12, in our state. It will be important for the State Board and CDE to have input from the Legislature on further development of the state literacy plan and the discretionary grant proposal being presented today.

SUGGESTED QUESTIONS:

1. The first draft of the state literacy plan submitted to USDE on April 1st is considered a living document that will be updated by the State Literacy Team in the coming months. However, this literacy plan will also be used to evaluate our state's discretionary grant application due to USDE on May 9th. How will this work?

2. The State Literacy Team met on Tuesday, May 3rd to review the draft grant application released on late Monday, May 2nd. Can CDE summarize the Literacy Team's comments on the grant application? Is the grant application being changed as a result of any of these changes?

3. The final grant application is due to the USDE by Monday, May 9th. Given the draft application was just released on late May 2nd, are CDE and the State Board open to Legislative review and comment?

4. Both the state literacy plan and state discretionary grant application focus on "infusing Common Core standards into the education system". According to CDE, this focus will be achieved in large part through professional development. While Common Core standards were adopted in California last August, they have not been fully implemented statewide. Per LAO much work needs to be done so that LEAs have what they need to implement Common Core standards in the classroom, i.e., LEAs need curriculum frameworks, instructional materials, professional development, and assessment tools. This situation raises some questions:

    a. Could the focus on Common Core standards limit the participation of some high-need LEAs?
    b. Given a particular emphasis on professional development per CDE, how will Common Core standards training be provided and who will provide this training?

5. The federal application appears to allow sub-grantees to use funding for direct instruction. Can CDE confirm this? Does the grant application allow for direct instruction by sub-grantees?

6. Per the federal program, state sub-grantees must serve high need children and youths, including limited-English proficient students and students with disabilities. Per a preliminary review of the grant application, the treatment of economically disadvantaged students, English learners, students with disabilities, as well as, struggling readers, appears inconsistent and confusing.

    a. How does the application define eligible sub-grantees for purposes of serving high-need children and youth?
    b. How does the application address English learner students?
    c. How does the application address students with disabilities?
    d. How does the application address struggling readers?

7. The state grant application stresses moving students from early literacy to advanced literacy through a Response to Instruction and Intervention (RtI^2) approach. Why is the RtI^2 approach given so much emphasis? Does this approach address the needs of all student subgroups, at all grade levels? Will sub-grantees be allowed to use other interventions?

8. How does the grant application allocate discretionary grant funds among eligible sub-grantees? For example, how many grants will be provided? How much funding will be provided for each grant? Does the application address grant size issues to reflect "sufficient size" on an LEA or per pupil basis?

9. How will sub-grants be selected by the State Board? What factors will be given the highest weight among eligible sub-grantees? Will the State Board give weight to LEAs already doing a good job or LEAs that need to do a better job – or both?

10. Given the broader priorities of the federal grant application on <u>improving learning outcomes</u>, <u>use of data</u>, and <u>use of technology</u> -- how much flexibility will LEAs be allowed in their applications?

11. Can CDE clarify how long local sub-grantees will have to expend Striving Readers funds? The application indicates grants will be available over four years, for a five year project period? Earlier reports indicated funds would only be available for about 27 months?

12. How much funding does the grant application set aside for state administration and how will these funds be utilized? (States are allowed to use up to 5 percent of the awarded funds to provide leadership activities, including technical assistance and training, data collection, reporting, and administration.)

13. Under the previous federal Reading First program, the Legislature had trouble accessing basic information about Reading First, such as the number and type of teachers participating and student outcomes. This was due in part to the decentralized governance structure that involved implementation centers and six regional lead agencies. How will these issues be overcome with the Striving Readers program?

14. What is the role of the higher education institutions in the discretionary grant application? Did the higher education representatives on State Literacy Team have any comments on this issue at their meeting on Tuesday, May 3rd?

15. What is the outlook for future discretionary grants funding for the Striving Readers program?

ATTACHMENT A

Figure 3

Three Potential Packages by Specific K-14 Mandate[a]

Mandate	Definition of Statewide Interest: Narrow	Broader	Broadest[b]
County Office of Education Fiscal Accountability Reporting	Fund	Fund	Fund
High School Exit Examination	Fund	Fund	Fund
Intradistrict Attendance	Fund	Fund	Review
Pupil Promotion and Retention	Fund	Fund	Fund
School District Fiscal Accountability Reporting	Fund	Fund	Fund
Annual Parent Notification	Reduce	Reduce	Reduce
Charter Schools I, II, III	Reduce	Reduce	Reduce
Criminal Background Checks	Reduce	Reduce	Reduce
Criminal Background Checks II	Reduce	Reduce	Reduce
Mandate Reimbursement Processa	Reduce	Reduce	Reduce
School Accountability Report Cards	Reduce	Reduce	Reduce
Agency Fee Arrangementsa	Eliminate	Eliminate	Review
AIDS Prevention Instruction II	Eliminate	Reduce	Review
California State Teachers' Retirement System (CalSTRS) Service Credita	Eliminate	Reduce	Review
Caregiver Affidavits	Eliminate	Eliminate	Review
Collective Bargaininga	Eliminate	Fund	Fund
Comprehensive School Safety Plans	Eliminate	Reduce	Reduce
Differential Pay and Reemployment	Eliminate	Fund	Fund
Expulsion of Pupils Transcript Cost for Appeals	Eliminate	Eliminate	Fund
Financial and Compliance Audits	Eliminate	Eliminate	Fund
Habitual Truant	Eliminate	Eliminate	Review
Immunization Records	Eliminate	Reduce	Reduce
Immunization Records–Hepatitis B	Eliminate	Reduce	Reduce
Juvenile Court Notices II	Eliminate	Fund	Fund
Law Enforcement Agency Notification	Eliminate	Eliminate	Review
Notification of Truancy	Eliminate	Eliminate	Review
Notification to Teachers: Pupils Subject to Suspension or Expulsion	Eliminate	Eliminate	Reduce
Physical Education Reports	Eliminate	Eliminate	Review
Physical Performance Tests	Eliminate	Eliminate	Review
Prevailing Wage Rate[a]	Eliminate	Eliminate	Review
Pupil Health Screenings	Eliminate	Reduce	Reduce
Pupil Residency Verification and Appeals	Eliminate	Eliminate	Eliminate
Pupil Safety Notices	Eliminate	Fund	Fund
Pupil Suspensions, Expulsions, and Expulsion Appeals	Eliminate	Eliminate	Fund
Removal of Chemicals	Eliminate	Eliminate	Review
School District Reorganization	Eliminate	Fund	Fund
Scoliosis Screening	Eliminate	Eliminate	Eliminate
The Stull Act	Eliminate	Eliminate	Review

[a] Shared K-14 mandates.

[b] Mandates designated as review would be sent to policy committees for deliberation. Mandates designated as "reduce" would have their costs reduced going forward.

ATTACHMENT B

Figure 4

Mandates Work Group—California Community Colleges (CCC)

(Dollars in Thousands)

Mandate	2008-09 Claims[a]	Requirements	Work Group Members' Conclusions/Recommendations
Sex Offenders: Disclosure by Law Enforcement Officers	—	Campus police must register students who are sex offenders living on campus.	There was broad agreement to fund this mandate, which serves a compelling public-safety purpose with negligible, if any, costs to the state.
Cal Grant Grade Point Average	—	Districts must calculate students' grade point average (GPA) and submit information to the California Student Aid Commission to determine eligibility for Cal Grant awards.	The group came to a general understanding that leaving these two mandates on the books would not be particularly problematic because costs likely would be covered by a district's financial aid administration funding. Specifically, budget bill language specifies that the funding each district receives annually for financial aid administration must first be used to offset any costs associated with the Cal Grant GPA and Tuition Fee Waiver mandates.
Tuition Fee Waivers (Exemption from Nonresident Tuition)	$637	Districts must determine students' residence status and charge specified fees to nonresidents. Certain students (such as nonresident members of the military and AB 540 students) are entitled by law to pay the in-state resident fee. Districts must waive enrollment fees entirely for nonresident dependents of victims of the 9/11 attacks.	
Enrollment Fee Collection and Waivers	23,810	Districts must collect enrollment fees and waive fees for financially needy students.	The group did not reach consensus on this mandate. The CCC Chancellor's Office maintains that, to the extent the Legislature desires CCC to perform these duties, the mandate should be fully funded. The LAO recommendeds the state eliminate the mandate and instead create a strong incentive for districts to perform these duties by reducing their General Fund support by the amount of fee revenues they decline to collect. A third approach would be to retain the mandate but reduce claim costs by inserting new language into the annual budget act. Such language could specify that the funds districts receive for financial aid administration be counted as an offset to district costs for waiving enrollment fees—similar to how the Cal Grant GPA and Tuition Fee Waiver mandates are currently treated (see above). While the precise fiscal impact is unknown, this approach could reduce the cost of claims by millions of dollars.

Mandate	2008-09 Claims[a]	Requirements	Work Group Members' Conclusions/Recommendations
Health Fees/ Services	$6,094	Each district is required to provide students at least the level of health services it provided in 1986-87. Fee that districts may charge for health services is capped.	Members of the work group did not reach consensus on whether to eliminate or fully fund this mandate. Instead, it was proposed that various options be considered. Among other things, the Legislature could consider whether to eliminate the mandate and health-fee cap, and instead authorize CCC students to hold campus-wide elections to determine whether they want to impose a health-center fee on themselves, and if so, (1) the level of the fee, (2) which types of students would be required to pay it, and (3) the level of service that would be provided. (Statute already permits such elections for purposes of determining whether a transit fee should be imposed on students.)
Sexual Assault Response Procedures	3	Districts must adopt policies and procedures on campus response if students are sexually assaulted.	The group generally agreed that these three mandates appear to be unnecessary. Federal law addresses each issue through the Clery Act, which establishes detailed activities and reporting requirements with regard to campus safety and law enforcement. Moreover, as a result of federal, state, and local policies, campuses have undertaken as standard operating procedures activities to prevent, mitigate, and report crimes on campus.
Student Records	—	Districts must inform the alleged victim of sexual assault or physical abuse whether the alleged perpetrator was subject to campus disciplinary actions.	
Law Enforcement College Jurisdiction Agreements	160	Campus police must develop and update (as needed) agreements with local law enforcement agencies concerning which agency has responsibility for investigating violent crimes occurring on campus.	
Integrated Waste Management	6,050	Districts must divert from landfills a specified percentage of their solid waste through reduction, recycling, and composting activities, and develop and report annually on their ability to meet solid-waste diversion goals.	There was broad agreement to eliminate this mandate. (It is currently suspended.) In so doing, CCC would be treated the same way as K-12 districts, which are encouraged—but not required—to comply with diversion goals. Like K-12 schools, it is likely that colleges would continue to participate in waste-diversion programs.
Reporting Improper Governmental Activities	5	Districts must pay for all costs of State Personnel Board hearings (as well as certain other related activities) if an employee files a complaint with the Board alleging retaliation by the district for whistleblowing.	The work group did not reach consensus on this mandate. The LAO and some others in the group recommend its elimination, arguing that state law already provides protections and legal recourses for whistleblowers. By eliminating this mandate, CCC would be treated the same as K-12 schools. Others in the group are inclined to retain and fully fund the mandate, reasoning that potential benefits of the requirement for district employees are worth the relatively small annual costs the state has incurred to date for this mandate.

[a] Unaudited.

ATTACHMENT C

California Department of Education
First Interim Status Report, FY 2010-11

http://www.cde.ca.gov/fg/fi/ir/first1011.asp

First Interim Status Report, FY 2010-11

Listing of local educational agencies receiving negative or qualified certification for fiscal year 2010-11 first interim.

List of Negative and Qualified Certifications
Local Educational Agencies
2010-11 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 2010-11 or 2011-12.

Number	County	Local Educational Agency	Total Budget ($)
1	Alameda	Hayward Unified	194.56 million
2	Kern	Southern Kern Unified	25.15 million
3	Los Angeles	Inglewood Unified	128.32 million
4	Merced	Dos Palos-Oro Loma Unified	19.14 million
5	Monterey	King City Joint Union High	19.40 million
6	Riverside	Banning Unified	41.76 million
7	Sacramento	Natomas Unified	68.61 million
8	San Benito	Hollister Elementary	40.21 million
9	Solano	Travis Unified	40.21 million
10	Solano	Vallejo City Unified	138.19 million
11	Sonoma	Cloverdale Unified	11.80 million
12	Sonoma	Cotati-Rohnert Park Unified	50.02 million
13	Sonoma	Healdsburg Unified	17.52 million

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 2010-11, 2011-12, or 2012-13.

Number	County	Local Educational Agency	Total Budget ($)
1	Alameda	Emery Unified	11.41 million
2	Alameda	Oakland Unified	432.80 million
3	Amador	Amador County Office	9.65 million
4	Amador	Amador County Unified	29.71 million
5	Butte	Chico Unified	104.82 million
6	Contra Costa	John Swett Unified	13.50 million

7	Contra Costa	Mt. Diablo Unified	300.20 million
8	El Dorado	Black Oak Mine Unified	13.25 million
9	El Dorado	Gold Oak Union Elementary	4.58 million
10	El Dorado	Gold Trail Union Elementary	3.66 million
11	El Dorado	Rescue Union Elementary	27.70 million
12	Fresno	Raisin City Elementary	3.15 million
13	Fresno	Sierra Unified	16.76 million
14	Glenn	Willows Unified	12.73 million
15	Humboldt	Mattole Unified	1.94 million
16	Humboldt	Scotia Union Elementary	1.60 million
17	Kern	El Tejon Unified	9.26 million
18	Kern	Muroc Joint Unified	18.63 million
19	Kern	Panama-Buena Vista Elementary	126.60 million
20	Lake	Kelseyville Unified	14.50 million
21	Los Angeles	Antelope Valley Union High	210.64 million
22	Los Angeles	Bellflower Unified	109.51 million
23	Los Angeles	El Rancho Unified	87.20 million
24	Los Angeles	Lawndale Elementary	51.59 million
25	Los Angeles	Los Angeles Unified	6.369 billion
26	Los Angeles	Lynwood Unified	129.81 million
27	Los Angeles	Newhall Elementary	52.20 million
28	Los Angeles	Norwalk-La Mirada Unified	186.97 million
29	Los Angeles	William S. Hart Union High	170.37 million
30	Madera	Yosemite Unified	18.62 million
31	Mendocino	Round Valley Unified	3.86 million
32	Mendocino	Ukiah Unified	28.61 million
33	Monterey	North Monterey County Unified	38.68 million
34	Napa	Napa Valley Unified	115.23 million
35	Orange	Anaheim City Elementary	157.79 million
36	Orange	Centralia Elementary	36.56 million
37	Orange	Fullerton Elementary	106.91 million
38	Orange	Fullerton Joint Union High	140.92 million
39	Orange	Garden Grove Unified	455.94 million
40	Orange	Saddleback Valley Unified	229.31 million
41	Orange	Santa Ana Unified	523.39 million
42	Orange	Westminster Elementary	76.14 million
43	Placer	Colfax Elementary	3.09 million
44	Placer	Loomis Union Elementary	16.64 million
45	Placer	Placer Hills Union Elementary	6.81 million
46	Riverside	Alvord Unified	157.45 million
47	Riverside	Coachella Valley Unified	179.33 million
48	Riverside	Desert Sands Unified	228.32 million
49	Riverside	Nuview Union (Elementary)	13.62 million
50	Riverside	Riverside Unified	344.63 million
51	Sacramento	Elk Grove Unified	477.27 million
52	Sacramento	Folsom-Cordova Unified	145.41 million

53	Sacramento	Sacramento City Unified	397.54 million
54	Sacramento	San Juan Unified	361.38 million
55	Sacramento	Twin Rivers Unified	262.94 million
56	San Bernardino	Bear Valley Unified	21.75 million
57	San Bernardino	Chino Valley Unified	232.27 million
58	San Bernardino	Colton Joint Unified	189.97 million
59	San Bernardino	Cucamonga Elementary	19.51 million
60	San Bernardino	Fontana Unified	342.94 million
61	San Bernardino	Mt. Baldy Joint Elementary	1.03 million
62	San Bernardino	Victor Union High	88.77 million
63	San Bernardino	Yucaipa-Calimesa Joint Unified	72.17 million
64	San Diego	Borrego Unified	5.65 million
65	San Diego	Mountain Empire Unified	17.01 million
66	San Diego	Ramona Unified	53.95 million
67	San Diego	San Marcos Unified	141.10 million
68	San Joaquin	Stockton Unified	344.97 million
69	San Luis Obispo	Atascadero Unified	37.49 million
70	San Luis Obispo	Lucia Mar Unified	85.15 million
71	San Luis Obispo	Paso Robles Joint Unified	54.90 million
72	San Luis Obispo	Pleasant Valley Joint Union Elementary	1.10 million
73	San Luis Obispo	San Miguel Joint Union (Elementary)	4.53 million
74	San Luis Obispo	Shandon Joint Unified	3.59 million
75	Santa Clara	Berryessa Union Elementary	61.28 million
76	Santa Clara	East Side Union High	198.19 million
77	Santa Clara	Franklin-McKinley Elementary	76.52 million
78	Santa Clara	Gilroy Unified	88.45 million
79	Santa Clara	Los Altos Elementary	43.05 million
80	Santa Clara	Orchard Elementary	6.67 million
81	Santa Cruz	Santa Cruz City Elementary	62.66 million*
82	Santa Cruz	Santa Cruz City High	*
83	Shasta	Anderson Union High	16.66 million
84	Shasta	Cascade Union Elementary	12.39 million
85	Shasta	Cottonwood Union Elementary	7.58 million
86	Shasta	Pacheco Union Elementary	4.88 million
87	Solano	Dixon Unified	26.76 million
88	Solano	Fairfield-Suisun Unified	161.44 million
89	Sonoma	Geyserville Unified	3.00 million
90	Sonoma	Sebastopol Elementary	5.90 million
91	Sonoma	West Sonoma County Union High	21.37 million
92	Stanislaus	La Grange Elementary	.27 million
93	Stanislaus	Stanislaus Union Elementary	23.90 million
94	Stanislaus	Waterford Unified	18.43 million
95	Tehama	Reeds Creek Elementary	1.11 million
96	Tulare	Citrus South Tule Elementary	.57 million
97	Ventura	Santa Paula Elementary	31.28 million

* Santa Cruz City Elementary and Santa Cruz City High School Districts are two districts with joint administration and

fiscal reporting. The amount shown in the column is the combined budget.

California Department of Education
1430 N Street
Sacramento, CA 95814

ATTACHMENT D

**California Department of Education,
California State Emergency Loans to
School Districts, 1991 to 2010**

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

CALIFORNIA STATE EMERGENCY LOANS TO SCHOOL DISTRICTS, 1991 to 2010

District	Tenure of State Administrators and State Trustees	Legal Authority (in addition to AB 1200)	Date of Issue	Amount of Original 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 School District	Administrator 7/23/09 – Present	SB 130 Ch 20/09	7/22/09 3/11/10 4/4/10	$2,000,000 $3,000,000 $13,000,000	1% 1% 5.44%	7/22/09 $2,000,000 GF 3/11/10 $3,000,000 GF I-Bank refinanced GF loan, drew $8 million plus expenses.	$5,000,000 total GF as of 3/11/10 $14,395,000	$110,831 due starting 7/22/10 $166,246 due starting 3/11/11 I-Bank: $1.2 million due during the period July through October starting in July 2010.	$0 $0 $0	7/22/29 3/11/30 8/15/29
Vallejo 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	$45,480,517 as of 7/2/10	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	$18,691,921	6/24/24 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	$73,754,847 as of 7/2/10	I-Bank: $3.9 million total due during the period July through January, 2006-2023; GF: $2.1 million due each June, 2007-2026	$35,613,350	January 2023 I-Bank 6/29/26 GF
West Fresno Elementary	Administrator 3/19/03 – Present 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	$549,988 as of 7/2/10	$144,195 due each December, 2004-2013	$865,170	12/30/13 GF
Emery Unified	Administrator 8/7/01- 6/30/04; Trustee 7/1/04 - Present	AB 96, Ch 135/01	9/21/01	$1,300,000 ($2,300,000 authorized)	4.19%	N/a	$902,924 as of 7/2/10	$97,273 due each September, 2002-2021	$778,184	9/30/21 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)	$10,627,181 as of 7/2/10	$1.4 million total due during the period July through January, 2006-2018	$36,714,809	January 2018 I-Bank

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Thursday, May 5, 2011
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

OUTCOMES

(Issue 2 Only – Consent Vote Items)

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

ISSUE 1. K-14 EDUCATION MANDATES WORKING GROUP REPORT

DESCRIPTION: The Legislative Analyst's Office (LAO) will present a report of the K-14 Mandates Working Group required by Chapter 724, Statutes of 2010. In so doing, the LAO will present a "white paper" which transmits the working group's findings and recommendations to the Legislature. More specifically, the paper:

(1) Identifies problems with the current mandate system,
(2) Discusses three ways to improve the overall mandate system,
(3) Lays out three options for addressing specific K-12 mandates as well as mandates affecting both school districts and community colleges, and
(4) Provides a generally comprehensive reform package for addressing CCC-only \ mandates.

The LAO points out that while the work group is submitting a collective report to the Legislature, the options included in the report were not agreed upon unanimously and do not necessarily reflect the opinion of any given work group member. As such, the options should only be viewed as ideas for the Legislature to consider and may be modified or combined to best meet its objectives.

BACKGROUND ON WORKING GROUP:

Chapter 724, Statutes of 2010 (AB 1610, Committee on the Budget), required the LAO to convene a work group to discuss the future of school district and community college mandates.

The work group included representatives from the LAO, Department of Finance, California Department of Education (CDE), California Community College (CCC) Chancellor's Office, and staff of the fiscal and policy committees of the Legislature. The legislation also required the work group to consult with appropriate stakeholders and develop recommendations, including whether to preserve, modify, or eliminate particular K-14 mandates.

To carry out its directive, the work group divided into two subgroups: one to discuss the 35 mandates that affect K-12 education only and the other to discuss the ten CCC-only mandates. The subgroups met separately throughout late 2010 and early 2011.

SUMMARY OF WORKING GROUP REPORT (WHITE PAPER)

PROBLEMS WITH THE CURRENT MANDATE SYSTEM

The section identifies problems with the current education mandate system. As reflected in Figure 1, the current system creates many problems for both the state and districts. Though the list of problems listed below is not exhaustive, the work group believed these problems generally encompassed the most pervasive system-wide shortcomings.

Figure 1

Problems With the Current Education Mandate System

- ✓ System not responsive to changing needs.
- ✓ State costs can be higher than anticipated.
- ✓ Regulations also can create mandates, further increasing state costs without legislative input.
- ✓ High percentage of audited district claims ultimately disallowed.
- ✓ Districts face considerable uncertainty regarding timing and amount of reimbursements.
- ✓ Reimbursement process ignores effectiveness.
- ✓ Reimbursement process can reward inefficiency.
- ✓ Reimbursement rates can vary greatly without justification.
- ✓ Claiming process creates significant administrative burden for districts.

THREE WAYS TO IMPROVE OVERALL SYSTEM

This section discusses three ways to improve the overall education mandate system. The group generally believed these three goals should guide reform efforts and considered various options to achieve them, which are outlined below. However, despite broad agreement on these goals, there was not consensus on how exactly to achieve them or how to apply them to individual mandates.

(1) ***Reduce Cost of Current Mandates to the Extent Appropriate Given Policy Implications.*** Though Chapter 724 took several actions to reduce K-14 mandate costs, annual costs continue to exceed $100 million. The group generally believed these costs could be further reduced without undermining important state policies. To this end, the group identified four basic options the Legislature has at its disposal to further reduce state mandate costs, though not all work group members supported each approach. These options are discussed below.

- Keep Mandate but Modify Funding Source.
- Eliminate Specific Mandated Activities but Retain Overarching Policy Objective.
- Suspend Mandate.
- Eliminate Mandate in Whole or Part.

(2) ***Simplify K-14 Mandate Finance System.*** In general, the group also believes the K-14 mandates finance system should be simplified to the extent possible. Simplifying the

finance system could help address many of the problems with the current system. For example, a more streamlined finance system, if designed effectively, could reduce the administrative burden for districts associated with claiming and auditing. For the state, such a system could also help contain costs and reduce the high variability in mandate claims from year to year. In addition, a new system could provide more opportunities for the state to monitor effectiveness by shifting the emphasis of the audit process from compliance to outcomes. To achieve these goals, the work group focused primarily on two specific options.

- **Pay for More Mandates Using RRM**. The first option, developing a formula-based approach to reimbursement called a "Reasonable Reimbursement Methodologies" (RRMs) for each mandate, would standardize reimbursement rates for districts on a case-by-case basis. This particular approach would yield relatively minor benefits because it would continue to fund mandates using the same overall reimbursement system and probably could not apply to all K-14 mandates (due partially to these factors, this option is now available but rarely used for K-14 mandates).

- **Replace Existing Reimbursement System With Block Grant**. The second option, developing an education mandates block grant, would create a new system for funding mandates and has the potential to do even more to address the problems with the current system than an RRM, though a poorly designed block grant could undermine many of these benefits.

(3) ***Create More Direct Process for Legislature to Consider Cost of New Mandates***. As previously discussed, several aspects of the mandate finance system make it difficult for the Legislature to accurately estimate associated costs. Given this challenge, several members of the work group (and several representatives from constituency groups) recommended finding a way for the Legislature to reconsider mandates when associated costs become more certain. For example, the Legislature could have a process for reconsidering original authorizing legislation and attaching an appropriation to it once an associated cost estimate is available. That is, rather than have the Legislature only consider mandate costs on an ad-hoc basis (which often means the costs are never evaluated by the appropriate committees), the state would have an official trigger to re-open laws that create mandates when costs are established.

THREE OPTIONS FOR ADDRESSING SPECIFIC K-12 MANDATES AND SHARED K-14 MANDATES

In addition to these three overarching ways for improving the overall mandate system, the group agreed that specific mandates should be maintained only if they serve a fundamental statewide interest. Group members disagreed, however, on how to define "statewide interest," as well as which mandates fit a particular definition. Given the group was not able to reach consensus on a single definition and associated mandates, we provide three options that could be used to address specific K-12 and shared K-14 mandates Specifically, some of the work group members recommended defining statewide interest narrowly, for instance limiting funded mandates to those related to parental notification (Option 1). Others supported a somewhat broader definition, for instance expanding the list of funded mandates to include health, safety, and oversight mandates (Option 2). The LAO's report takes this approach. By contrast, other members recommended defining statewide interest quite broadly, funding some mandates, reducing the cost of others, and sending most of remaining mandates to policy committees for further review.

In Figure 2 below, each option is ordered from the most to least restrictive definition of a statewide interest (rather than being ordered by priority or level of group support). Figure 2 also provides cost estimates for each of the three illustrative packages. Figure 3 (see Attachment A) shows how each specific K-12 mandate might be treated under the three packages. Taken collectively, these options provide a range of approaches to identify mandates that should be maintained, though the group does not unanimously support or recommend any of the three options. Moreover, the group did not unanimously agree on which mandates should be identified under each definition of statewide interest in Figure 3 (Attachment A).

Figure 2

Cost Estimates for Three Potential K-14 Mandate Packages

(In Millions)

	Definition of "Statewide Interest:"					
	Narrow		Broader		Broadest	
	Number	Cost[a]	Number	Cost[a]	Number	Cost[a]
Fund without modification	6	$18.3	10	$14.3	13	$24.2
Reduce costs and fund[b]	6	20.6	12	31.1	12	49.3
Eliminate	27	—	17	—	2	—
Review by policy committees	—	—	—	—	12	13.4
Totals	**39**	**$38.9**	**39**	**$45.4**	**39**	**$86.9**

[a] Cost estimates include community college claims for shared K-14 mandates.
[b] Cost estimate assumes changes to the mandates reduce annual claims by 25 percent.

Option 1: Eliminate All Mandates Except Those Related to Parental Notification. One option is to define statewide interest very narrowly to include only those policies that give parents educational choices and provide them the information they need to make associated decisions. Under this option, school districts would still provide data through School Accountability Report Cards (SARCs) about their academic performance and environment, notify parents annually of certain school- or district-wide policies, and allow students to transfer within or across districts and attend charter schools. Otherwise, school districts would largely be relieved from performing the mandated activities now required of them. This approach would drastically reduce the workload that mandates create for school districts and eliminate much of the state's costs. The LAO estimates a mandate package that used this approach would cost the state roughly $30 million annually. (Current claims for K-12 mandates total just over $100 million annually per the LAO.)

Option 2: Preserve Only Mandates Related to Accountability, Health, and Safety.
Another option is to expand the definition of statewide interest to include the above mandates as well as those mandates necessary for the state to oversee and hold schools accountable, as well as keep students safe. This approach would eliminate all but roughly a dozen mandates and reduce

annual costs to roughly $40 million. This approach has been laid out in detail in a 2008 report by the Legislative Analyst's Office, *Education Mandates: Overhauling a Broken System*.

Option 3: Reduce Costs for Many Mandates; Send the Rest to Policy Committees. Another option is to reduce the cost of existing mandates to the extent possible, permanently eliminate a handful of mandates that are already suspended, and then allow policy committees to define which remaining mandates serve a statewide interest. One possible mandates package using this approach would fund roughly 12 mandates without modification, reduce costs for 11 mandates, eliminate 2 mandates, and address an additional 13 mandates through policy committees. Though the exact cost of this package would depend on its details, a rough estimate suggests costs could total over $85 million annually and could be reduced further depending on the outcome of the policy committee process.

Despite Different Options, General Agreement that Some Specific Mandates Could be Less Costly. Despite the different definitions of "statewide interest" that various members of the group supported, there was general agreement among group members that certain mandates could be operated more cost effectively. All three options would reduce costs for six mandates. For example, group members largely agreed the state cost of mandates related to charter schools and criminal background checks could be reduced by changing local fee authority. Another five mandates were identified in all three options either for cost reduction or outright elimination. For instance, group members generally agreed options were available to reduce the cost of comprehensive school safety plans, such as avoiding overly prescriptive requirements or only requiring plans to be updated every other year rather than the current annual requirement. By examining these 11 mandates more closely, the state could potentially reduce costs for over a quarter of existing K-12 and shared K-14 mandates.

REFORM PACKAGE FOR ADDRESSING COMMUNITY COLLEGE MANDATES

Although the K-12 subgroup was unable to settle on one K-12 mandate package, the CCC subgroup achieved some notable agreement and developed a generally comprehensive CCC mandate reform package. Attachment B summarizes each of the ten CCC-only mandates and indicates the subgroup's position (or positions) on each one. While some areas of disagreement remain, members of the CCC subgroup were able to reach general agreement on the potential treatment of several mandates.

GENERAL BACKGROUND ON MANDATES

RECENT BUDGET ACTIONS ON K-14 MANDATES:

2010-11 Budget Actions: Adopted K-14 mandate reforms, as an alternative to the Governor's across the board, one-year suspension of K-14 mandates. These reforms include:

- Suspending six full mandates and two partial mandates for three years (through 2012-13) consistent with the timeframe for categorical flexibility;

- Modifying four mandates to preserve the underlying statute while reducing or eliminating mandate costs, including two of the most expensive mandates - Behavior Intervention Plans and High School Science Graduation Requirement;
- Updating statutes for one mandate program that is no longer fully operational;
- Requesting redetermination of one K-14 education mandate;
- Funding remaining K-14 mandates in 2010-11 with **$90 million** in Proposition 98 settle-up funds; and
- Creating a working group led by the LAO to examine K-14 mandates and make recommendations to the Legislature for future fiscal and policy action.

The 2010-11 budget act provided **$300 million** in Proposition 98 "settle-up" funds in 2010-11, which are attributable to revised minimum funding obligations for 2009-10.

Of this amount, **$210 million** is provided on a per pupil basis to K-12 schools (based upon average daily attendance) and community colleges (based upon full-time equivalent students). These funds will count as payment against prior-year mandates claims. The remaining **$90 million** is appropriated to K-12 and community colleges for annual mandate claims in 2010-11.

Governor's 2011-12 Budget Proposal: The Governor proposes ongoing funding of **$89.9 million** for reimbursement of K-14 mandates in 2011-12, including **$80.4 million** for K-12 mandates and **$9.5 million** for community college mandates. This action continues reimbursements for all K-14 mandates that were funded in 2010-11. In addition, the Governor continues to suspend those mandates suspended in 2010-11. As a part of the proposal, the Administration signaled its continued participation in the working group on mandate reform established pursuant to Chapter 724, Statutes of 2010. In the short-term, the Legislature adopted the Governor's proposal in 2011-12 Budget Bill (SB 69) passed by the Legislature in March (in enrollment), while looking toward the mandates working group to develop longer term budget options. Related provisions were enacted in SB 70 – the education budget trailer -- as enacted in Chapter 7, Statutes of 2011.

LAO COMMENTS/RECOMMENDATION: Consistent with their previous position, the LAO continues to recommend that the state eliminate certain mandated education activities. Although the state removed some requirements associated with certain K-12 mandated activities in 2010-11, the LAO recommends that additional requirements be removed in 2011-12. Specifically, in its 2009 report, *Education Mandates: Overhauling a Broken System*, the LAO highlighted 26 mandates that the state could eliminate (that have not already been eliminated), including Notification of Truancy, The Stull Act, and Intra-District Transfers. Given all other competing priorities, the LAO thinks these types of activities are lower priority and requiring districts to undertake them, particularly in this fiscal environment and potentially at the expense of other higher priority student services, makes little sense and places unneeded pressure on limited districts' resources.

Furthermore, the LAO continues to recommend that the state consider options for simplifying the process of funding whatever mandates it continues to require. For example, for several of the active mandates, the state could create a block grant that would provide a standard rate to every district.

In addition to simplifying the mandate finances system for districts and the state, a block grant approach would help reduce the notable inequities in the amounts districts now receive for performing the same mandated services.

RELATED LEGISLATION:

SB 64 (Liu). Addresses the underlying need to reform the process for mandate evaluation and reimbursement and designed to make the mandates system simpler, timely, and equitable. More specifically, the bill would:

1. Create a collaborative process for educators and state agencies to resolve most mandate questions without litigation or excessive delays.
2. Require routine reviews of mandated cost guidelines so that inequities or excessive costs are avoided.
3. Require the Commission on State Mandates, for purposes of a school district test claim, to adopt parameters and guidelines reflecting reimbursement methodology preferences, as specified.

Status: Senate Appropriations

SB 887 (Emmerson). Enacts the Streamlined Temporary Mandate Process Act of 2011 as a voluntary, temporary, streamlined alternative mandate reimbursement process for LEAs from 2011–12 through 2014–15. The bill would suspend, but fund 38 mandates currently applicable to local educational agencies during this timeframe. LEAs would annually self-certify they have complied with intent of statutes and regulations for each of the mandates, except for any requirements regarding compliance and claiming issues.

Funding would be based upon an equal amount per unit of prior-year enrollment for LEAs, determined by an appropriation made in the annual budget act, providing no less than an unspecified amount that would be adequate to encourage participation by eligible local educational agencies in the streamlined temporary mandate process. The Superintendent of Public Instruction would establish and convene a task force charged with developing a permanent state process for mandate reimbursement that is cost effective for local educational agencies and responsive to state policy goals**.** **Status**: Senate Education Committee

AB 202 (Brownley). Requires a periodic review of statutes creating a reimbursable state mandate, and a determination by the Legislature whether they should be amended, repealed or remain unchanged. The bill intends to reduce administrative costs that the mandate process places on local educational agencies; streamline procedures and reduce workloads for everyone involved to shrink processing time for claims; and reduce long - term liability to the state for mandate reimbursements. **Status:** Assembly Appropriations Committee

SUGGESTED QUESTIONS:

K-14 Mandates Overall:

1. **Update on LAO Recommendations.** Can the LAO update the Subcommittee on their specific recommendations for mandate reform and how they may relate to some of the options identified by the working group report?

2. **Latest Controller's Claims Costs**. Can the LAO provide an update on the full costs of funding K-14 mandates in 2011-12, as reflected by the final claims from the State Controller's Office for 2009-10? Can the LAO provide some thoughts on the fiscal trade-offs of simply funding the existing system?

3. **Reasonable Reimbursement Methodology**. Can the LAO provide more background on the Reasonable Reimbursement Methodology (RRM), which is referenced in the working group report?
   a. How has RRM been utilized for K-14 mandates?
   b. What are the benefits and risks?
   c. Who is typically at the table negotiating RRM?

K-12 Mandates:

1. **Status of Behavior Intervention Plan (BIP) Mandate.** What is the status of the BIP mandate?
   a. Can you review the costs of this mandate – prior year and ongoing?
   b. Is a RRM process being utilized?
   c. Who is negotiating the RRM?
   d. What is the basis of the RRM rate being discussed?
   e. What are the cost concerns with the rate?
   f. What steps can the Legislature take to address these concerns?

2. **Status of High School Graduation Mandate.** What is the status of the High School Graduation Mandate?

a. Can you review the costs of this mandate – prior year and ongoing?
b. Is a RRM process being utilized?
c. Who is negotiating the RRM?
d. What is the basis of the RRM rate being discussed?
e. What are the cost concerns with the rate?
f. What steps can the Legislature take to address these concerns?

3. **Finance and Categorical Reform Options.** As discussed later in the Subcommittee Agenda, what opportunities exist for reducing the costs of mandates through school finance and categorical reform? For example, could the costs of annual school fiscal audits – arguably a cost of doing business for most school districts - become a new condition for eligibility for a new revenue limit block grant? Could notification of student absences –

arguably another basic school service - become a new condition for a student improvement block grant?

Community College Mandates:

1. **Improperly Claimed Mandates:** When the Controller's Office audits the CCC mandate claims, what is the error or disallowance rate that they find?

2. **Enrollment Fee Collection and Waivers Mandate:** Did the mandates working group suggest solutions for how to reduce the cost of the enrollment fee mandate (currently over $23 million annually)? What would be the policy implication of eliminating the enrollment fee mandate? Would some students potentially lose their BOG waivers? Would campuses be able to afford to allow students to attend for free, especially when state support has been reduced? Would eliminating the enrollment fee mandate promote an unequal system where some colleges charge for classes and others do not?

3. **Health Fees and Services Mandate:** This mandate only applies to those districts that provided health services in 1986-87. How many districts currently have to comply with this mandate? Is there any compelling policy reason to have a mandate that applies only to some community college districts and not to others? If the students were to pay for these health services themselves, approximately how much per semester would a student pay at a college that currently receives a state mandate payment?

4. **Integrated Waste Management:** During the Subcommittee's discussions last year there was no cost discussed for this mandate, and now the mandate has a cost of over $6 million. When this mandate was suspended, it was because the Subcommittee had reason to think that districts were actually making money from the recycling efforts. The recommendation for this mandate is that community college recycling be made voluntary just like K-12 schools. Does the LAO have information on about what percentage of K-12 schools choose to recycle? Would it be reasonable to anticipate a similar recycling participation rate from community colleges?

5. **New Mandates:** Since the Subcommittee discussed community college mandates last year, has the State Commission on Mandates approved any new mandates for community colleges? Do we know what the cost is for those mandates?

ISSUE 2. DOF April Letters – Various K-12 State Operations and Local Assistance Fund Adjustments (Consent Vote)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to various K-12 state operations and local assistance items in the 2011-12 budget. These revisions are proposed by the DOF April 1 Budget Letter. These issues 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 Items

1. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, Reappropriate Carryover of Federal Funds for the California Modified Assessment Alignment Study (Issue 080).** It is requested that Item 6110-001-0890 be increased by $600,000 ($200,000 federal Title I carryover funds and $400,000 federal Title VI carryover funds), and that Item 6110-001-0001 be amended to support an alignment study of the California Modified Assessment (CMA) by an independent contractor. As a result of a 2010 peer review, and to approve the CMA as meeting the requirements of the No Child Left Behind Act of 2001, the United States Department of Education requires an alignment study of the CMA to ensure validity, technical quality, inclusivity, and alignment to the state's content standards. The 2010 Budget Act provided these funds for this purpose, however, the Department of Education (SDE) reports they will be unable to complete the request for proposal process and encumber the funds in the current year, and therefore, the SDE requests to carryover the funds into fiscal year 2011-12.

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, $200,000 federal Title I and $400,000 federal Title VI funds are available on a one-time basis to conduct a validation study of the California Modified Assessment.

2. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, Add One-Time Carryover Authority for Document Translation Workload (Issue 278). I**t is requested that Item 6110-001-0890 be increased by $250,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds. These funds will support the continued translation of parental notification and information forms in multiple languages to assist school districts in complying with the requirements of current law. The carryover is a result of delays in securing contracts with vendors to translate parental notification documents.

The Governor's Budget eliminated $250,000 in one-time carryover funding available in 2010-11; however, the provisional language was not removed. Therefore, no change to provisional language is necessary to conform to this action.

3. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, Administration of Commodity Supplemental Food Program (Issue 721).** It is requested that Item 6110-001-0890 be increased by $33,000 Federal Trust Fund and that

Item 6110-001-0001 be amended to provide up to $108,000 in administrative funds for the Commodity Supplemental Food Program, which supplements the diets of low-income mothers and children with nutritious commodity foods from the United States Department of Agriculture. This funding will support one analyst position, temporary help, and other costs associated with administering the program.

We note that Provision 26 of Item 6110-001-0890 currently states that $45,000 is available for the administration of the program. However, $75,000 is the actual amount of authority currently available.

It is further requested that provisional language be amended in Item 6110-001-0890 to clarify and update the total amount of authority available for this program as follows to conform to this action:

"26. Of the funds appropriated in this item, ~~$45,000~~ up to $108,000 is for the administration of the Commodity Supplemental Food Program, contingent on approval from the United States Department of Agriculture."

Federal Funds – Local Assistance Items

4. **Item 6110-102-0890, Local Assistance, Learn and Serve America Program (Issue 480).** It is requested that this item be increased by $138,000 Federal Trust Fund to reflect the availability of $200,000 in one-time carryover funds and a $62,000 reduction to the federal grant for the Learn and Serve America Program, which provides opportunities for students to engage in academic-based, service-learning projects.

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

X. Of the funds appropriated in this item, $200,000 is provided in one-time carryover funds to support the existing program.

5. **Item 6110-112-0890, Local Assistance, Public Charter Schools Grant Program (Issue 802).** It is requested that this item be increased by ~~$14,072,000~~ $14,091,000 Federal Trust Fund to reflect an increase in the federal grant. The PCSGP provides planning and implementation grants to new startup and conversion charter schools. In 2011-12, it is anticipated that 117 new charter schools will receive grants through the PCSGP.

6. Item 6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 301). It is requested that this item be decreased by $692,000 federal Title I Neglected and Delinquent Children funds to reflect the anticipated federal grant award for 2011-12. Local Education Agencies (LEAs) will use these funds for services to educate neglected and delinquent or incarcerated youth.

7. **Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 291, 292, 297, and 298).** It is requested that Schedule (1) of this item be increased by $333,000 federal Title I funds. This adjustment includes a decrease of $1,367,000 to align the Migrant Education Program with the anticipated federal grant award and an increase of $1.7 million to reflect the availability of one-time federal carryover funds. The LEAs will use these funds for educational and support services to meet the needs of highly-mobile children.

It is also requested that Schedule (2) of this item be increased by $5,173,000 federal Title III funds. This adjustment includes a decrease of $6,327,000 to align the English Language Acquisition Program with the anticipated federal grant award and an increase of $11.5 million to reflect the availability of one-time federal carryover funds. The LEAs will use these funds for services to help students attain English proficiency and meet grade-level standards.

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

X. Of the funds appropriated in Schedule (1), $1,700,000 is provided in one-time carryover funds to support the following existing program activities: (1) extended day/week and summer/intersession programs to help prepare middle and secondary students for the high school exit exam, (2) investments aimed at upgrading curricula, instructional materials, educational software, and assessment procedures, (3) tutorials and intensified instruction, and (4) investments in technology used to improve the proficiency of limited English proficient students.

X. Of the funds appropriated in Schedule (2), $11,500,000 is provided in one-time carryover funds to support the existing program.

8. **Item 6110-134-0890, Local Assistance, Federal Title I Basic Elementary and Secondary Education Act Program (Issue 085).** It is requested that Schedule (4) of this item be increased by $2,413,000 federal Title I funds to align the Title I Basic Elementary and Secondary Education Act Program appropriation with the anticipated federal grant. LEAs will use these funds to support services that assist low-achieving students enrolled in the highest poverty schools.

9. **Item 6110-134-0890, Local Assistance, Federal Title I Set Aside for the Local Educational Agency Corrective Action Program (Issue 087 ~~086~~).** It is requested that Schedule (2) of this item be decreased ~~increased~~ by $962,000 ~~$334,000~~ federal Title I Set Aside funds for the LEA Corrective Action Program to align the appropriation with the anticipated federal grant. The program provides funding for technical assistance to LEAs entering federal Corrective Action.

It is further requested that provisional language be added as follows to identify available one-time carryover funds. This provisional language was omitted from the Governor's Budget:

X. Of the funds appropriated in Schedule (2), $5,700,000 is provided in one-time carryover funds to support the existing program.

10. **Item 6110-134-0890, Local Assistance, Federal School Improvement Grant Program (Issue 086 ~~087~~).** It is requested that Schedule (3) of this item be increased ~~decreased~~ by $334,000 ~~$962,000~~ federal School Improvement funds to align the appropriation with the anticipated federal grant. The School Improvement Grant Program provides grants to the

lowest-achieving Title I schools identified for federal Program Improvement, Corrective Action, or Restructuring to implement evidence-based strategies for improving student achievement.

It is further requested that provisional language be added as follows to identify available one-time carryover funds. This provisional language was omitted from the Governor's Budget:

X. Of the funds appropriated in Schedule (3), $226,000 is provided in one-time carryover funds to support the existing program.

11. **Item 6110-136-0890, Local Assistance, McKinney-Vento Homeless Children Education Program and Title I Even Start Program (Issues 293, 294, 295, and 296).** It is requested that Schedule (1) of this item be increased by $565,000 federal Title I funds. This adjustment includes a decrease of $35,000 to align the McKinney-Vento Homeless Children Education Program with the anticipated federal grant award and an increase of $600,000 to reflect the availability of one-time federal carryover funds. The LEAs will use these funds to provide services to homeless students.

It is also requested that Schedule (2) of this item be increased by $1,013,000 federal Title I funds. This adjustment includes an increase of $43,000 to align the Even Start Program with the anticipated federal grant award and an increase of $970,000 to reflect the availability of one-time carryover funds. The LEAs will use these funds to improve the educational opportunities of low-income families and to support a unified literacy program that integrates early childhood education and parenting education.

It is further requested that provisional language be added as follows to conform to these actions:

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

X. Of the funds appropriated in Schedule (2), $970,000 is provided in one-time carryover funds to support the existing program.

12. **Item 6110-137-0890, Local Assistance, Rural and Low Income Assistance Program (Issues 303 and 304).** It is requested that this item be increased by $28,000 federal Title VI funds. This adjustment includes a decrease of $34,000 to align the Rural and Low Income Assistance Program with the anticipated federal grant award and an increase of $62,000 to reflect the availability of one-time federal carryover funds.

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

X. Of the funds appropriated in this item, $62,000 is provided in one-time carryover funds to support the existing program.

13. **Item 6110-166-0890, Local Assistance, Vocational Education Program (Issue 484).** It is requested that this item be increased by $6,284,000 federal Title I carryover funds for the Vocational Education Program, which develops the academic, vocational, and technical skills of students in high schools, community colleges, and Regional Occupational Centers and Programs.

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

X. Of the funds appropriated in this item, $6,284,000 is provided in one-time carryover funds to support the existing program.

14. Item 6110-180-0890, Local Assistance, Education Technology, (Issues 299 and 300). It is requested that this item be decreased by $255,000 Federal Trust Fund. This adjustment includes a decrease of $748,000 to align the Education Technology program with the anticipated federal grant award and an increase of $493,000 to reflect the availability of one-time federal carryover funds. A decrease of $827,000 would be applied to competitive grants and formula grants, while a base increase of $79,000 would be made available to support the California Technology Assistance Project. One-time carryover funds would be distributed to both competitive and formula grants, as well as the California Technology Assistance Project.

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

(3) 20.10.025.013–California Technical Assistance Project ……………………………… 309,000

X. Of the funds appropriated in Schedule (3), $309,000 is provided for the California Technology Assistance Project to provide technical assistance and support to the program. Of the funds appropriated in this schedule, $230,000 is provided in one-time carryover funds.

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

"1. The funds appropriated in Schedule (1) shall be allocated as formula grants to school districts pursuant to the federal Enhancing Education Through Technology program. <u>Of the funds appropriated in this schedule, $258,000 is provided in one-time carryover funds.</u>
2. The funds appropriated in Schedule (2) are available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of Division 4 of Title 2 of the Education Code and the federal Enhancing Education Through Technology program. The eligibility criteria for these grants shall be consistent with federal law and target local educational agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal school improvement or demonstrating substantial technology needs. <u>Of the funds appropriated in this schedule, $5,000 is provided in one-time carryover funds.</u>"

15. Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issue 563). It is requested that this item be increased by $4,065,000 federal Title II funds to reflect $4.0 million in one-time carryover and a $65,000 increase in the federal grant. The Mathematics and Science Partnership Program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support to mathematics and science teachers.

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

X. Of the funds appropriated in this item, $4,000,000 is provided in one-time carryover funds.

16. Item 6110-195-0890, Local Assistance, Improving Teacher Quality Grant Program and Administrator Training Program (Issues 561 and 562). It is requested that Schedule (1) of this item be increased by $866,000 federal Title II funds to reflect $454,000 in one-time carryover and a $412,000 increase in the federal grant. The Improving Teacher Quality Grant

Program funds LEAs on a formula basis for professional development activities focused on preparing, training, and recruiting highly-qualified teachers.

It is also requested that Schedule (2) of this item be increased by $612,000 federal Title II funds to reflect one-time carryover funds. The Administrator Training Program provides K-12 school principals and vice-principals instruction and coaching on leadership skills, financial and personnel management, the inter-relation of academic standards, instructional materials and curriculum frameworks, and the effective use of pupil assessments.

It is further requested that Provisions 4 and 5 be amended as follows to conform to these actions:

"4. Of the funds appropriated in Schedule (1), ~~$21,000~~ <u>$475,000</u> is provided in one-time carryover for Improving Teacher Quality Local Grants. None of these funds shall be used for additional indirect administrative costs.

5. Of the funds appropriated in Schedule (2), ~~$495,000~~ <u>$1,107,000</u> is provided in one-time carryover for the Administrator Training Program. None of these funds shall be used for additional indirect administrative costs."

17. **Item 6110-240-0890, Local Assistance, Advanced Placement Fee Waiver Program (Issue 724).** It is requested that this item be increased by $1,000 Federal Trust Fund to align the appropriation with the federal grant award for the Advanced Placement (AP) Fee Waiver Program, which reimburses school districts for specified costs of AP test fees paid on behalf of eligible students. The AP program allows students to pursue college-level course work while still in secondary school.

General Fund and Other Adjustments

18. **Item 6110-001-0001, Support, State Department of Education, Restore Positions Removed in Error (Issue 486).** It is requested that 3.5 limited-term positions that were removed in error be restored to the State Department of Education. Specifically, 1.5 expiring limited-term positions for the Green Technology Partnership Academy Program and 2.0 expiring limited-term positions for the Enhancing Education for Technology Program were removed twice from the Governor's Budget. The correct amount of funding was removed.

19. **19. Item 6110-170-0001, Local Assistance, Add Carryover for the Career Technical Education Program (Issue 485).** It is requested that this item be increased by $3,486,000 to reflect one-time reimbursement carryover for the Career Technical Education Program, which would allow the completion of four 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, $3,486,000 is provided in one-time reimbursement carryover funds to support the existing program.

20. **Item 6110-001-3170, Support, Provide Authority to Fund Heritage School Registration (Issue 471**). It is requested that expenditure authority of $40,000 in fee revenue from the Heritage Enrichment Resource Fund be approved to partially address costs incurred in the current year and to cover costs estimated for the budget year related to the registration of

heritage schools, pursuant to Chapter 286, Statutes of 2010 (SB 1116). Heritage schools offer foreign language education or cultural education relating to a foreign country to school-age children.

It is further requested that Item 6110-001-3170 be added as follows to conform to this action:

6110-001-3170—For support of Department of Education, payable from the Heritage Enrichment Resource Fund……………………………………………………….40, 000

Provisions:
X. The funds appropriated in this item shall be available to the State Department of Education to process payments for the registration of heritage schools and to provide necessary technical assistance, pursuant to Chapter 286 of the Statutes of 2010. Of the amount appropriated in this item, $16,200 may be used to mitigate costs incurred in the 2010-11 fiscal year to develop and administer the registration process.

X. The department shall ensure that the registration fee for the 2011-12 fiscal year not exceed the costs of registering heritage schools pursuant to Section 33195.5 of the Education Code.

ACTION ITEM: STAFF RECOMMENDATION (CONSENT): Staff recommends approval of all of the DOF April Letter proposals listed above, including staff revisions highlighted for some issues. These revisions provide corrections to the April Letter requested by both CDE and DOF. No issues have been raised for any of these issues. **OUTCOME: Approved. (Vote: 3-0)**

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. According to the First Interim Report for 2010-11 – the most recent report available – there are currently **13 school districts with negative certifications** (compared to 12 school districts last year) and **97 school districts with qualified certifications** (compared to 114 districts last year). In summary, the total number of school districts on the negative list have increased by one district from 2009-10 to 2010-11. In contrast, the number of districts on the qualified list actually fell by 17 districts during this same period.

The 13 school districts with negative certifications at First Interim in 2010-11 – listed below -- will not be able to meet their financial obligations for 2010-11 or 2011-12.

Negative Certifications, First Interim Report, 2010-11

	District	County	Budget ($)
1	Hayward Unified	Alameda	195 million
2	Inglewood Unified	Los Angeles	128 million
3	Vallejo City Unified	Solano	138 million
4	Natomas Unified	Sacramento	69 million
5	Cotati-Rohnert Park Unified	Sonoma	50 million
6	Banning Unified	Riverside	42 million
7	Travis Unified	Solano	40 million
8	Hollister Elementary	San Benito	40 million
9	Southern Kern Unified	Kern	25 million
10	King City Joint Union High	Monterey	19 million
11	Dos Palos-Oro Loma Unified	Merced	19 million
12	Healdsburg Unified	Sonoma	18 million
13	Cloverdale Unified	Sonoma	12 million

Attachment C provides a complete list of LEAs with negative or qualified certifications for the First Interim Report for 2010-11.

Preliminary FCMAT Reports for Second Interim. According to FCMAT, the Second Interim Report for 2010-11 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. The First Interim Fiscal Reports for 2010-11 were prepared by LEAs in Fall 2010, prior to release of the Governor's January 2011-12 budget, which included an additional inter-year payment deferral of $2.1 billion for K-12 LEAs in 2011-12. This new deferral was enacted last March by SB 70 (Chapter 7; Statutes of 2011).

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 D summarizes the amounts of these emergency loans, interest rates on loans, and the status of repayments.) Two of these districts – Emery Unified and Coachella Valley Unified – have paid off their loans. Six school districts are currently receiving state emergency loans – Emery Unified, King City Joint Union High School, Oakland Unified, Richmond/West Contra Costa Unified, Vallejo City Unified, and West Fresno Elementary.

Of the six districts with current emergency loans from the state, four remain on the negative or qualified lists at First Interim 2010-11. (King City Joint Union Higher and Vallejo City Unified are on the negative list; Emery Unified and Oakland Unified are on the qualified list.) The remaining two districts -- West Fresno Unified and West Contra Costa Unified – are not currently on either the negative or qualified certification lists for the 2010-11 First Interim Report.

King City Joint Union High School District. King City Joint Union High School was the most recent addition to the state emergency loan list in 2009. **Chapter 20; Statutes of 2009** provided a **$5.0 million** emergency loan appropriation and specified the terms for loan repayment. The bill authorized the district to augment the emergency loan with an additional **$8 million** of lease financing, to effectively increase the loan to **$13 million**. The bill also requires the district to enter into a lease financing arrangement through the California Infrastructure and Economic Development Bank for the purpose of financing the emergency apportionment, including a restoration of the initial General Fund apportionment from the state. The bill authorizes the district to sell property and use the proceeds to reduce or retire the loan, and would make the district ineligible for financial hardship assistance under the State School Facilities Program. As a requirement of the emergency loan, the Superintendent of Public Instruction (SPI), in consultation with the Monterey County Superintendent, assumed all legal rights, duties and powers of the district's governing board, and appointed a state administrator to act in his behalf, until certain conditions are met.

Legislative Review of Qualifying Districts. Statute added by AB 1200 (Chapter 1213; Statutes of 1991) states intent that the legislative budget subcommittees annually conduct a review of each qualifying school district. Specifically, Education Code 41326 (i) states the following:

It is the intent of the Legislature that the legislative budget subcommittees, annually conduct a review of each qualifying school district that includes an evaluation of the financial condition of the *district, the impact of the recovery plans upon the district's educational program, and the efforts made by the state-appointed administrator to obtain input from the community and the governing board of the district*.

STAFF COMMENTS:

- **Number of LEAs with Qualified Fiscal Status Will Likely Increase <u>Between First and Second Interim.</u>** According to FCMAT, the number of school districts with qualified certifications will likely increase between First Interim and Second Interim to reflect the Governor's January Budget deferral, as enacted last March. Very preliminarily, FCMAT predicts the number of districts on the negative list will likely **remain at 13 districts** at Second Interim; however, the number of number of districts on the qualified list will likely **increase from 97 districts** to **124 districts.** It is not uncommon to see increases in the number of districts on the qualified lists at Second Interim, because it reflects more up-to-date budget information.

- **Number of LEAs with Negative or Qualified Fiscal Status at <u>Second Interim</u> Could Be Lower than Prior Year.** A comparison of FCMAT's preliminary figures for Second Interim also indicates that the total number of districts qualified status may drop from **160 districts** in 2010-11 – the highest ever - to **124 districts** in 2010-11. However, FCMAT believes that the number of districts on their preliminary qualified list will likely increase when Second Interim is certified by CDE in late June or July.

SUGGESTED QUESTIONS:

1. FCMAT predicts that the number of districts on negative list will remain at about 13 districts and the number of districts on the qualified list will increase from 97 to 124 districts between First Interim and Second Interim. How have districts built their budgets for their Second Interim reports? Are districts already assuming additional cuts of about $350/pupil if the tax extensions do not pass? How would the number of districts on the negative or qualified list change if further reductions were needed?

2. Per FCMAT's preliminary estimates, the number of districts on the qualified list may decrease from 160 at Second Interim in 2009-10 – an all-time high -- to 124 districts at Second Interim in 2010-11. Can you explain this drop?

3. 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?

4. What is the extent of FCMAT's work with the six school districts currently receiving state emergency loans? How are these districts progressing?

5. Attachment D of this Subcommittee Agenda summarizes the interest rates for LEAs with emergency loans. Can you discuss why the emergency loan interest rate is so much higher for the King City Unified School District than for other districts? How does this higher rate affect the ability of King City Unified to make loan repayments and recover financially?

6. Are you aware of any other LEAs that may be facing financial insolvency and requiring a state emergency loan? For example, a FCMAT letter to the Los Angeles County Office of Education on April 14, 2011, recommends that the Inglewood Unified School District begin the process of securing a state emergency loan.

7. How are payment deferrals affecting LEAs, especially in light of the new intra-year and inter-year deferrals enacted in March for 2011-12? Are there some types of districts that face more of a challenge with deferrals than others?

8. Do the hardship provisions for the new intra-year and ongoing June to July inter-year deferrals in 2010-11 provide adequate protection for districts and charter schools facing serious financial problems?

9. Can you describe the most common problems faced by school districts on the negative list?

10. Has categorical flexibility helped LEAs balance their budgets? Would additional categorical flexibility be helpful to LEAs moving forward?

11. The 2009 budget package reduced the minimum state requirement for reserves for economic uncertainty for districts to one-third of the previously required level for 2009-10. As proposed by the Governor in January, Chapter 7 enacted in March 2011, extended these provisions through 2011-12, or two additional years. What is the effect of these changes on the fiscal health of districts?

12. There are more than 1,000 school districts of all sizes in California. As a result of budget shortfall, is there any movement among school districts toward unification as a means of achieving efficiencies?

ISSUE 4. Long-Term Categorical Flexibility -- LAO Report on School District Finance & Flexibility

DESCRIPTION: The Governor's January budget proposed to extend for two years a number of K-12 program and funding flexibility options for local educational agencies (LEAs) that were enacted in 2009. These options were intended to give LEAs more flexibility in handling ongoing budget reductions. The Legislature approved the Governor's January proposals - enacted by SB 70 (Chapter 7; Statutes of 2011) – that extend most categorical flexibility options from 2008-09 through 2014-15 or seven years.

While the Legislature has taken important action to signal the continuation of categorical flexibility in the short-term, the LAO will present other short-term and long-term options categorical flexibility. These options are the result of findings and recommendations from a two-year survey of LEAs published in the February LAO report entitled *Update on School District Finance in California.* The LAO will present findings and recommendations from this report to the Subcommittee.

GOVERNOR'S BUDGET PROPOSAL RECENTLY ENACTED BY CHAPTER 7, STATUTES OF 2011:

Categorical and Program Flexibility Options. In an effort to ease local impacts of state budget cuts, the February and July 2009 budget packages included a number of significant flexibility options intended to loosen program funding restrictions and to give school districts more control over spending decisions. Most of these flexibility options were authorized for a **five year period** -- from **2008-09 through 2012-13**. Some options had shorter timeframes. As proposed by the Governor's January Budget, Chapter 7 extends most of these program and funding flexibility options for local educational agencies (LEAs) by two additional years **– through 2014-15** -- or **seven years** total, as follows:

- **Categorical Program Flexibility.** Allows LEAs to use funding from about 40 K-12 categorical programs for any education purpose through 2014-15 (seven years), instead of 2012-13, as currently authorized. Since 2008-09, funding for these categorical programs have been combined into a budget "flexibility item" and were also subject to across-the-board funding reductions. Under categorical flexibility, a district's allocation for each program is based on its share of total program funding either in 2007-08 or 2008-09 -- with the earlier year being used for certain participation-driven programs.

- **Instructional Time Requirements.** Authorizes school districts to reduce the number of instructional days by five – from 180 to 175 days per year -- through 2014-15 without losing longer-year incentive grants.

- **Instructional Material Purchases.** Allows LEAs to use standards-aligned instructional materials adopted prior to July 1, 2008, instead of purchasing new materials, through 2014-15.

- **K-3 Class Size Reduction (CSR).** Continues the existing reduction in penalties for not meeting the K-3 CSR requirements through 2013-14, which is one year less than the flexibility provided for most other flexibility programs. Existing penalty reductions are currently authorized through 2011-12.

- **Sale of Surplus Property**. Allows school districts to direct the proceeds from the sale of surplus property for general fund purposes through January 1, 2014, instead of 2012 per current law. Only proceeds from the sale of non-state funded property are eligible for this additional flexibility, which commenced in 2009-10.

- **Routine Maintenance Contributions**. Suspends the remaining routine maintenance reserve requirement of one percent for school districts that meet the facility requirements of the Williams settlement 2014-15. Allows remaining LEAs to reduce contributions for routine maintenance of school facilities from three percent to one percent of General Funds through 2014-15.

- **Deferred Maintenance Program Matching Requirements**. Suspends previously required General Fund set-asides for LEAs receiving Deferred Maintenance funds for school facilities through 2014-15.

Fiscal Oversight Relief. The Governor also proposed to extend one other provision - originally enacted in 2009 - that lessens fiscal oversight for school districts that reduce their reserves for economic uncertainty. This proposal was also enacted by Chapter 7, as follows:

- **School District Budget Reserves**. Continues the authorization for districts to reduce their minimum budget reserves for economic uncertainty to one-third of previously required levels through 2011-12, instead of 2009-10 as currently required. Requires LEAs to make annual progress in restoring reserves in 2012-13, instead of 2010-11, and restores previously required reserve levels in 2013-14, instead of 2011-12.

Programs Excluded from Categorical Flexibility Option. The Governor continues to exempt about 20 categorical programs from categorical flexibility. These programs include: Special Education, Economic Impact Aid, K-3 Class Size Reduction, After School Education and Safety, Home-to-School Transportation, Quality Education Investment Act, Child Nutrition, Student Assessments, Charter School Facility Grants, Year-Round School Grants, Partnership Academies, Apprenticeship Programs, Foster Youth, Adults in Correctional Facilities, County Office Oversight, K-12 High Speed Network, and Agricultural Education.

LAO Report on School Finance and Flexibility

LAO COMMENTS: To help the Legislature in crafting its 2011‑12 education budget, the LAO surveyed school districts for a second year to gather information regarding how they were affected by recent federal and state actions. The results of the survey are contained in the LAO report entitled *Update on School District Finance in California.* Overall, the LAO survey results found that many districts:

(1) have reserved some federal Ed Jobs for 2011‑12;
(2) will find an additional deferral in 2011‑12 more difficult to accommodate;
(3) have benefited notably from existing flexibility provisions and desire additional flexibility; and
(4) have increased class sizes notably, instituted furlough days, laid off some teachers, and shortened the school year.

Given these survey findings, the LAO identifies several ways the Legislature could provide school districts with more flexibility in the short term. However, even with the extra flexibility, the LAO believes that many underlying problems would remain with California's system of K-12 finance. As a result, the LAO provides the Legislature with the following approach for making more lasting improvements to California's K-12 finance system.

LAO RECOMMENDATIONS: The LAO makes various recommendations for providing school districts with more flexibility in the short term, improving the state's K-12 finance system in the long term, and then aligning state operations with the streamlined K-12 finance system.

The LAO's recommendations are based on its survey findings as well as its ongoing assessment of the state's K-12 programs and statutory requirements. The LAO will discuss each of these recommendations – as summarized below - in more detail at the Subcommittee hearing.

- **Increase Flexibility in Short Term**

    - ✓ Remove strings tied to K-3 Class Size Reduction and Home-to-School Transportation
    - ✓ Remove strings from After School Education and Safety program by repealing Proposition 49
    - ✓ Link flex funding to students
    - ✓ Eliminate certain mandated education activities
    - ✓ Ease restrictions on contracting out for non-instructional services
    - ✓ Ease restrictions regarding pay rates and priority for substitute teaching positions

- **Improve K-12 Finance System Moving Forward**

    - ✓ Consolidate virtually all K-12 funding into revenue limits and a few block grants moving forward

- **Align State Operations With New Finance System**

    - ✓ Minimize California Department of Education's (CDE) focus on compliance monitoring
    - ✓ Refocus CDE's mission on data, accountability, and dissemination of best practices

STAFF COMMENTS:

- **Per LAO Survey, Districts Relying Heavily on Flexibility Options.** The LAO's survey responses largely confirm that districts are relying heavily on one-time federal funds and deferrals to support more programmatic spending. However, districts also are relying heavily on categorical flexibility provisions‒dismantling or significantly downsizing certain categorical programs to redirect support to core classroom instruction. Most respondents also are taking advantage of other flexibility options, such as shortening the school year, to balance their budgets. Survey responses indicate these flexibility provisions are helping districts protect certain local priorities in the midst of shrinking budgets. Per LAO, nonetheless, districts still have had to make notable programmatic reductions for example, increasing class sizes, instituting employee furloughs, and laying off staff.

- **Governor's Categorical Flexibility Proposal – As Enacted - Locks Most Programs into 2008-09 Proportions for Seven Years.** Since 2008-09, funding for about 40 categorical programs has been combined into a budget "flexibility item" that applies to across-the-board funding reductions. Under categorical flexibility, a district's allocation for each program is based on its share of total program funding – at the reduced level – either in 2007-08 or 2008-09, with the earlier year being used for certain participation‑driven programs. Under the categorical flexibility program, no growth funding is been provided for growing districts, and districts with negative growth are held harmless from any loss of funding associated with lower student attendance.

- **LAO Continues to Recommend Mandate Reforms**. In addition to removing strings attached to certain categorical programs, the LAO also continues to recommend the state eliminate certain mandated education activities. (Per the LAO, categorical programs and education mandates are very similar functionally, with the primary difference being that the state typically funds categorical programs up front whereas it funds mandates only on a reimbursement basis.) Although the state removed some requirements associated with certain K-12 mandated activities in 2010-11, the LAO recommends that additional requirements be removed in 2011‑12. Specifically, in its 2009 report, *Education Mandates: Overhauling a Broken System*, the LAO highlighted 26 mandates that the state could eliminate (that have not already been eliminated), including Notification of Truancy, The Stull Act, and Intra-District Transfers. Given all other competing priorities, the LAO thinks these types of activities are lower priority and requiring districts to undertake them, particularly in this environment and potentially at the expense of other higher priority student services, makes little sense and places unneeded pressure on limited districts resources. Furthermore, the LAO continues to recommend that the state consider options for simplifying the process of funding whatever mandates it continues to require. For example, for several of the active mandates, the state could create a block grant that would provide a standard rate to every district. In addition to simplifying the mandate finances system for districts and the state, a block grant approach would help reduce the notable inequities in the amounts districts now receive for performing the same mandated services.

STAFF RECOMMENDATIONS: The extension of short term flexibility options through Chapter 7 sends an important signal to the LEAs. More specifically, extending most existing flexibility options for another two years – seven years total -- provides a timely signal that will assist LEAs in making budget plans in the short term.

Staff makes the following recommendations to the Subcommittee as it considers possible refinements to categorical funding enacted to date for 2011-12 and beyond.

- **Consider Additional <u>Short Term</u> Actions Suggested per LAO, Especially if Additional Budget Reductions are Necessary.** The LAO has suggested a few additional flexibility options that the LAO believes would give districts more tools to address immediate budget shortfalls. Based upon the LAO's survey, staff believes these additional options would be particularly useful to LEAs if K-12 programmatic funding drops below the Governor's January levels. However, the LAO believes these additional options would benefit districts in any fiscal climate. Moreover, per the LAO, taking these actions now will set the foundation for comprehensive improvements to the state's education finance structure moving forward.

  - ✓ **Add K-3 CSR and Home-to-School Transportation Programs to Flexibility Program**. Per LAO, K-3 CSR and HTS transportation are strong candidates to be placed in the flex program based upon their recent survey of school districts. More than 60 percent of school districts support additional flexibility for these two programs. The Senate took these actions last year which was also supported by the LAO's district survey findings at that time.

For K-3 CSR, the LAO believes the current funding structure is only tenuously linked to the underlying policy objectives. That is, most districts are no longer meeting the program's central policy objective -- to reduce K-3 classes to 20 or fewer students.

For HTS transportation, the LAO notes that the existing funding structure is widely recognized as antiquated and unfair -- resulting in district funding allocations that are very poor reflections of a district's current underlying needs. The existing HTS formula also contains a "use it or lose it" provision that discourages districts from implementing more cost-effective practices, as decreasing costs in one year means losing funding.

  - ✓ **Adopt LAO Recommendation to Link Flex Funding to Students in the Short Term**. Regardless of which specific programs are included in the flex item in 2011-12, the LAO recommends that the Legislature modify the methodology used to allocate flex-item funding to school districts. Specifically, the LAO recommends the Legislature develop a per-pupil rate for each district by dividing the amount it received for all flexed programs in 2010-11 by its total ADA. Linking this funding to students would help create a rational basis for making future funding adjustments per the LAO. If the Legislature chose to streamline its education finance system, the LAO believes transition to such a system also would be less disruptive if most existing state funding already were linked to students and adjusted annually according to changes in the student population.

- **Begin Work with Administration to Develop Options for School Finance Reform in the <u>Long Term</u> per LAO Recommendations.** While the Governor and Legislature have already acted to extend the flexibility provisions two years, the LAO believes the state needs a more definitive exit strategy. <u>That is, the LAO thinks this is an opportune time for the state to rethink its overall K-12 finance system and craft a better system. Rather than extending current categorical flexibility for two more years, the LAO recommends that the Legislature improve the state's K-12 finance system on a lasting basis. Regarding a new finance structure, the LAO recommends the Legislature consolidate virtually all K-12 funding into revenue limits and a few block grants. Unlike the current flex item, a few block grants would provide flexibility while also allowing more opportunity for the state to ensure that at-risk and/or high-cost students continue to receive the services they need.</u>

RELATED LEGISLATION:

SB 140 (Lowenthal). Establishes a streamlined process for the state-level adoptions of instructional materials that are aligned with the common core academic standards and expands the authority of local school boards to adopt instructional materials to include K-8 schools. **Status:** Senate Appropriations.

AB 18 (Brownley). Consolidates funding, commencing in 2014-15, for most categorical programs into three categorical block grants. More specifically, this measure would place combine 25 revenue limit and other categorical programs into a Total Revenue Limit Grant distributed on pupil average daily attendance (ADA); combine eight categorical programs into a Targeted Pupil Equity Grant distributed on the basis of low-income and English learner students; and combine nine other categorical programs into a Quality Instruction Grant distributed based upon ADA**. Status:** Assembly Education Committee

SUGGESTED QUESTIONS:

1. Can the LAO clarify its recommendations for categorical reform in the short term, since the two year extension of categorical flexibility options proposed by the Governor last January have already been enacted in Chapter 7?

2. The LAO thinks the time is right to rethink the overall K-12 finance system and craft a better system. Rather than extending current categorical flexibility for two more years, the LAO recommends that the Legislature improve the state's K-12 finance system on a lasting basis. What process does the LAO envision (who, what, when), for achieving these long term recommendations?

3. In the long term, the LAO specifically recommends the Legislature consolidate virtually all K-12 funding into revenue limits and a few block grants which would provide

flexibility while also allowing more opportunity for the state to ensure that at-risk and/or high-cost students continue to receive the services they need.

a. How would the LAO recommended system be more equitable, efficient, or effective than maintaining approximately 60 separate state categorical funding programs?
b. How does the LAO recommended system compare to the conclusions of the 23 research studies summarized as a part of California's Getting Down to Facts report in March 2007?
c. How does the LAO recommended system compare to the recommendations of the Governor's Committee on Education Excellence published in November 2007?

4. In the short term, does the LAO have any concerns about provisions of Chapter 7 that allow LEAs to retain lower reserves for economic uncertainty – without inviting fiscal oversight - for an additional two years?

5. As a part of its survey, did the LAO determine if the public hearing and expenditure reporting provisions of the original categorical flexibility statute enacted in 2009 (and continued in Chapter 7) were being implemented?

ISSUE 5. Federal Striving Readers Program

DESCRIPTION: The California Department of Education (CDE) will provide an update on California's State Literacy Plan – pursuant to the new, federal Striving Readers Comprehensive Literacy (Striving Readers) program. The State Board of Education submitted a first draft of the State Literacy Plan to the U.S. Department of Education on April 1st. The Department of Education will also present a draft application for competitive Striving Readers discretionary grants, which could result in up to **$70 million** in one-time federal funds for our state. The draft application was released on May 2nd and is due to the U.S. Department of Education on May 9th.

BACKGROUND:

The Striving Readers Comprehensive Literacy (Striving Readers) program is authorized as part of the Federal Fiscal Year (FFY) 2010 Consolidated Appropriations Act, which originally provided **$250 million** for the program. Ultimately, $50 million of this amount was redirected to the federal Education Jobs Funds, leaving a total of **$200 million** for the Striving Readers program in FFY 2010. These funds are available to our state beginning in state fiscal year 2010-11.

Of the $200 million provided, **$10 million** is reserved for **formula grants** to assist states in creating or maintaining a State Literacy Team with expertise in literacy development and education for children from birth through grade 12 and to assist states in developing a comprehensive literacy plan.

Of approximately $190 million in remaining Striving Readers funds, **$178 million** are available for state **discretionary grants** for the purpose of creating a comprehensive literacy program to advance literacy skills, including pre-literacy skills, reading, and writing, for students from birth through grade 12, including limited-English-proficient students and students with disabilities.

No funding has been provided for the Striving Readers program in federal FFY 2011 budget appropriations. Future funding for the program, including state discretionary grants, is very unclear at this time.

Formula Grants for Comprehensive Literacy Plan.

Striving Readers formula grants provide funds to states for development of comprehensive literacy plans that must address the needs of children from birth through grade twelve. The plans must also improve alignment and transition between grades. In addition, plans should include key components of an effective state literacy system, including clear standards; a system of assessments to inform instruction; guidance on the selection and use of curriculum and interventions; teacher preparation and professional development aligned with standards; and a system of data collection, evaluation, and program accountability.

The California Department of Education (CDE) California has received **$841,000** in 2010-11 in Striving Readers formula grant funding to support a State Literacy Team and to develop a comprehensive literacy plan for children from birth through grade 12.

These funds were authorized in January 2011 through a Department of Finance (DOF) Section 28.00 Budget Act Letter. According to the Budget Letter request, the team will be comprised primarily of literacy development and education experts for children from birth through grade 12, the majority of whom will be local representatives. The literacy plan will be reviewed by the State Board of Education (State Board) prior to the submittal of the plan to the US Department of Education (USDE) no later than March 16, 2011.

In its concurrence with the DOF Section Letter request, the Joint Legislative Budget Committee (JLBC) requested that CDE provide the State Literacy Plan to the JLBC and legislative policy committees when the plan is submitted to the State Board for review or by March 1, 2011, whichever is earlier. The USDE ultimately extended California's deadline for submitting the State Literacy Plan from March 16, 2011 to April 1, 2011. (The original deadline was February 1, 2011.)

Status of State Literacy Plan.

The State Literacy Team – composed of 28 members selected by the State Board of Education -- commenced work on development of the State Literacy Plan on **February 17, 2011**. In **March 2011,** the State Board authorized the Board President, in consultation with the Superintendent of Public Instruction, to submit a draft State Literacy Plan as developed by the State Literacy Team to the USDE for review and consideration.

The Legislature received a copy of the first pre-draft of the State Literacy Plan on **March 30, 2011;** a final first draft was forwarded to the USDE on **April 1, 2011**. The State Literacy Plan was also posted on the CDE website on April 1, 2011. An email account was established to receive public comment on the plan.

According to CDE, California's first draft State Literacy Plan submitted to the USDE is a living document that will be updated and refined in future months by the State Literacy Team.

Discretionary Grants.

Discretionary grants will be awarded competitively to State Educational Agencies (SEAs) that must sub-grant at least 95 percent of the funds to Local Educational Agencies (LEAs) and early childhood providers. An SEA may use up to 5 percent of the awarded funds to provide leadership activities, including technical assistance and training, data collection, reporting, and administration.

Entities eligible for Striving Readers discretionary sub-grants are LEAs or other nonprofit providers of early childhood education that partner with a public or private nonprofit organization or agency with a demonstrated record of effectiveness in improving the early literacy development of children from birth through kindergarten entry and in providing professional development in early literacy.

States must give priority to LEAs and other entities serving greater numbers or percentages of disadvantaged children.

Funds will be used by LEAs and other entities for services and activities that have characteristics of effective literacy instruction through professional development, screening and assessment, targeted interventions for students reading below grade level and other research based methods of improving classroom instruction and practice for all students.

Of the SRCL discretionary grants, sub-granted funds to LEAs and other eligible entities are as follows:

- 15 percent of funds shall be used to serve children from birth through age 5;
- 40 percent of funds shall be used to serve children in kindergarten through grade 5; and
- 40 percent of funds shall be used to serve students in middle and high school including an equitable distribution of funds between middle and high schools.

According to the grant application, the USDE expects to award $178 million for 3 to 18 state grants under this competition, which are expected to be awarded in August 2011 (no later than August 30th). USDE expects that state grants will range between $3 million and $70 million for a four-year period with average size of awards being $25 million. The USDE will award the grants on a competitive basis for a project period of up to five years.

If successful in the competition, the USDE grant application lists California and Texas as the only two states eligible for up to **$70 million** in discretionary grant funds.

Status of State Discretionary Grant Application.

The USDE released the Striving Readers discretionary grant application to states on **March 10, 2011.** State applications are due back to the USDE by **May 9, 2011.**

The State Literacy Team reviewed the grant application and discussed priorities for the application on March 16, 2011 and March 23, 2011. The CDE began work on a preliminary competitive grant draft. On April 19, 2011, the State Literacy Team reviewed an initial draft of the discretionary grant application prepared by CDE.

On April 21, 2011, the State Board of Education delegated authority to Board President Michael Kirst to submit California's Striving Readers discretionary grant application to the USDE by May 9, 2011. The CDE staff continued to revise the application and prepare a final document for the State Board President's review on April 27, 2011.

The CDE released a draft grant application to the State Literacy Team on **Monday, May 2nd**, which was shared with legislative staff following transmittal to the team. Per CDE, the state grant application focuses efforts on:

- Infusing the California Common Core Standards, the Infant Toddler Learning and Development Foundations, and the Preschool Learning Foundations into the education system through a feeder pattern of schools within the LEAs and early childhood center providers.

- Addressing the language and literacy needs of economically disadvantaged students.

Further per CDE, the grant application stresses the building of early literacy skills, moving students from early literacy to advanced literacy through a Response to Instruction and Intervention (RtI^2) approach, and assisting educators with infusing the literacy skills into the secondary content courses.

CDE has outlined the following timeline for review and completion of the draft application during the coming week.

Date	Event/Activity
May 3, 2011	State Literacy Team review of grant application and public comments.
May 4, 2011	All comments due to the CDE.
May 6, 2011	Final draft application completed. All documents uploaded to grants.gov site.
May 9, 2011	Review and submit application to USDE by 4:00 p.m.

If California is successful in receiving a federal grant, CDE has outlined the following timeline for Striving Readers sub-grants to LEAs and non-profit early childhood education providers.

Date	Event/Activity
August 2011	Anticipated announcement of state discretionary grant recipients
Late Sept. 2011	Anticipated state sub-grant application released
Nov. 2011	Anticipated applications due from sub-grantees
Mid-late Jan 2011	Grant award letters to sub-grantees

Federal Criteria of Selection of Discretionary Grants.

The Striving Readers discretionary grant application identifies the following priorities for states:

- **Absolute Priorities**: These priorities are absolute priorities. Only applications that meet these priorities will be considered.

Priority 1: Improving Learning Outcomes.
To meet this priority, an applicant must propose a project that is designed to improve school readiness and success through grade 12 in the area of language and literacy development for disadvantaged students.

Priority 2: Enabling More Data-Based Decision-Making.
To meet this priority, an applicant must propose a project that is designed to collect, analyze, and use high-quality and timely data, especially on program participant outcomes, in accordance with privacy requirements, to improve instructional practices, policies, and student outcomes in early learning settings and in elementary and secondary schools.

- **Competitive Preference Priorities**: The following priority is a competitive preference priority. States can be awarded up to an additional five points to an application that meets this priority.

Competitive Preference Priority: Effective Use of Technology.
To meet this priority, an applicant must (1) propose to use technology, which may include technology to support principles of universal design for learning to address student learning challenges; and (2) provide, in its application, an evidence-based rationale that its proposed technology program, practice, or strategy will increase student engagement and achievement or increase teacher effectiveness.

The USDE will consider each state's literacy plan as part of the Striving Readers discretionary grant program application.

LAO COMMENTS: Based upon their review of the May 2nd draft grant application, the LAO offers the following comments.

- **Significant timing challenges with inclusion of California Common Core Standards (CCCS) as a priority for all sub-grantees.** Although the CCCS have been adopted, much work needs to be done so that LEAs have what they need to implement them in the classroom (including curriculum frameworks, instructional materials, professional development, and assessment tools).

- **Eligible applicant pool is too large**. CDE plans to use an LEA's low income status as a proxy for high literacy needs, with districts that have 40 percent or more of their students receiving free or reduced priced meals eligible for the grant. Under this proposed threshold, over 600 school districts and many charters that are considered LEAs are eligible for the funds.

- **Selection criteria and budget details are vague**. The grant application specifies that 30 LEAs will be grant recipients, but did not specify the target amount for the grant or how CDE will determine the dollar amount for each sub-grantee.

STAFF COMMENTS:

- **Timing of State Grant Application Makes Legislative Analysis and Input Difficult.** The Striving Readers draft discretionary grant application was released **late on May 2nd** and does not provide enough time for a thorough analysis in this agenda. This is an important grant application, which could provide significant, new funding – albeit one-time thus far -- available as a part of a statewide literacy program to address struggling readers, birth to grade 12, in our state. It will be important for the State Board and CDE to have input from the Legislature on further development of the state literacy plan and the discretionary grant proposal being presented today.

SUGGESTED QUESTIONS:

1. The first draft of the state literacy plan submitted to USDE on April 1st is considered a living document that will be updated by the State Literacy Team in the coming months. However, this literacy plan will also be used to evaluate our state's discretionary grant application due to USDE on May 9th. How will this work?

2. The State Literacy Team met on Tuesday, May 3rd to review the draft grant application released on late Monday, May 2nd. Can CDE summarize the Literacy Team's comments on the grant application? Is the grant application being changed as a result of any of these changes?

3. The final grant application is due to the USDE by Monday, May 9th. Given the draft application was just released on late May 2nd, are CDE and the State Board open to Legislative review and comment?

4. Both the state literacy plan and state discretionary grant application focus on "infusing Common Core standards into the education system". According to CDE, this focus will be achieved in large part through professional development. While Common Core standards were adopted in California last August, they have not been fully implemented statewide. Per LAO much work needs to be done so that LEAs have what they need to implement Common Core standards in the classroom, i.e., LEAs need curriculum frameworks, instructional materials, professional development, and assessment tools. This situation raises some questions:

    a. Could the focus on Common Core standards limit the participation of some high-need LEAs?
    b. Given a particular emphasis on professional development per CDE, how will Common Core standards training be provided and who will provide this training?

5. The federal application appears to allow sub-grantees to use funding for direct instruction. Can CDE confirm this? Does the grant application allow for direct instruction by sub-grantees?

6. Per the federal program, state sub-grantees must serve high need children and youths, including limited-English proficient students and students with disabilities. Per a preliminary review of the grant application, the treatment of economically disadvantaged students, English learners, students with disabilities, as well as, struggling readers, appears inconsistent and confusing.

    a. How does the application define eligible sub-grantees for purposes of serving high-need children and youth?
    b. How does the application address English learner students?
    c. How does the application address students with disabilities?
    d. How does the application address struggling readers?

7. The state grant application stresses moving students from early literacy to advanced literacy through a Response to Instruction and Intervention (RtI^2) approach. Why is the RtI^2 approach given so much emphasis? Does this approach address the needs of all student subgroups, at all grade levels? Will sub-grantees be allowed to use other interventions?

8. How does the grant application allocate discretionary grant funds among eligible sub-grantees? For example, how many grants will be provided? How much funding will be provided for each grant? Does the application address grant size issues to reflect "sufficient size" on an LEA or per pupil basis?

9. How will sub-grants be selected by the State Board? What factors will be given the highest weight among eligible sub-grantees? Will the State Board give weight to LEAs already doing a good job or LEAs that need to do a better job – or both?

10. Given the broader priorities of the federal grant application on <u>improving learning outcomes</u>, <u>use of data</u>, and <u>use of technology</u> -- how much flexibility will LEAs be allowed in their applications?

11. Can CDE clarify how long local sub-grantees will have to expend Striving Readers funds? The application indicates grants will be available over four years, for a five year project period? Earlier reports indicated funds would only be available for about 27 months?

12. How much funding does the grant application set aside for state administration and how will these funds be utilized? (States are allowed to use up to 5 percent of the awarded funds to provide leadership activities, including technical assistance and training, data collection, reporting, and administration.)

13. Under the previous federal Reading First program, the Legislature had trouble accessing basic information about Reading First, such as the number and type of teachers participating and student outcomes. This was due in part to the decentralized governance structure that involved implementation centers and six regional lead agencies. How will these issues be overcome with the Striving Readers program?

14. What is the role of the higher education institutions in the discretionary grant application? Did the higher education representatives on State Literacy Team have any comments on this issue at their meeting on Tuesday, May 3rd?

15. What is the outlook for future discretionary grants funding for the Striving Readers program?

ATTACHMENT A

Figure 3

Three Potential Packages by Specific K-14 Mandate[a]

Mandate	Definition of Statewide Interest: Narrow	Broader	Broadest[b]
County Office of Education Fiscal Accountability Reporting	Fund	Fund	Fund
High School Exit Examination	Fund	Fund	Fund
Intradistrict Attendance	Fund	Fund	Review
Pupil Promotion and Retention	Fund	Fund	Fund
School District Fiscal Accountability Reporting	Fund	Fund	Fund
Annual Parent Notification	Reduce	Reduce	Reduce
Charter Schools I, II, III	Reduce	Reduce	Reduce
Criminal Background Checks	Reduce	Reduce	Reduce
Criminal Background Checks II	Reduce	Reduce	Reduce
Mandate Reimbursement Processa	Reduce	Reduce	Reduce
School Accountability Report Cards	Reduce	Reduce	Reduce
Agency Fee Arrangementsa	Eliminate	Eliminate	Review
AIDS Prevention Instruction II	Eliminate	Reduce	Review
California State Teachers' Retirement System (CalSTRS) Service Credita	Eliminate	Reduce	Review
Caregiver Affidavits	Eliminate	Eliminate	Review
Collective Bargaininga	Eliminate	Fund	Fund
Comprehensive School Safety Plans	Eliminate	Reduce	Reduce
Differential Pay and Reemployment	Eliminate	Fund	Fund
Expulsion of Pupils Transcript Cost for Appeals	Eliminate	Eliminate	Fund
Financial and Compliance Audits	Eliminate	Eliminate	Fund
Habitual Truant	Eliminate	Eliminate	Review
Immunization Records	Eliminate	Reduce	Reduce
Immunization Records–Hepatitis B	Eliminate	Reduce	Reduce
Juvenile Court Notices II	Eliminate	Fund	Fund
Law Enforcement Agency Notification	Eliminate	Eliminate	Review
Notification of Truancy	Eliminate	Eliminate	Review
Notification to Teachers: Pupils Subject to Suspension or Expulsion	Eliminate	Eliminate	Reduce
Physical Education Reports	Eliminate	Eliminate	Review
Physical Performance Tests	Eliminate	Eliminate	Review
Prevailing Wage Rate[a]	Eliminate	Eliminate	Review
Pupil Health Screenings	Eliminate	Reduce	Reduce
Pupil Residency Verification and Appeals	Eliminate	Eliminate	Eliminate
Pupil Safety Notices	Eliminate	Fund	Fund
Pupil Suspensions, Expulsions, and Expulsion Appeals	Eliminate	Eliminate	Fund
Removal of Chemicals	Eliminate	Eliminate	Review
School District Reorganization	Eliminate	Fund	Fund
Scoliosis Screening	Eliminate	Eliminate	Eliminate
The Stull Act	Eliminate	Eliminate	Review

[a] Shared K-14 mandates.

[b] Mandates designated as review would be sent to policy committees for deliberation. Mandates designated as "reduce" would have their costs reduced going forward.

ATTACHMENT B

Figure 4

Mandates Work Group—California Community Colleges (CCC)

(Dollars in Thousands)

Mandate	2008-09 Claims[a]	Requirements	Work Group Members' Conclusions/Recommendations
Sex Offenders: Disclosure by Law Enforcement Officers	—	Campus police must register students who are sex offenders living on campus.	There was broad agreement to fund this mandate, which serves a compelling public-safety purpose with negligible, if any, costs to the state.
Cal Grant Grade Point Average	—	Districts must calculate students' grade point average (GPA) and submit information to the California Student Aid Commission to determine eligibility for Cal Grant awards.	The group came to a general understanding that leaving these two mandates on the books would not be particularly problematic because costs likely would be covered by a district's financial aid administration funding. Specifically, budget bill language specifies that the funding each district receives annually for financial aid administration must first be used to offset any costs associated with the Cal Grant GPA and Tuition Fee Waiver mandates.
Tuition Fee Waivers (Exemption from Nonresident Tuition)	$637	Districts must determine students' residence status and charge specified fees to nonresidents. Certain students (such as nonresident members of the military and AB 540 students) are entitled by law to pay the in-state resident fee. Districts must waive enrollment fees entirely for nonresident dependents of victims of the 9/11 attacks.	
Enrollment Fee Collection and Waivers	23,810	Districts must collect enrollment fees and waive fees for financially needy students.	The group did not reach consensus on this mandate. The CCC Chancellor's Office maintains that, to the extent the Legislature desires CCC to perform these duties, the mandate should be fully funded. The LAO recommendeds the state eliminate the mandate and instead create a strong incentive for districts to perform these duties by reducing their General Fund support by the amount of fee revenues they decline to collect. A third approach would be to retain the mandate but reduce claim costs by inserting new language into the annual budget act. Such language could specify that the funds districts receive for financial aid administration be counted as an offset to district costs for waiving enrollment fees—similar to how the Cal Grant GPA and Tuition Fee Waiver mandates are currently treated (see above). While the precise fiscal impact is unknown, this approach could reduce the cost of claims by millions of dollars.

Mandate	2008-09 Claims[a]	Requirements	Work Group Members' Conclusions/Recommendations
Health Fees/ Services	$6,094	Each district is required to provide students at least the level of health services it provided in 1986-87. Fee that districts may charge for health services is capped.	Members of the work group did not reach consensus on whether to eliminate or fully fund this mandate. Instead, it was proposed that various options be considered. Among other things, the Legislature could consider whether to eliminate the mandate and health-fee cap, and instead authorize CCC students to hold campus-wide elections to determine whether they want to impose a health-center fee on themselves, and if so, (1) the level of the fee, (2) which types of students would be required to pay it, and (3) the level of service that would be provided. (Statute already permits such elections for purposes of determining whether a transit fee should be imposed on students.)
Sexual Assault Response Procedures	3	Districts must adopt policies and procedures on campus response if students are sexually assaulted.	The group generally agreed that these three mandates appear to be unnecessary. Federal law addresses each issue through the Clery Act, which establishes detailed activities and reporting requirements with regard to campus safety and law enforcement. Moreover, as a result of federal, state, and local policies, campuses have undertaken as standard operating procedures activities to prevent, mitigate, and report crimes on campus.
Student Records	—	Districts must inform the alleged victim of sexual assault or physical abuse whether the alleged perpetrator was subject to campus disciplinary actions.	
Law Enforcement College Jurisdiction Agreements	160	Campus police must develop and update (as needed) agreements with local law enforcement agencies concerning which agency has responsibility for investigating violent crimes occurring on campus.	
Integrated Waste Management	6,050	Districts must divert from landfills a specified percentage of their solid waste through reduction, recycling, and composting activities, and develop and report annually on their ability to meet solid-waste diversion goals.	There was broad agreement to eliminate this mandate. (It is currently suspended.) In so doing, CCC would be treated the same way as K-12 districts, which are encouraged—but not required—to comply with diversion goals. Like K-12 schools, it is likely that colleges would continue to participate in waste-diversion programs.
Reporting Improper Governmental Activities	5	Districts must pay for all costs of State Personnel Board hearings (as well as certain other related activities) if an employee files a complaint with the Board alleging retaliation by the district for whistleblowing.	The work group did not reach consensus on this mandate. The LAO and some others in the group recommend its elimination, arguing that state law already provides protections and legal recourses for whistleblowers. By eliminating this mandate, CCC would be treated the same as K-12 schools. Others in the group are inclined to retain and fully fund the mandate, reasoning that potential benefits of the requirement for district employees are worth the relatively small annual costs the state has incurred to date for this mandate.

[a] Unaudited.

ATTACHMENT C

California Department of Education
First Interim Status Report, FY 2010-11

http://www.cde.ca.gov/fg/fi/ir/first1011.asp

ATTACHMENT D

California Department of Education, California State Emergency Loans to School Districts, 1991 to 2010

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

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Thursday, May 12, 2011
Upon adjournment of the Senate Budget Committee
Room 3191, State Capitol

Agenda Part A

VOTE ONLY ITEMS

ISSUE 1: California State Library – Sutro Library

Issue. The issue before the Subcommittee is the relocation costs and ongoing operations costs for the Sutro Library.

Sutro Library Overview. The heirs of the former San Francisco mayor Adolph Sutro donated his library to the State in 1913 with the provision that these collections always remain within the city and county of San Francisco. The Sutro Library is viewed as one of the best collections of local and family histories in the United States. Since 1983, the Sutro Library has been located in a modular building that does not provide adequate protection for the aging volumes of books stored there. Problems with the modular building include deficient humidity and climate controls for the collections and inadequate lighting and power for library users.

New Library Facility. SB 682 (Migden, 2005) funded a joint library project for the California State Library and the California State University, San Francisco. The J. Paul Leonard and Sutro Library project will be constructed on the CSU San Francisco campus, and is expected to be completed in November 2011. The new facility will provide a permanent location for the Sutro Library and meeting and study areas for the J. Paul Leonard Library.

Funding Request. The request is for $490,000 General Fund for the budget year and $225,000 General Fund for each subsequent year to support the relocation of the Sutro Library. Specifically, the request is for:

- $320,000 to cover the one-time costs to relocate the Sutro Library from its current location to the new facility during the budget year. This includes removing and reattaching industrial shelving, moving library collections and materials (including invaluable rare book collections), and relocating network and phone lines.
- Ongoing costs associated with the Sutro Library's occupancy of the fifth and sixth floors of the new facility. An augmentation of $170,000 is requested for the budget year and $225,000 for subsequent years. These ongoing costs are for the operating expenses for the new space, minus the costs currently spent on the modular building.

Staff Recommendation. Staff recommends that the Subcommittee approve the request.

ISSUE 2: California State Library – Library Renovation

Issue. The issue before the Subcommittee is the California State Library relocation for infrastructure renovation project, year four.

Renovation Overview. In 1928, the California State Library moved into the Library and Courts Building at 914 Capitol Mall in Sacramento. The Library and Courts Building is a registered state and federal landmark. The building had received few updates since its original construction, and in 2005-06 the Legislature approved a renovation project for the Library and Courts Building with a scope that included fire, life safety, and infrastructure improvements.

In 2009, the State Library collection was moved to a temporary storage facility in West Sacramento in order to allow the renovation project to move forward. The renovation project was initially scheduled to be completed in October 2010. The Department of General Services (DGS) has extended the renovation timeline, and currently estimates that the State Library can move back into the Library and Courts Building by the end of November 2012.

Funding Request. The request is for $707,000 General Fund for the budget year to cover rental, utilities, and other costs related to the temporary move offsite of the State Library's collection during the ongoing renovation of the historic Library and Courts Building.

Increased Costs. The budget year funding request is $111,000 more than the current year funding for the West Sacramento facility rental. The reasons for the increase are:

1. The electrical and natural gas costs were $97,000 for the previous 12 months. The original proposal did not include an allowance for electrical and natural gas costs;
2. An anticipated $12,000 increase in courier services and van rental; and
3. A $2,000 increase in the lease consultant contract.

Staff Recommendation. Staff recommends that the Subcommittee approve the request.

ISSUE 3: California State Library – California Cultural and Historical Endowment

Issue. The issue before the Subcommittee is increasing the funding for the California Cultural and Historical Endowment for the 2011-12 fiscal year.

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

Survey Requirement. In addition to providing grants, the CCHE has an unfulfilled requirement to conduct a survey of the existing collection of preserved historic and cultural resources in California, and to make recommendations to the Governor and Legislature on statewide policy regarding historic and cultural resource preservation. The survey was supposed to be completed in 2005. A new Executive Officer began work on the survey, and the Initial Assessment Summary was completed in April 2010. The State Library now estimates that the survey will be completed in June 2012.

Proposition 40. Proposition 40 was passed by the voters in 2002, and it contained $128.4 million for Historical and Cultural Resource Preservation. Currently, only $2.14 million of the funds remain unencumbered. The California State Library has awarded Proposition 40 bond funds for 170 projects statewide, of which 67 are still active.

Funding Request. The request is for $207,000 from Proposition 40 bond funds to fund the survey mandated by statute. This request augments the $656,000 from Proposition 40 bond funds the Legislature has already approved for the 2011-12 fiscal year.

Staff Recommendation. Staff recommends that the Subcommittee approve the request.

CAPITAL OUTLAY

ISSUE 4: UC Capital Outlay: San Diego SIO

Issue. The issue before the Subcommittee is a University of California (UC) capital outlay project in San Diego, the SIO Research Support Facility construction phase.

Scripps Institution of Oceanography (SIO). The SIO is a part of the UC San Diego campus. The SIO is one of the world's leading centers for ocean and earth science research, education, and public service. Research at SIO encompasses physical, chemical, biological, geological, and geophysical studies of the oceans and earth. The SIO operates a fleet of four ships for oceanographic research.

San Diego Project Overview. The project would provide approximately 21,300 square feet of replacement research space for the Scripps Institution of Oceanography. This project will replace currently deficient space by constructing new interior research space and new exterior research support areas. The project also includes improvements to the existing access road.

Funding Request. The request is for $5,735,000 in lease-revenue bond funds for the construction phase of the project. The preliminary plans and working drawings have already been funded. The total project cost is $6,348,000.

Staff Recommendation. Staff recommends the Subcommittee approve the request.

ISSUE 5: UC Capital Outlay: Reappropriations

Issue. The issues before the Subcommittee are University of California capital outlay reppropriations.

May Letter. The Governor's May Letter requested the following reapproparions for UC:

Amend Item 6440-492 to reappropriate funds for the following 11 project phases appropriated from the 2006, 2007, 2008, 2009, and 2010 Budget Acts:

1. Davis Campus, King Hall Renovation and Expansion—Construction.
2. Davis Campus, Telemedicine Resource Center and Rural PRIME Facility—Equipment.
3. Irvine Campus, Primary and Electrical Improvements, Step 3—Construction.
4. Irvine Campus, Social and Behavioral Sciences—Equipment.
5. Los Angeles Campus, Telemedicine and PRIME Facilities, Phase 2—Construction.
6. Merced Campus, Site Development and Infrastructure, Phase 6—Construction.
7. Riverside Campus, Materials Science and Engineering Building—Equipment.
8. Riverside Campus, Boyce Hall and Webber Hall Renovations—Construction.
9. San Diego Campus, Music Building—Equipment.
10. San Francisco Campus, Telemedicine and PRIME UC Education Facilities—Equipment.
11. Statewide, Telemedicine Services Expansion—Equipment.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ISSUE 6: UC Capital Outlay: Extensions of Liquidation

Issue. The issues before the Subcommittee are University of California capital outlay extensions of liquidation.

May Letter. The Governor's May Letter requested the following extensions of liquidation for UC:

Add Item 6440-493 to extend the liquidation period by one additional year (until June 30, 2012) for the following eight projects phases appropriated and/or reappropriated in either 2006, 2007, or 2009:

1. Berkeley Campus, Campbell Hall Seismic Replacement Building—Working drawings.
2. Davis Campus, King Hall Renovation and Expansion—Working drawings.
3. Davis Campus, Veterinary Medicine 3B—Working drawings.

4. Irvine Campus, Biological Sciences Unit 3—Equipment.
5. Irvine Campus, Telemedicine/PRIME Latino Community Facilities—Construction.
6. Irvine Campus, Arts Building—Construction.
7. Riverside Campus, Geology Building Renovations, Phase 2—Construction.
8. Riverside Campus, Boyce Hall and Webber Hall Renovations—Working drawings.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ISSUE 7: CSU Capital Outlay: San Jose

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU San Jose Spartan Complex Renovation construction phase.

Project Overview. The Spartan Complex Renovation is a renovation of four buildings: the Uchida Hall/Natatorium, the Uchida Hall Annex, the Spartan Complex East, and Spartan Complex Central. The Spartan Complex Central is a seismically unsafe building.

The project will meet the current seismic, ADA, and life-safety code requirements, as well as replacing the building systems. The project will convert the Uchida Hall/Natatorium into a two-level facility with a judo laboratory and lecture space, locker rooms, and graduate research space.

Funding Request. The request is for $51,479,000 in lease-revenue bond funds for the construction phase of the San Jose Spartan Complex Renovation. The total project cost is $55.99 million, which includes future equipment costs of $1.27 million.

Staff Recommendation. Staff recommends the Subcommittee approve the request.

ISSUE 8: CSU Capital Outlay: Chico

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU Chico Taylor II Replacement Building construction phase.

Project Overview. The Taylor II Replacement project would demolish the existing 42-year old 33,100 square foot Taylor Hall, and construct a new 62,000 square foot replacement building to accommodate the College of Humanities and Fine Arts. The Taylor II replacement building will accommodate 1,223 FTE in lecture space, 142 FTE in laboratory space, and 100 faculty offices. The new facility would also include a recital hall, recording arts facility, replacement art gallery, and graduate research studios and offices.

The current Taylor facility is not code compliant in fire, plumbing, HVAC, and other building codes. Replacing the Taylor facility is an identified component of the CSU Chico capital outlay Master Plan.

Funding Request. The request is for $52,891,000 in lease-revenue bond funds for the construction phase of the CSU Chico Taylor II Replacement Building. The total project cost is $58,272,000, which includes future equipment costs of $2.58 million.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ISSUE 9: CSU Capital Outlay: Channel Islands

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU Channel Islands West Hall construction phase.

Project Overview. The CSU Channel Islands campus opened in 2002, and currently has about 2,920 FTES. In order for the campus to increase its enrollment, more classroom space is needed. The West Hall project would renovate existing buildings and construct a building addition with space for lecture and laboratories, faculty offices, administrative offices, and instructional support spaces. The facility will be occupied by several disciplines, including anthropology, computer science, environmental science and natural resources, geography, geology, physics, and psychology.

The renovation will provide about 6,600 square feet and the additional space will provide 28,800 square feet, for a project total of 35,400 square feet of space. Overall, the project will increase campus capacity space by 555 FTES and 38 faculty offices. The project will allow CSU Channel Islands to meet a target of 6,280 FTES by 2015-16.

Funding Request. The request is for $38,021,000 in lease-revenue bond funds for the construction phase of the West Hall project. The total project cost is $42,184,000, which includes future equipment costs of $1.7 million.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ISSUE 10: CSU Capital Outlay: Fresno

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU Fresno Faculty Office/Lab Building construction.

Project Overview. The Faculty Office/Lab Building project would construct a new 13,400 square foot two-story facility to house graduate research laboratories, classroom space and faculty offices for the Colleges of Health and Human Services and Physical Education. The new facility will provide four research laboratories for kinesiology, Nursing and Physical Therapy departments, a 75 FTES classroom, a computer lab, locker rooms, and 23 academic/athletic faculty offices.

CSU Fresno needs additional space for the athletic program because the College of Health and Human Services has experienced a 27 percent enrollment growth since 2004, and to provide gender-equitable space for men's and women's athletics in compliance with Title IX.

Funding Request. The request is for $9,819,000 in lease-revenue bond funds for the construction phase of the Faculty Office/Lab Building project. The total project cost is $10,737,000, which includes future equipment costs of $356,000.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ISSUE 11: CSU Capital Outlay: Los Angeles

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for Los Angeles campus Corporation Yard and Public Safety equipment only project.

Project Overview. The facility at the Los Angeles campus has already been fully constructed at a cost of $18.2 million in General Obligation bond funds.

Funding Request. The April 1st Finance Letter requests $648,000 from the Higher Education Capital Outlay Bond Fund of 2002 for the equipment phase of the Corporation Yard and Public Safety project. Originally, the equipment phase received an appropriation in the *2009 Budget Act* from the 1998 Higher Education Capital Outlay Bond Fund for the equipment phase.

Staff Recommendation. Staff recommends the Subcommittee approve the April Letter.

ISSUE 12: CSU Capital Outlay: Budget Bill Language

Issue. The issue before the Subcommittee is California State University (CSU) capital outlay budget bill language to allow CSU to use contract savings for minor capital outlay projects.

Proposal Overview. The proposed budget bill language would allow a CSU campus that completes a major capital outlay project under cost to use the left-over funds for minor capital outlay projects on that campus. A minor capital outlay project has a cost of less than $600,000 for the total project. Currently, UC has this kind of authority.

Requested Language. The request is for the following budget bill language:

6610-401—Identified savings in funds encumbered from the Higher Education Capital Outlay Bond Funds of 1996, 1998, 2002, and 2004, and from the 2006 University Capital Outlay Bond Fund, for capital outlay projects, remaining after completion of a capital outlay project and upon resolution of all change orders and claims, may be used: (a) to begin working drawings for a project for which preliminary plan funds have been appropriated and the plans have been approved by the State Public Works Board consistent with the scope and cost approved by the Legislature as adjusted for inflation only, (b) to proceed further with the underground tank corrections program, (c) to perform engineering evaluations on buildings that have been identified as potentially in need of seismic retrofitting, or (d) to proceed with design and construction of projects to meet requirements under the federal Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12101 et seq.)**, or (e) for identified savings in funds encumbered from the Higher Education Capital Outlay Bond Funds of 1996, 1998, 2002, 2004, and from the 2006 University Capital Outlay Bond Fund, to fund minor capital outlay projects.** No later than November 1 of each year, the California State University shall prepare a report showing (a) the identified savings by project and (b) the purpose for which the identified savings were used. This report shall be submitted to the Chairperson of the Joint Legislative Budget Committee and to the chairpersons of the fiscal committees of each house of the Legislature.

Staff Comment. Allowing campuses to utilize capital outlay contract savings for minor capital outlay projects will encourage them to keep projects at or under cost. However, not returning the savings back to the state also means that those savings then cannot be appropriated for another major capital outlay project.

Staff Recommendation. Staff recommends the Subcommittee approve the budget bill language.

ISSUE 13: CSU Capital Outlay: Extensions of Liquidation

Issue. The issues before the Subcommittee are California State University capital outlay extensions of liquidation.

May Letter. The Governor's May Letter requested the following extensions of liquidation for CSU:

Add Item 6610-493 to extend the liquidation period by one additional year (until June 30, 2012) for the following five projects phases appropriated and/or reappropriated in either 2006, 2007, or 2009:

1. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 2006).
2. Long Beach Campus, Peterson Hall 3 Replacement—Construction.

3. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 2002).
4. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 1998).
5. Fresno Campus, Library Addition and Renovation—Construction.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ISSUE 14: CCC Capital Outlay: San Francisco

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay proposal for the San Francisco Community College District, City College of San Francisco Performing Arts Complex construction and equipment phases.

Project Overview. The Performing Arts Complex project would provide 59,354 square feet of space containing lecture, laboratory, office, library, and other space. The new facility would contain state-of-the-art technology and other specialty rooms to enhance the delivery of the theater arts and music programs.

This project would serve as a replacement for two previously approved projects, the Classroom/Lab Arts Complex authorized in 2006 and the Performing Arts Center, authorized in 2007. Both projects were halted by the Public Works Board because the scope of the projects was not achievable within the authorized budget.

The district completed the design (preliminary plans and working drawings) for the project in 2007. The design is for a building one-third smaller than the original complex approved in 2006.

Each semester, about 5,000 students take courses from the performing arts and music programs in the existing space designed for use by 1,000 students.

Funding Request. The request is for $38,274,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction and equipment phases of the City College of San Francisco Performing Arts Complex. The total project cost is $151.2 million, of which $101.9 million is from private funding.

Staff Recommendation. Staff recommends the Subcommittee approve the request.

ISSUE 15: CCC Capital Outlay: Santa Clarita

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay proposal for the Santa Clarita Community College Districts, College of the Canyons, Administration/Student Services Building.

Project Overview. The Administration/Student Services Building project would demolish the existing Colleges Services Building and construct a new building with 20,544 square feet of space for laboratory, office, administrative support, and other. The project will consolidate student services and administrative functions into one building.

Funding Request. The request is for $6,855,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction and equipment phases of the College of the Canyons Administration/Student Services Building.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ISSUE 16: CCC Capital Outlay: Coast

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay proposal for the Coast Community College District, Orange Coast College, Music Buildings Modernization construction project.

Project Overview. The Music Buildings Modernization project would renovate two existing music buildings. Music Building #3 was constructed in 1975; Music Building #4 was constructed in 1954. Both buildings have physical limitations, including seismic deficiencies, outdated mechanical systems, HVAC inefficiencies, inadequate electrical and telecommunications support, and they are not ADA compliant. The current buildings are not able to sustain the technology that is required in modern music production.

The existing music buildings are central to the academic zone for the arts, and the College would like to modernize them rather than construct new buildings elsewhere.

The modernization project will provide teaching facilities that can support the Music Education Program, including programs for voice, instruments, computers in music, recording technology, and music theory. Portions of the building interior will be reconfigured to better accommodate academic programs. The project will include seismic upgrades to make the building current with the Administrative Code/Field Act. The buildings will also need to meet the current code for fire safety, including the addition of fire alarm/suppression systems and improving the points of ingress and egress.

Funding Request. The request is for $3,489,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction phase of the Orange Coast College Music Buildings modernization. The total project cost is $8 million, including future equipment costs of $345,000.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

Discussion Items

Capital Outlay Projects Summary Chart

Campus	Project	Project Phase	2011-12 Cost (000)	Full Project Cost (000)	Funding Type
UC San Diego	SIO Research Support Facilities	C	$5,735	$6,348	Lease-revenue
UC Irvine	Business Unit 2	PWC	$39,595	$48,371	Lease-revenue
CSU San Jose	Spartan Complex Renovation (Seismic)	C	$51,479	$55,990	Lease-revenue
CSU Chico	Taylor II Replacement Building	C	$52,891	$58,272	Lease-revenue
CSU East Bay	Warren Hall Replacement Building	PWC	$48,975	$49,975	Lease-revenue
CSU Channel Islands	West Hall	C	$38,021	$42,184	Lease-revenue
CSU Fresno	Faculty Office/Lab Building	C	$9,819	$10,737	Lease-revenue
CSU Los Angeles	Corporation Yard and Public Safety	E	$648	$18,200	GO Bond
CCC Santa Clarita	College of the Canyons, Administration and Student Services Building	CE	$6,855	$14,007	GO Bond
CCC San Francisco	City College of San Francisco, Performing Arts Complex	CE	$38,274	$151,212	GO Bond
CCC Orange Coast	Orange Coast College, Music Building Modernization	C	$3,489	$8,008	GO Bond

ISSUE 17: UC Capital Outlay: Irvine Business Unit

Speakers:

- Patrick Lenz, University of California
- Stan Hiuga, Department of Finance
- Steve Boilard, Legislative Analyst's Office

Issue. The issue before the Subcommittee is a UC capital outlay proposal for Irvine, Business Unit 2, design and construction phases.

Irvine Business School. The UC Irvine School of Business enrollment has grown by 50 percent since 2001-02. The program is anticipated to grow by another 20 percent by 2014-15 due to the increasing popularity of the business major. The School of Business currently occupies two buildings on the Irvine campus: the School of Business building completed in 1988, and the Multipurpose Academic and Administration Building completed in 2000. Currently, the business major constitutes nearly 10 percent of the campus freshman application pool and 15 percent of the transfer student application pool.

In order to accommodate the increased enrollment, additional faculty will be required. A total of 17 additional faculties are projected, 16 of which would be State-funded. The campus would provide these additional faculties largely through reallocation of positions as existing faculty retire or leave the campus.

Irvine Project Overview. The project would construct a new building with approximately 47,000 square feet of space. State funding would provide 31,950 square feet of instruction, research, and support space for the School of Business. Gift funds included in the project will construct shell space that, when built out, will provide an additional 5,505 square feet for the School of Business, as well as 9,580 square feet for an auditorium and food service space to serve the campus as a whole.

Funding Request. The request is for $39,595,000 in lease-revenue bond funds for the preliminary plans, working drawings, and construction phases of the project. The total project cost is anticipated to be $48,371,000. This project has not yet been started.

The campus is proposing that the Business Unit 2 building be provided through a combination of State and non-State funding.

Staff Recommendation. Staff recommends the Subcommittee reject the proposal without prejudice because this project does not meet the health and safety threshold for consideration.

ISSUE 18: CSU Capital Outlay: East Bay

Speakers:

- Elvyra San Juan, California State University
- Stan Hiuga, Department of Finance
- Judy Heiman, Legislative Analyst's Office

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU East Bay Warren Hall Replacement Building preliminary plans, working drawings, and construction phases.

Project Overview. The Warren Hall replacement building project would demolish the 84,800 square foot Warren Hall building and construct a new replacement office building adjacent to the current Warren Hall site. The replacement facility will provide 113 administrative and faculty offices in a 40,000 square foot building. This project would eliminate 876 FTE in lecture space and provide a net increase of 40 offices. This project would also complete the relocation of the campus main telecommunications switch from the Warren Hall basement into the new Student Services Replacement Building.

Funding Request. The request is for $48,975,000 in lease-revenue bond funds for the preliminary plans, working drawings, and construction phases of the Warren Hall replacement building project. The total project cost is $49,975,000, which includes future equipment costs of $1 million.

Current Building Unsafe. Currently, eight floors of the Warren Hall building are empty because the building has been deemed seismically unsafe. Since Warren Hall is built on a hillside, if an earthquake were to strike the San Francisco East Bay, there is a likelihood that Warren Hall would fall down and cause destruction to the buildings around it.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal due to this project being critical to campus health/life-safety.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Thursday, May 12, 2011
Upon Adjournment of Budget and Fiscal Review Committee
Room 3191, State Capitol

AGENDA PART B

ISSUE 1. LAO REPORT – SCHOOL DISTRICT CONSOLIDATION

DESCRIPTION: The Supplemental Report of the 2010-11 Budget Act directed the Legislative Analyst's Office (LAO) to examine school district and county office of education consolidations in order to achieve greater cost efficiencies. The LAO will present findings and recommendations from its resulting report to the Subcommittee.

SUPPLEMENTAL REPORT LANGUAGE:

The Supplemental Report of the 2010-11 Budget Package (October 2010) included the following language for the Department of Education budget act item (6110-001-0001):

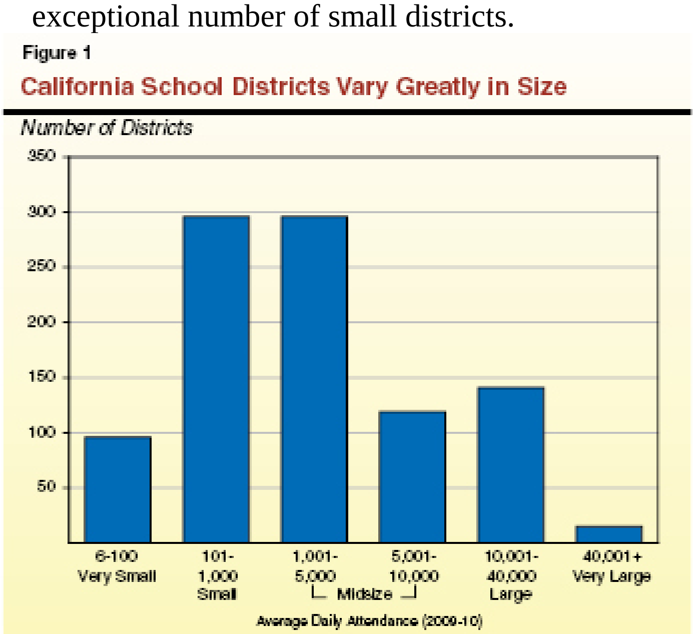
> ***School District and County Office Consolidation.*** *By April 1, 2011, the LAO shall provide an analysis to the fiscal committees of the Legislature regarding options for consolidating small school districts and consolidating county offices of education within statewide regions in order to achieve greater cost efficiencies.*

The LAO studied the issues raised by the Supplemental Report language and has developed specific findings and recommendations in its report entitled ***How Small is Too Small – An Analysis of School District Consolidation.*** The report was published on May 2, 2011.

SUMMARY OF LAO REPORT ON SCHOOL DISTRICT CONSOLIDATION.

Background.

- **Size of California School Districts Varies Dramatically.** The state has a very low threshold for minimum district size, which is set at an average daily attendance (ADA) of six for an elementary district and 11 for high school and unified districts. As a result, the state has an exceptional number of small districts.



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The LAO breaks down school districts by size in Figure 1 above. Almost three-quarters of all California school districts have fewer than 5,000 ADA. However, together, these 688 districts contain just 15 percent of total ADA in the state.

Notably, 230 of the state's districts contain only a single school. At the other extreme, 15 "very large" districts with over 40,000 ADA educate about one-quarter of all students in the state, with one district—Los Angeles Unified—representing about 10 percent of total state ADA.

- **Historically, State Has Encouraged Districts to Consolidate, Reducing the Overall Number of Districts.** While California continues to have many small school districts, the total number of districts in the state has declined over time. The state has about half as many districts as it did 50 years ago (963 in 2009-10 compared to 2,091 in 1950-51).

  Throughout the 1950s and 1960s, the state provided a series of fiscal incentives for consolidation, including increasing the per-pupil funding rate for unified districts and paying for excess costs of student transportation associated with merging school districts.

  The pace of consolidation has slowed in recent decades since the state stopped providing explicit incentives for districts to unify.

- **Decision to Consolidate School Districts Resides Primarily at Local Level.** The state delegates most district configuration decisions to the local level. Local stakeholders must initiate the process of consolidating school districts and ultimately a majority of the local electorate must vote to approve the consolidation.

- **Some Other States Have Recently Adopted More Assertive Consolidation Policies.** In contrast to California's locally based approach to district configuration, the state of Maine passed legislation in 2007 requiring that all school districts enroll at least 2,500 students or face fiscal penalties. In the subsequent three years, the number of Maine school districts has dropped by one–third, from 290 to 179, although about half of the smaller districts in the state (representing about 10 percent of all students) have not yet conformed to the consolidation mandate. Several other states, including Arkansas and Vermont, have also recently passed legislation to encourage school district consolidation.

LAO Findings. To assess the potential benefits of district consolidation, the LAO analyzed operational costs and performance data for districts grouped by size. Overall, the LAO found some evidence indicating small school districts (those that serve 1,000 or fewer students) have higher per–student operational costs. The LAO also found that small districts and schools are more difficult to hold accountable for student outcomes. The LAO's specific findings are listed below.

LAO Findings

✓ **Small Districts Find Ways to Economize but Still Face Fiscal and Personnel Challenges.**

- Small Districts Create Economies of Scale Through COEs and Consortia.
- Despite Partnerships, Very Small Districts Spend Larger Proportion of Funding on Overhead.
- Small Districts Multi-Task, but Not Without Affecting Instructional Programs.

✓ **District Size Has Some Effect on Student Performance, but Very Small Districts Are Difficult to Monitor.**

- Student Performance Appears Slightly Better in Midsize Districts.
- Very Small Districts Much Harder to Hold Accountable for Overall Student Outcomes.
- Smaller Districts Also Not Accountable for Important Subgroups of Students.

✓ **Small Districts Have Substantial Funding Advantages.**

- Small Districts Receive Special Fiscal Allowances.
- Very Small Districts Receive Notably More Per Pupil Compared to Other Districts.
- Charter Schools Differ From Small Districts.

✓ **Disincentives Keep School Districts From Consolidating.**

- Consolidating Can Lead to Loss of Funding and Additional Costs.
- Non-Fiscal Disincentives Can Also Inhibit Consolidation Efforts.
- Local Communities Often Prefer Small Districts.

✓ **Very Small Schools Also Are Enabled by Extra Funding, Lack Accountability.**

- State Provides Additional Funding for Small Schools it Deems "Necessary".
- Some Necessary Schools Are of Questionable Necessity.
- Very Small Schools Also Hard to Hold Accountable for Student Outcomes.
- Very Small Schools Offer Limited Educational Programs.

LAO Recommendations. The LAO review does not convincingly substantiate most of the claims in support of district consolidation. Although the data suggest that midsize districts can allocate a greater proportion of their funding for instruction and tend to have slightly better student achievement, the differences are not large. Moreover, neither the academic research nor LAO's own review offers persuasive evidence that consolidating small districts would necessarily result in substantial savings or notably better outcomes for students. (Indeed, per LAO, poorer student outcomes at exceptionally large districts raise cautions about the potential downside of too much district consolidation.) Thus, while it might be easier for the state to have fewer agencies to oversee, the data do not convincingly support a dramatic change to current state policy such that small districts—those serving between 100 and 1,000 ADA—be forced to consolidate. Likewise, dedicating scarce funding resources to provide new fiscal incentives to promote greater district consolidation do not appear justified to the LAO.

Likewise, the LAO's findings do not support the current system that implicitly *discourages* districts from opting to consolidate. <u>Specifically, the LAO does not find evidence to justify the state's current practice of providing substantial fiscal advantages to districts that have opted to remain small, often as single-school districts, particularly since the LAO finds little proof that being small leads to better student outcomes.</u>

Additionally, <u>the LAO believes the data *do* justify changing state policy regarding very small districts. As such, the LAO recommends that the state remove some current disincentives for districts to consolidate, including unwarranted fiscal incentives to remain small, and make moderate changes to current minimum size thresholds. The LAO also recommends that the state apply some of these principles to very small schools.</u>

The LAO's recommendations are listed below. According to the LAO <u>these recommendations could result in some modest savings for the state – possibly in only the tens of millions of dollars.</u> However, per the LAO, these changes would remove problematic fiscal incentives and contribute to a more rational and equitable school funding system. Furthermore, the LAO believes these recommendations would encourage small districts and schools to opt for greater efficiencies and accountability, while preserving the state's commitment to locally based decision–making.

LAO Recommendations

- ✓ **Increase Minimum Thresholds for District Size to at Least 100 Students**.
- ✓ **Eliminate Fiscal Incentives for Districts to Remain Small**.
- ✓ **Eliminate Some Additional Fiscal Disincentives for Districts to Consolidate.**
    - Clarify That Most Consolidations Can Waive CEQA Review Requirements.
    - Eliminate Statutory Two-Year Salary and Position Protections for Classified Staff.
- ✓ **Strengthen Eligibility Requirements to Ensure State Provides Extra Funding Only to Small Schools That Truly Are Necessary.**
- ✓ **Consider Instituting Minimum Threshold for School Size.**

- **Competing Claims.** According to the LAO, the report investigates the competing claims made in support and opposition of district consolidation:

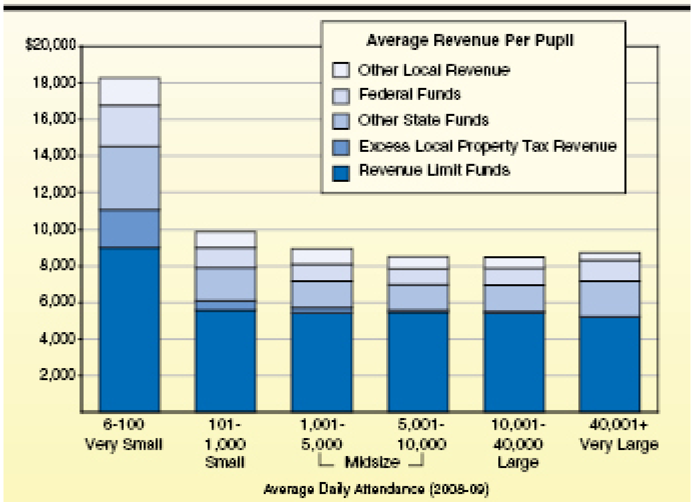
  ✓ **Proponents** of consolidation claim that small districts lack economies of scale, and, as a result, inherently face higher costs per pupil and are unable to offer the range of curricular opportunities available to students who attend larger districts. As such, some argue that combining smaller districts into larger, consolidated districts would lead to savings, more overall efficiency, and a better academic experience for students.

  ✓ **Opponents** of consolidation suggest that small districts not only find ways to operate efficiently but also offer an enhanced and personalized educational experience for students. Moreover, because many small districts are located in rural areas, some argue they are important and necessary components of those local communities.

- **Fiscal Issues.** The higher rates of funding found by the LAO for small districts – particularly very small districts – are notable. Figure 8 of the LAO report clearly illustrates that very small districts receive double the level of funding as their mid- and large-size district counterparts.

Figure 8

Very Small Districts Receive Notably More Funding Per Pupil



- **County Office of Education Consolidation**. The Supplemental Report language also directed the LAO to examine county offices of education (county offices) consolidations, as well as school district consolidations in order to achieve greater cost efficiencies. However, the LAO does not recommend eliminating county offices because they play an intermediary role between our large and diverse state and local districts. While the LAO believes that regionalization of county offices has some advantages for certain initiatives, the LAO also believes that any changes in county office responsibilities should be a part of broader discussion on educational governance and service delivery in California.

SUGGESTED QUESTIONS:

1. Can the LAO review the state funding incentives for "very small" schools (defined as less than 100 ADA) identified by your report?

    a. Do you know when and why these incentives were added?

    b. How much total extra funding does the state provide to very small schools?

    c. If these incentives were removed, do you think it is likely that most or all very small districts would consolidate?

    d. Could the removal of Necessary Small School funding and categorical minimum grants for small schools be included as a part of long-term school finance reform that would address both revenue limit and categorical programs?

2. Can the LAO review the funding disincentives for district consolidation outlined in Figure 9 of its report?

3. What is the relationship between basic aid districts and small school districts, and how does this relationship influence local decisions about consolidation?

4. Beyond the specific activities of the several states mentioned in the report, does the LAO have a sense that many other states are considering school district consolidation as a way to achieve greater cost efficiencies in the current fiscal environment?

5. The Supplemental Report language also directed the LAO to examine county office consolidations, as well as school district consolidations. What did the LAO learn about this issue?

ISSUE 2. LAO REPORT – COUNTY COURT SCHOOL FUNDING

DESCRIPTION: The Supplemental Report of the 2010-11 Budget Act directed the Legislative Analyst's Office (LAO) to examine whether county court schools have access to an appropriate array of categorical funds and to compare court school funding with funding rates for other alternative programs. The LAO will present a white paper on these issues to the Subcommittee. The white paper was released on May 10, 2011.

BACKGROUND:

2010-11 Supplemental Report Language.

The Supplemental Report of the 2010-11 Budget Package (October 2010) included the following language for the Department of Education budget act item (6110-001-0001):

> ***County Court School Funding.*** *By April 1, 2011, the LAO shall (a) assess whether county court schools have access to an appropriate array of categorical funds, including access to Economic Impact Aid; and (b) compare court school funding with funding rates for other alternative programs.*

The LAO studied the issues raised by the Supplemental Report language and will share general findings and conclusions from its white paper entitled ***An Analysis of Court School Cost Pressures*** released on May 10, 2011.

SUMMARY OF LAO REPORT.

Conclusions: Despite some concerns raised by the Legislature last year, the LAO finds little evidence that suggests court schools are systematically denied access to state categorical funding. The LAO review did reveal two notable cost pressures that, when coupled with recent state budget reductions, could explain why some court schools are reporting budget shortfalls.

(1) First, the LAO found that county probation departments can require court schools to reduce class sizes for safety reasons without being required to bear any of the associated higher costs.

(2) Second, the LAO also found that special education rates reported in court schools can be two to three times higher than the statewide average special education rate. Despite these higher rates, court schools often have little leverage within their Special Education Local Planning Area (SELPA) to negotiate higher pass-throughs.

Per the LAO, exploring these two issues further could lead to solutions that relieve budget pressure for at least some of the state's court schools.

In addition, per the LAO, broader reforms to the alternative education finance system also could help provide budgetary relief for court schools and make the system more equitable across programs. Specifically, rethinking the community day school supplement and exploring ways to spread those dollars across alternative education programs could help court schools moving forward.

Per the LAO, if the Legislature did not want to pursue any of the above policy changes in 2011-12, it could instead consider providing court schools with at least some budgetary relief by insulating them from further reductions or reducing them less than other areas of K-12 education.

STAFF COMMENTS:

The Supplemental Report language for court schools was approved following Subcommittee budget hearings on the issue of court school funding for the 2010-11 school year. [See Subcommittee #1 Agenda (Issue 2) for May 20, 2010.]

As a result of these hearings last year, two court school funding reforms were enacted in 2010-11. More specifically, the 2010-11 budget package: (1) made county courts schools eligible for Economic Impact Aid funding and added **$3.0 million** in ongoing funding for this purpose, and (2) approved statutory changes to assure that court school students receive required instructional time.

SUGGESTED QUESTIONS:

1. How many counties operate court schools? Do some counties jointly operate court school programs?

2. What are the trends in court school attendance -- as measured by average daily attendance (ADA) -- statewide?

3. In its survey and visits, did the LAO discover any problems with using an average daily attendance (ADA) based system for providing court school revenue limits?

4. Does the LAO have a sense about whether counties are providing four hours of daily instruction – as required by statute -- to youth placed in court schools? What assurances does the state have that youth placed in court schools are receiving required instructional time?

5. As a part of your review, did the LAO learn anything new about accountability for court school programs? Does the LAO have a sense about how student performance is monitored at court schools? How are court schools included in the state's accountability system?

6. Does the LAO recommend that court schools become eligible for the same supplemental funding available to Community Day Schools if they provide a fifth and sixth hour of instruction?

7. In identifying some “cost pressures” unique to court schools, can the LAO provide more detail about what is meant by county office “discretion” for allocating resources among schools and programs, including court schools? Are most cost pressures state or local?

8. While the LAO found general access to state and federal categorical funding streams, were there any exceptions, i.e., any state or federal categorical programs that are not available to county offices of courts schools?

9. Given LAO findings about serving higher proportions of students with disabilities, does the LAO have some specific options to consider, for example:

    a. Changing the basis of special education funding to reflect the higher incidence of youth with disabilities?
    b. Allowing county offices of education to benefit from special education base funding equalization?
    c. Addressing the loss of Local Educational Agency (LEA) Medicaid Reimbursements for special education related services (mental health services, etc.) when youth leave other schools and enter court schools?

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Wednesday, May 25, 2011
9:30 a.m.
Room 3191, State Capitol

Department of Finance
Highlights of the Governor's May Revise K-14 Proposition 98 Budget

Legislative Analyst's Office
Proposition 98: Overview of May Revision Proposals

<u>Discussion Items</u>

VOTE-ONLY ISSUES

ISSUE 1: Adjust Child Care Programs for Growth

Issue. The issue before the Subcommittee is a negative growth adjustment due to the decline in the 0-4-year old population served.

May Revise Request. The Governor's May Revise requests that funding for child care programs be **decreased by $6,923,000** to reflect a revised growth adjustment of -0.67 percent. It is requested that Provision 11 of item 6110-196-0001 be amended as follows:

> "11. The amounts provided in Schedules (1), (1.5)(a), (1.5)(c), (1.5)(d), and (1.5)(j) of this item reflect a reduction to the base funding of ~~0.21~~ 0.67 percent for a decline in the population of 0-4 year-olds."

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 2: Offset General Fund with Additional Federal Funds

Issue. The issue before the Subcommittee is increased federal funds that are proposed to offset $7.41 million General Fund for the CalWORKs Stage 3 child care program.

May Revise Request. The Governor's May Revise requests that CalWORKS Stage 3 child care be increased by **$7,412,000** to reflect the following: (1) an increase of $7,077,000 in ongoing federal funds, and (2) an increase of $335,000 in one-time federal funds available from prior years. These funds will offset a like amount of Proposition 98 General Fund.

It is further requested that provisional language be added to Item 6110-196-0890 as follows:

> "X. Of the funds appropriated in this item, $335,000 is available on a one-time basis for CalWORKs Stage 3 child care from federal Child Care and Development Block Grant funds appropriated prior to the 2011 federal fiscal year."

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 3: Child Care Quality Activities

Issue. The issue before the Subcommittee is an increase to the child care quality activities due to an increase in the amount of federal funds available to California.

May Revise Request. The Governor's May Revise requests that Provision 4(a) and (b) of this item be amended to adjust the quality earmarks under the Child Care and Development Block Grant as follows:

"(a) ~~$2,002,671~~ $2,085,639 is for the schoolage care and resource and referral earmark.
(b) ~~$11,342,626~~ $11,698,772 is for the infant and toddler earmark and shall be used for increasing the supply of quality child care for infants and toddlers."

Quality Activities Required. The federal Child Care and Development Block Grant requires that four percent of the federal funds be spent on quality improvement activities.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 4: Child Care Savings Adjustment

Issue. The issue before the Subcommittee is a revised savings estimate for the March budget policy changes, and backfilling with General Fund for those lost savings.

May Revise Request. The Governor's May Revise requests that the child care item be increased by **$40,609,000** General Fund to reflect revised estimates of the savings generated by the child care reductions adopted by the Legislature in March. The revised estimates reflect the adjustments to CalWORKs caseload and the adjustment to growth funding for non-CalWORKs programs.

Child Care Savings Erosion in May Revise

(dollars in thousands)

	Conference	May Revise	Change
License-Exempt at 60% of 85th percentile of RMR	$44,114	$37,361	-$6,753
Eliminate Traditional 11- and 12-Year Olds	$35,824	$31,488	-$4,336
SMI at 70 percent	$30,065	$28,466	-$1,599
10 Percent Family Fee Increase	$5,043	$4,102	-$941
SRR Cut	$121,967	$121,407	-$560
Across-the-Board 15 Percent Reduction	$246,307	$219,887	-$26,420
Total	$483,320	$442,711	-$40,609

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 5: 21st Century ASSETs Report Due Date

Issue. The issue before the Subcommittee is an extension of a report due date to correspond more closely with the timeline for the availability of data.

April Letter Request. The Governor submitted an April Letter requesting that the due date for completion of the annual report on per-pupil costs for the 21st Century High School After School Safety and Enrichment for Teens (ASSETs) program be moved from November 1 to April 30. The CDE does not receive complete expenditure data for the prior fiscal year until December 31. This extension would provide the CDE with sufficient time to collect and analyze the data. The ASSETs Program consists of after school enrichment programs that provide academic support and safe alternatives for high school pupils after regular school hours.

It is further requested that Provision 1 be amended as follows to conform to this action:

> "1. The State Department of Education shall provide an annual report to the Legislature and Director of Finance by ~~November 1~~ April 30 of each year that identifies by cohort for the previous fiscal year each high school program funded, the amount of the annual grant and actual funds expended, the numbers of pupils served and planned to be served, and the average cost per pupil per day. If the average cost per pupil per day exceeds $10 per day, the department shall provide specific reasons why the costs are justified and cannot be reduced. In calculating cost per pupil per day, the department shall not count attendance unless the pupil is under the direct supervision of after school program staff funded through the grant. Additionally, the department shall calculate cost per day on the basis of the equivalent of a three-hour day for 180 days per school year. The department shall also identify for each program, as applicable, if the attendance of pupils is restricted to any particular subgroup of pupils at the school in which the program is located. If such restrictions exist, the department shall provide an explanation of the circumstances and necessity therefor."

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 6: 11- and 12-Year Old Restriction Cleanup Language

Issue. The issue before the Subcommittee is cleanup language to SB 70, which restricted the use of subsidized child care for 11- and 12-year olds.

SB 70. The education trailer bill, SB 70, restricted the use of subsidized child care for 11- and 12-year olds to non-traditional hours of care. SB 70 also prioritized 11- and 12-year olds for the waitlists to before and after school programs.

Need for Further Clarification. SB 70 placed a clear statement into the education code dealing with child care that 11- and 12-year olds would be prioritized for waitlists to after school programs. However, the before and after school programs are stating that because the After School Education and Safety (ASES) program statute does not include a similar statement they cannot use that priority ranking in their districts. This cleanup language simply inserts into the ASES statute a statement that 11- and 12-year olds who were displaced due to the loss of subsidized child care will be prioritized for waitlist spots for before and after school programs.

Staff Recommendation. Staff recommends that the Subcommittee approve the cleanup trailer bill language.

DISCUSSION ISSUES

ISSUE 7: Child Care Overview – March 2011 Budget

Speakers:

- Rachel Ehlers, Legislative Analyst's Office

Issue. The issue before the Subcommittee is an informational overview of the child care budget as reflected in SB 69, passed by the Legislature in March 2011.

Decrease in Overall Funding. When the Governor released his January budget, the state faced a $25.4 billion deficit for the 2011-12 fiscal year, due to an anticipated shortfall of revenues to the expected expenditures. In March 2011, the Legislature addressed $12 billion of this problem through SB 69 (held in enrollment) and trailer bills, including SB 70 which made changes to child care. The cuts included in SB 69 placed child care funding for 2011-12 at $1.845 billion, which includes $322 million for state preschool. The 2010-11 funding level is $2.32 billion with the restoration of the CalWORKs Stage 3 veto.

May Revise Proposed Budget

(dollars in thousands)

	State Preschool	General Child Care	Alternative Payment	Stage 2	Stage 3	Other
Total Funding	$321,196	$584,781	$200,155	$427,444	$120,303	$26,392
Enrollment	96,504	70,793	29,567	62,068	18,187	6,468

ISSUE 8: CalWORKs Child Care Caseload Adjustment

Speakers:

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

Issue. The issue before the Subcommittee is revised caseload estimates for Stage 2 and Stage 3, and adjustments in funding accordingly.

Stage 3 Funding Background. In October 2010, Governor Schwarzenegger vetoed funding for the CalWORKs Stage 3 child care program. Pursuant to a court order, the termination of Stage 3 services were delayed until December 31, 2010, to allow for eligibility screening and possible placement of Stage 3 families in other programs. Families were given the opportunity to participate in a lottery for available openings in other child care programs, provided that they were not already determined eligible for either Stage 1 or Stage 2.

Stage 3 Caseload Decline. While funding for Stage 3 was restored in the current year, the estimated costs reflect a significant decline in caseload. Based upon reported caseload for the months of January through March, average monthly caseload has declined by approximately 70 percent from the level prior to the veto. The transfer of families to Stage 2 and other child care programs funded through the Department of Education (CDE) accounts for a portion of this decline. However, information is lacking on the extent to which former Stage 3 families have located child care through alternative fund sources, such as First 5 county commissions, or have made alternative arrangements for care.

May Revise Request. The Governor's May Revise requests that child care programs be **decreased by $123,474,000** to reflect revised estimates of caseload costs for CalWORKs Stage 2 and Stage 3 child care. These adjustments reflect:

1. Increase of $64,350,000 to Stage 2, and
2. Decrease of $187,824,000 to Stage 3.

The decrease to Stage 3 is due mainly to the implementation of the Stage 3 veto reflected in the 2010 Budget Act which terminated funding for the program on November 1, 2010.

Due to uncertainty in the Stage 3 caseload number, the Administration is proposing to retain approximately $56.0 million in the current-year appropriation for Stage 3, after accounting for increased current-year costs in Stage 2, and to set aside $33.645 million in one-time funds to be appropriated for Stage 3 pending receipt of updated caseload data from the CDE.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open to consider the new caseload number that will be available later in the week. The final caseload funding will be included in the Proposition 98 package.

ISSUE 9: ELAC Elimination

Speakers:

- Scott Moode, ELAC
- Camille Maben, Department of Education
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance

Issue. The issue before the Subcommittee is the proposed elimination of the Early Learning Advisory Committee (ELAC).

ELAC Background. The ELAC was established through an executive order in 2009 to make California eligible for a three-year $10.8 million planning grant to pilot a recommended quality rating improvement system and to develop a data tracking system for children ages 0-5, including preschool. The intention was for ELAC to build on the work of the California Early Learning Quality Improvement System Advisory Committee (CAELQIS) in helping define the future policy direction for early learning in California.

Specifically, ELAC planned to:

1. Create a strategic plan for early learning
2. Integrate early childhood competencies data
3. Pilot a quality rating program

May Revise Request. The Governor's May Revise requests to eliminate ELAC. While the elimination of this advisory council will result in the loss of the remaining federal grant funds, ELAC's work represents a new initiative that the state cannot presently afford. The elimination of ELAC results in a decrease of $3.6 million in federal funds in 2011-12.

Staff Comment. The ELAC is the only entity working on state-wide data gathering for very early childhood learning. Also, the ELAC assumed many of the functions of CAELQIS, and it is not clear where those functions would be housed under the Governor's elimination plan.

Though the State should examine all spending priorities, the ELAC is funded with a federal grant, and these federal funds cannot be used for other projects within CDE. Also, there have been some concerns expressed that the federal government may request repayment of these funds if the ELAC tasks are not completed. Staff is also concerned that halting the planning process to integrate early childhood competencies data will exclude California from consideration for future federal grants in early childhood quality improvement.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open.

ISSUE 10: SRR Reduction

Speakers:

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

Issue. The issue before the Subcommittee is the SB 69 action to reduce the Standard Reimbursement Rate (SRR) by ten percent.

SRR Background. The Standard Reimbursement Rate is utilized with agencies that have direct contracts with CDE, such as state preschool programs. It is important to note that as part of their contract, these providers are required to meet additional training and program standards which are not required of non-contracted providers.

The SRR is set by the Legislature annually in the Budget Act. The last increase to the SRR was in 2007. The SRR is set as a daily rate, but SRR contracts are based on a standard of 250 enrollment days per year, for a total annual reimbursement of $8,595 per child. The part-day State Preschool daily rate is lower at $21.22 or $3,714 per annum for 175 days of operation. The SRR does specify adjustment factors based on the number of hours each child receives care. It also has positive adjustment factors to account for the child's age (3 years and older is considered the standard rate), special needs, disability, and whether the child is at risk of abuse or neglect.

SB 69. The March budget package reduced the SRR in provisional language by ten percent. The rate fell from $34.38 to $30.94 per day per child for general child care; and from $21.22 to $19.10 per day per child for state preschool programs. The annual savings from the adjustment are estimated at **$121.9 million**.

May Revise Request. The Governor's May Revise maintains the SB 69 SRR reduction.

Staff Recommendation. Staff recommends that the Subcommittee increase the SRR back to the January 10 budget level ($34.38 and $21.22). The funding for SRR will conform to the Proposition 98 package.

ISSUE 11: Creating Efficiencies – AP Contract Bidding

Speakers:

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

Issue. The issue before the Subcommittee is the process for awarding Alternative Payment (AP) provider contracts.

Contract Awarding Process Overview. Current state regulations mandates that the AP contracts be provided first to the entity that previously held the contract. If that organization turns down the AP contract, the local educational agency (LEA) is offered the contract. If the LEA does not accept the contract, it is offered to the county, and then to any entity within the county that conducts similar work.

Benefits with Current Process. The current contract awarding process relies on the experience of the agencies that have administered the AP contracts for many years. These agencies have extensive experience with customer service for parents, with negotiating contracts with providers, and dealing with the unique issues related to child care administration. By continuing to offer contracts to the same agency every year, the state benefits from the agencies' many years of experience.

Problems with Current Process. The system of providing the AP contracts is not open to new agencies that may have experience and may be able to provide services for less cost than the current provider. By continuing to contract only with entities located within the county, the state may be losing out on the experience and administrative capability of entities outside of the county.

Options for Changes. The Legislature may wish to consider a pilot program to openly bid the AP contracts when the AP provider in an area willingly turns back their contract. This pilot program would not apply to all counties, but only those where the current AP releases the contract they hold with the state.

Staff Recommendation. Staff recommends that the Subcommittee adopt trailer bill language in concept to allow CDE to take bids for any AP service contract that is willingly turned back by the AP currently holding that contract.

ISSUE 12: Creating Efficiencies – Align AP and R&R Service Areas

Speakers:

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

Issue. The issue before the Subcommittee is the number of APs operating in the state and the efficiency of multiple service areas.

AP Overview. Currently, there are 82 APs in California. The CDE contracts with the AP to administer CalWORKs Stage 2, CalWORKs Stage 3, and the non-CalWORKs Alternative Payment Program at the local level. The APs in turn contract with the child care providers. The APs are responsible for both the administration of the programs and the support services to the families, developing payment agreements with the providers, and billing and collecting the family fees.

R&R Overview. The Resource and Referral Network (R&R network) was founded in 1976. California's federal child care development fund grant (CCDF) requires that four percent of the federal funds be used for child care quality improvement. California has chosen, through the state budget, to use a portion of these quality improvement dollars to fund the R&R network. The 73 R&R network agencies assist families in finding child care providers. They also maintain databases of child care providers in their service area, and work with providers to improve the quality of child care offered.

Create Greater Geographic Overlap. Currently, there are several small APs in California. Each agency has some basic costs from building rent to staff salaries that it incurs in operating. APs that serve more people may have a lower marginal cost per person served. By consolidating some of the service areas of the APs, the state could create efficiencies that may allow the APs to serve more people. The AP service areas could be made to overlap the R&R service areas. This would equate to roughly one AP per county. In some counties the R&R and the AP are already the same entity. Some highly populated counties, such as Los Angeles or San Francisco, have more than one AP and R&R due to the large number of people needing services.

Staff Recommendation. Staff recommends that the Subcommittee direct CDE to realign AP service areas to overlap with R&R network service areas in order to create some administrative efficiency.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Wednesday, May 25, 2011
Outcomes

Discussion Items

VOTE-ONLY ISSUES

ISSUE 1: Adjust Child Care Programs for Growth

Issue. The issue before the Subcommittee is a negative growth adjustment due to the decline in the 0-4-year old population served.

May Revise Request. The Governor's May Revise requests that funding for child care programs be **decreased by $6,923,000** to reflect a revised growth adjustment of -0.67 percent. It is requested that Provision 11 of item 6110-196-0001 be amended as follows:

> "11. The amounts provided in Schedules (1), (1.5)(a), (1.5)(c), (1.5)(d), and (1.5)(j) of this item reflect a reduction to the base funding of ~~0.21~~ 0.67 percent for a decline in the population of 0-4 year-olds."

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 2: Offset General Fund with Additional Federal Funds

Issue. The issue before the Subcommittee is increased federal funds that are proposed to offset $7.41 million General Fund for the CalWORKs Stage 3 child care program.

May Revise Request. The Governor's May Revise requests that CalWORKS Stage 3 child care be increased by **$7,412,000** to reflect the following: (1) an increase of $7,077,000 in ongoing federal funds, and (2) an increase of $335,000 in one-time federal funds available from prior years. These funds will offset a like amount of Proposition 98 General Fund.

It is further requested that provisional language be added to Item 6110-196-0890 as follows:

> "X. Of the funds appropriated in this item, $335,000 is available on a one-time basis for CalWORKs Stage 3 child care from federal Child Care and Development Block Grant funds appropriated prior to the 2011 federal fiscal year."

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 3: Child Care Quality Activities

Issue. The issue before the Subcommittee is an increase to the child care quality activities due to an increase in the amount of federal funds available to California.

May Revise Request. The Governor's May Revise requests that Provision 4(a) and (b) of this item be amended to adjust the quality earmarks under the Child Care and Development Block Grant as follows:

> "(a) ~~$2,002,671~~ $2,085,639 is for the schoolage care and resource and referral earmark.
> (b) ~~$11,342,626~~ $11,698,772 is for the infant and toddler earmark and shall be used for increasing the supply of quality child care for infants and toddlers."

Quality Activities Required. The federal Child Care and Development Block Grant requires that four percent of the federal funds be spent on quality improvement activities.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 4: Child Care Savings Adjustment

Issue. The issue before the Subcommittee is a revised savings estimate for the March budget policy changes, and backfilling with General Fund for those lost savings.

May Revise Request. The Governor's May Revise requests that the child care item be increased by **$40,609,000** General Fund to reflect revised estimates of the savings generated by the child care reductions adopted by the Legislature in March. The revised estimates reflect the adjustments to CalWORKs caseload and the adjustment to growth funding for non-CalWORKs programs.

Child Care Savings Erosion in May Revise

(dollars in thousands)

	Conference	May Revise	Change
License-Exempt at 60% of 85th percentile of RMR	$44,114	$37,361	-$6,753
Eliminate Traditional 11- and 12-Year Olds	$35,824	$31,488	-$4,336
SMI at 70 percent	$30,065	$28,466	-$1,599
10 Percent Family Fee Increase	$5,043	$4,102	-$941
SRR Cut	$121,967	$121,407	-$560
Across-the-Board 15 Percent Reduction	$246,307	$219,887	-$26,420
Total	$483,320	$442,711	-$40,609

Staff Recommendation. Staff recommends that the Subcommittee approve this request.
ACTION: Approved
VOTE: 3-0

ISSUE 5: 21st Century ASSETs Report Due Date

Issue. The issue before the Subcommittee is an extension of a report due date to correspond more closely with the timeline for the availability of data.

April Letter Request. The Governor submitted an April Letter requesting that the due date for completion of the annual report on per-pupil costs for the 21st Century High School After School Safety and Enrichment for Teens (ASSETs) program be moved from November 1 to April 30. The CDE does not receive complete expenditure data for the prior fiscal year until December 31. This extension would provide the CDE with sufficient time to collect and analyze the data. The ASSETs Program consists of after school enrichment programs that provide academic support and safe alternatives for high school pupils after regular school hours.

It is further requested that Provision 1 be amended as follows to conform to this action:

> "1. The State Department of Education shall provide an annual report to the Legislature and Director of Finance by ~~November 1~~ April 30 of each year that identifies by cohort for the previous fiscal year each high school program funded, the amount of the annual grant and actual funds expended, the numbers of pupils served and planned to be served, and the average cost per pupil per day. If the average cost per pupil per day exceeds $10 per day, the department shall provide specific reasons why the costs are justified and cannot be reduced. In calculating cost per pupil per day, the department shall not count attendance unless the pupil is under the direct supervision of after school program staff funded through the grant. Additionally, the department shall calculate cost per day on the basis of the equivalent of a three-hour day for 180 days per school year. The department shall also identify for each program, as applicable, if the attendance of pupils is restricted to any particular subgroup of pupils at the school in which the program is located. If such restrictions exist, the department shall provide an explanation of the circumstances and necessity therefor."

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 6: 11- and 12-Year Old Restriction Cleanup Language

Issue. The issue before the Subcommittee is cleanup language to SB 70, which restricted the use of subsidized child care for 11- and 12-year olds.

SB 70. The education trailer bill, SB 70, restricted the use of subsidized child care for 11- and 12-year olds to non-traditional hours of care. SB 70 also prioritized 11- and 12-year olds for the waitlists to before and after school programs.

Need for Further Clarification. SB 70 placed a clear statement into the education code dealing with child care that 11- and 12-year olds would be prioritized for waitlists to after school programs. However, the before and after school programs are stating that because the After School Education and Safety (ASES) program statute does not include a similar statement they cannot use that priority ranking in their districts. This cleanup language simply inserts into the ASES statute a statement that 11- and 12-year olds who were displaced due to the loss of subsidized child care will be prioritized for waitlist spots for before and after school programs.

Staff Recommendation. Staff recommends that the Subcommittee approve the cleanup trailer bill language.

ACTION: Approved
VOTE: 3-0

DISCUSSION ISSUES

ISSUE 7: Child Care Overview – March 2011 Budget

Speakers:

- Rachel Ehlers, Legislative Analyst's Office

Issue. The issue before the Subcommittee is an informational overview of the child care budget as reflected in SB 69, passed by the Legislature in March 2011.

Decrease in Overall Funding. When the Governor released his January budget, the state faced a $25.4 billion deficit for the 2011-12 fiscal year, due to an anticipated shortfall of revenues to the expected expenditures. In March 2011, the Legislature addressed $12 billion of this problem through SB 69 (held in enrollment) and trailer bills, including SB 70 which made changes to child care. The cuts included in SB 69 placed child care funding for 2011-12 at $1.845 billion, which includes $322 million for state preschool. The 2010-11 funding level is $2.32 billion with the restoration of the CalWORKs Stage 3 veto.

May Revise Proposed Budget

(dollars in thousands)

	State Preschool	General Child Care	Alternative Payment	Stage 2	Stage 3	Other
Total Funding	$321,196	$584,781	$200,155	$427,444	$120,303	$26,392
Enrollment	96,504	70,793	29,567	62,068	18,187	6,468

ACTION: Informational item, no action

ISSUE 8: CalWORKs Child Care Caseload Adjustment

Speakers:

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

Issue. The issue before the Subcommittee is revised caseload estimates for Stage 2 and Stage 3, and adjustments in funding accordingly.

Stage 3 Funding Background. In October 2010, Governor Schwarzenegger vetoed funding for the CalWORKs Stage 3 child care program. Pursuant to a court order, the termination of Stage 3 services were delayed until December 31, 2010, to allow for eligibility screening and possible placement of Stage 3 families in other programs. Families were given the opportunity to participate in a lottery for available openings in other child care programs, provided that they were not already determined eligible for either Stage 1 or Stage 2.

Stage 3 Caseload Decline. While funding for Stage 3 was restored in the current year, the estimated costs reflect a significant decline in caseload. Based upon reported caseload for the months of January through March, average monthly caseload has declined by approximately 70 percent from the level prior to the veto. The transfer of families to Stage 2 and other child care programs funded through the Department of Education (CDE) accounts for a portion of this decline. However, information is lacking on the extent to which former Stage 3 families have located child care through alternative fund sources, such as First 5 county commissions, or have made alternative arrangements for care.

May Revise Request. The Governor's May Revise requests that child care programs be **decreased by $123,474,000** to reflect revised estimates of caseload costs for CalWORKs Stage 2 and Stage 3 child care. These adjustments reflect:

1. Increase of $64,350,000 to Stage 2, and
2. Decrease of $187,824,000 to Stage 3.

The decrease to Stage 3 is due mainly to the implementation of the Stage 3 veto reflected in the 2010 Budget Act which terminated funding for the program on November 1, 2010.

Due to uncertainty in the Stage 3 caseload number, the Administration is proposing to retain approximately $56.0 million in the current-year appropriation for Stage 3, after accounting for increased current-year costs in Stage 2, and to set aside $33.645 million in one-time funds to be appropriated for Stage 3 pending receipt of updated caseload data from the CDE.

ACTION: Hold open

ISSUE 9: ELAC Elimination

Speakers:

- Scott Moode, ELAC
- Camille Maben, Department of Education
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance

Issue. The issue before the Subcommittee is the proposed elimination of the Early Learning Advisory Committee (ELAC).

ELAC Background. The ELAC was established through an executive order in 2009 to make California eligible for a three-year $10.8 million planning grant to pilot a recommended quality rating improvement system and to develop a data tracking system for children ages 0-5, including preschool. The intention was for ELAC to build on the work of the California Early Learning Quality Improvement System Advisory Committee (CAELQIS) in helping define the future policy direction for early learning in California.

Specifically, ELAC planned to:

1. Create a strategic plan for early learning
2. Integrate early childhood competencies data
3. Pilot a quality rating program

May Revise Request. The Governor's May Revise requests to eliminate ELAC. While the elimination of this advisory council will result in the loss of the remaining federal grant funds, ELAC's work represents a new initiative that the state cannot presently afford. The elimination of ELAC results in a decrease of $3.6 million in federal funds in 2011-12.

Staff Comment. The ELAC is the only entity working on state-wide data gathering for very early childhood learning. Also, the ELAC assumed many of the functions of CAELQIS, and it is not clear where those functions would be housed under the Governor's elimination plan.

Though the State should examine all spending priorities, the ELAC is funded with a federal grant, and these federal funds cannot be used for other projects within CDE. Also, there have been some concerns expressed that the federal government may request repayment of these funds if the ELAC tasks are not completed. Staff is also concerned that halting the planning process to integrate early childhood competencies data will exclude California from consideration for future federal grants in early childhood quality improvement.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open.

ACTION: Hold open

ISSUE 10: SRR Reduction

Speakers:

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

Issue. The issue before the Subcommittee is the SB 69 action to reduce the Standard Reimbursement Rate (SRR) by ten percent.

SRR Background. The Standard Reimbursement Rate is utilized with agencies that have direct contracts with CDE, such as state preschool programs. It is important to note that as part of their contract, these providers are required to meet additional training and program standards which are not required of non-contracted providers.

The SRR is set by the Legislature annually in the Budget Act. The last increase to the SRR was in 2007. The SRR is set as a daily rate, but SRR contracts are based on a standard of 250 enrollment days per year, for a total annual reimbursement of $8,595 per child. The part-day State Preschool daily rate is lower at $21.22 or $3,714 per annum for 175 days of operation. The SRR does specify adjustment factors based on the number of hours each child receives care. It also has positive adjustment factors to account for the child's age (3 years and older is considered the standard rate), special needs, disability, and whether the child is at risk of abuse or neglect.

SB 69. The March budget package reduced the SRR in provisional language by ten percent. The rate fell from $34.38 to $30.94 per day per child for general child care; and from $21.22 to $19.10 per day per child for state preschool programs. The annual savings from the adjustment are estimated at **$121.9 million**.

May Revise Request. The Governor's May Revise maintains the SB 69 SRR reduction.

Staff Recommendation. Staff recommends that the Subcommittee increase the SRR back to the January 10 budget level ($34.38 and $21.22). The funding for SRR will conform to the Proposition 98 package.

ACTION: Restored the Standard Reimbursement Rate to the January 10, 2011 level (of $34.38 and $21.22).

VOTE: 2-1 (Huff No)

ISSUE 11: Creating Efficiencies – AP Contract Bidding

Speakers:

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

Issue. The issue before the Subcommittee is the process for awarding Alternative Payment (AP) provider contracts.

Contract Awarding Process Overview. Current state regulations mandates that the AP contracts be provided first to the entity that previously held the contract. If that organization turns down the AP contract, the local educational agency (LEA) is offered the contract. If the LEA does not accept the contract, it is offered to the county, and then to any entity within the county that conducts similar work.

Benefits with Current Process. The current contract awarding process relies on the experience of the agencies that have administered the AP contracts for many years. These agencies have extensive experience with customer service for parents, with negotiating contracts with providers, and dealing with the unique issues related to child care administration. By continuing to offer contracts to the same agency every year, the state benefits from the agencies' many years of experience.

Problems with Current Process. The system of providing the AP contracts is not open to new agencies that may have experience and may be able to provide services for less cost than the current provider. By continuing to contract only with entities located within the county, the state may be losing out on the experience and administrative capability of entities outside of the county.

Options for Changes. The Legislature may wish to consider a pilot program to openly bid the AP contracts when the AP provider in an area willingly turns back their contract. This pilot program would not apply to all counties, but only those where the current AP releases the contract they hold with the state.

Staff Recommendation. Staff recommends that the Subcommittee adopt trailer bill language in concept to allow CDE to take bids for any AP service contract that is willingly turned back by the AP currently holding that contract.

ACTION: Hold open

ISSUE 12: Creating Efficiencies – Align AP and R&R Service Areas

Speakers:

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

Issue. The issue before the Subcommittee is the number of APs operating in the state and the efficiency of multiple service areas.

AP Overview. Currently, there are 82 APs in California. The CDE contracts with the AP to administer CalWORKs Stage 2, CalWORKs Stage 3, and the non-CalWORKs Alternative Payment Program at the local level. The APs in turn contract with the child care providers. The APs are responsible for both the administration of the programs and the support services to the families, developing payment agreements with the providers, and billing and collecting the family fees.

R&R Overview. The Resource and Referral Network (R&R network) was founded in 1976. California's federal child care development fund grant (CCDF) requires that four percent of the federal funds be used for child care quality improvement. California has chosen, through the state budget, to use a portion of these quality improvement dollars to fund the R&R network. The 73 R&R network agencies assist families in finding child care providers. They also maintain databases of child care providers in their service area, and work with providers to improve the quality of child care offered.

Create Greater Geographic Overlap. Currently, there are several small APs in California. Each agency has some basic costs from building rent to staff salaries that it incurs in operating. APs that serve more people may have a lower marginal cost per person served. By consolidating some of the service areas of the APs, the state could create efficiencies that may allow the APs to serve more people. The AP service areas could be made to overlap the R&R service areas. This would equate to roughly one AP per county. In some counties the R&R and the AP are already the same entity. Some highly populated counties, such as Los Angeles or San Francisco, have more than one AP and R&R due to the large number of people needing services.

Staff Recommendation. Staff recommends that the Subcommittee direct CDE to realign AP service areas to overlap with R&R network service areas in order to create some administrative efficiency.

ACTION: Hold open

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Thursday, May 26, 2011
9:30 a.m.
Room 3191, State Capitol

Agenda Part A

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VOTE ONLY ITEMS

ISSUE 1: California State Library – Sutro Library

Issue. The issue before the Subcommittee is the relocation costs and ongoing operations costs for the Sutro Library.

Sutro Library Overview. The heirs of the former San Francisco mayor Adolph Sutro donated his library to the State in 1913 with the provision that these collections always remain within the city and county of San Francisco. The Sutro Library is viewed as one of the best collections of local and family histories in the United States. Since 1983, the Sutro Library has been located in a modular building that does not provide adequate protection for the aging volumes of books stored there. Problems with the modular building include deficient humidity and climate controls for the collections and inadequate lighting and power for library users.

New Library Facility. SB 682 (Migden, 2005) funded a joint library project for the California State Library and the California State University, San Francisco. The J. Paul Leonard and Sutro Library project will be constructed on the CSU San Francisco campus, and is expected to be completed in November 2011. The new facility will provide a permanent location for the Sutro Library and meeting and study areas for the J. Paul Leonard Library.

Funding Request. The request is for $490,000 General Fund for the budget year and $225,000 General Fund for each subsequent year to support the relocation of the Sutro Library. Specifically, the request is for:

- $320,000 to cover the one-time costs to relocate the Sutro Library from its current location to the new facility during the budget year. This includes removing and reattaching industrial shelving, moving library collections and materials (including invaluable rare book collections), and relocating network and phone lines.
- Ongoing costs associated with the Sutro Library's occupancy of the fifth and sixth floors of the new facility. An augmentation of $170,000 is requested for the budget year and $225,000 for subsequent years. These ongoing costs are for the operating expenses for the new space, minus the costs currently spent on the modular building.

Staff Recommendation. Staff recommends that the Subcommittee approve the request.

ISSUE 2: California State Library – California Cultural and Historical Endowment

Issue. The issue before the Subcommittee is increasing the funding for the California Cultural and Historical Endowment for the 2011-12 fiscal year.

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

Survey Requirement. In addition to providing grants, the CCHE has an unfulfilled requirement to conduct a survey of the existing collection of preserved historic and cultural resources in California, and to make recommendations to the Governor and Legislature on statewide policy regarding historic and cultural resource preservation. The survey was supposed to be completed in 2005. A new Executive Officer began work on the survey, and the Initial Assessment Summary was completed in April 2010. The State Library now estimates that the survey will be completed in June 2012.

Proposition 40. Proposition 40 was passed by the voters in 2002, and it contained $128.4 million for Historical and Cultural Resource Preservation. Currently, only $2.14 million of the funds remain unencumbered. The California State Library has awarded Proposition 40 bond funds for 170 projects statewide, of which 67 are still active.

Funding Request. The request is for $207,000 from Proposition 40 bond funds to fund the survey mandated by statute. This request augments the $656,000 from Proposition 40 bond funds the Legislature has already approved for the 2011-12 fiscal year.

Staff Recommendation. Staff recommends that the Subcommittee approve the request.

CAPITAL OUTLAY

ISSUE 3: UC Capital Outlay: San Diego SIO

Issue. The issue before the Subcommittee is a University of California (UC) capital outlay project in San Diego, the SIO Research Support Facility construction phase.

Scripps Institution of Oceanography (SIO). The SIO is a part of the UC San Diego campus. The SIO is one of the world's leading centers for ocean and earth science research, education, and public service. Research at SIO encompasses physical, chemical, biological, geological, and geophysical studies of the oceans and earth. The SIO operates a fleet of four ships for oceanographic research.

San Diego Project Overview. The project would provide approximately 21,300 square feet of replacement research space for the Scripps Institution of Oceanography. This project will replace currently deficient space by constructing new interior research space and new exterior research support areas. The project also includes improvements to the existing access road.

Funding Request. The request is for $5,735,000 in lease-revenue bond funds for the construction phase of the project. The preliminary plans and working drawings have already been funded. The total project cost is $6,348,000.

Staff Recommendation. Staff recommends the Subcommittee approve the request.

ISSUE 4: UC Capital Outlay: Reappropriations

Issue. The issues before the Subcommittee are University of California capital outlay reppropriations.

May Letter. The Governor's May Letter requested the following reapproparions for UC:

Amend Item 6440-492 to reappropriate funds for the following 11 project phases appropriated from the 2006, 2007, 2008, 2009, and 2010 Budget Acts:

1. Davis Campus, King Hall Renovation and Expansion—Construction.
2. Davis Campus, Telemedicine Resource Center and Rural PRIME Facility—Equipment.
3. Irvine Campus, Primary and Electrical Improvements, Step 3—Construction.
4. Irvine Campus, Social and Behavioral Sciences—Equipment.
5. Los Angeles Campus, Telemedicine and PRIME Facilities, Phase 2—Construction.
6. Merced Campus, Site Development and Infrastructure, Phase 6—Construction.
7. Riverside Campus, Materials Science and Engineering Building—Equipment.
8. Riverside Campus, Boyce Hall and Webber Hall Renovations—Construction.
9. San Diego Campus, Music Building—Equipment.
10. San Francisco Campus, Telemedicine and PRIME UC Education Facilities—Equipment.
11. Statewide, Telemedicine Services Expansion—Equipment.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ISSUE 5: UC Capital Outlay: Extensions of Liquidation

Issue. The issues before the Subcommittee are University of California capital outlay extensions of liquidation.

May Letter. The Governor's May Letter requested the following extensions of liquidation for UC:

Add Item 6440-493 to extend the liquidation period by one additional year (until June 30, 2012) for the following eight projects phases appropriated and/or reappropriated in either 2006, 2007, or 2009:

1. Berkeley Campus, Campbell Hall Seismic Replacement Building—Working drawings.
2. Davis Campus, King Hall Renovation and Expansion—Working drawings.
3. Davis Campus, Veterinary Medicine 3B—Working drawings.
4. Irvine Campus, Biological Sciences Unit 3—Equipment.
5. Irvine Campus, Telemedicine/PRIME Latino Community Facilities—Construction.
6. Irvine Campus, Arts Building—Construction.
7. Riverside Campus, Geology Building Renovations, Phase 2—Construction.
8. Riverside Campus, Boyce Hall and Webber Hall Renovations—Working drawings.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ISSUE 6: UC Capital Outlay: May Revise Reappropriations

Issue. The issues before the Subcommittee are University of California capital outlay reappropriations.

May Revise. The Governor's May Revise requested the following reappropriations for UC:

Amend Item 6440-492 to reappropriate funds for the following two project phases appropriated from the 2010 Budget Act from general obligation bonds:

1. Merced Campus, Site Development and Infrastructure, Phase 4—Preliminary plans, working drawings, construction, and equipment.
2. San Diego Campus, Scripps Institution of Oceanography Research and Support Facilities—Preliminary plans, and working drawings.

Add Item 6440-494 to reappropriate funds for the following four project phases appropriated from the 2010 Budget Act from lease revenue bonds:

1. Berkeley Campus, Campbell Hall Seismic Replacement Building—Construction.
2. Los Angeles Campus, Center for Health Sciences South Tower Seismic Renovation—Construction.
3. Santa Barbara Campus, Davidson Library Addition and Renewal—Working drawings and construction.
4. Merced Campus, Science and Engineering Building 2—Construction.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ISSUE 7: CSU Capital Outlay: San Jose

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU San Jose Spartan Complex Renovation construction phase.

Project Overview. The Spartan Complex Renovation is a renovation of four buildings: the Uchida Hall/Natatorium, the Uchida Hall Annex, the Spartan Complex East, and Spartan Complex Central. The Spartan Complex Central is a seismically unsafe building.

The project will meet the current seismic, ADA, and life-safety code requirements, as well as replacing the building systems. The project will convert the Uchida Hall/Natatorium into a two-level facility with a judo laboratory and lecture space, locker rooms, and graduate research space.

Funding Request. The request is for $51,479,000 in lease-revenue bond funds for the construction phase of the San Jose Spartan Complex Renovation. The total project cost is $55.99 million, which includes future equipment costs of $1.27 million.

Staff Recommendation. Staff recommends the Subcommittee approve the request.

ISSUE 8: CSU Capital Outlay: Chico

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU Chico Taylor II Replacement Building construction phase.

Project Overview. The Taylor II Replacement project would demolish the existing 42-year old 33,100 square foot Taylor Hall, and construct a new 62,000 square foot replacement building to accommodate the College of Humanities and Fine Arts. The Taylor II replacement building will accommodate 1,223 FTE in lecture space, 142 FTE in laboratory space, and 100 faculty offices. The new facility would also include a recital hall, recording arts facility, replacement art gallery, and graduate research studios and offices.

The current Taylor facility is not code compliant in fire, plumbing, HVAC, and other building codes. Replacing the Taylor facility is an identified component of the CSU Chico capital outlay Master Plan.

Funding Request. The request is for $52,891,000 in lease-revenue bond funds for the construction phase of the CSU Chico Taylor II Replacement Building. The total project cost is $58,272,000, which includes future equipment costs of $2.58 million.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ISSUE 9: CSU Capital Outlay: Channel Islands

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU Channel Islands West Hall construction phase.

Project Overview. The CSU Channel Islands campus opened in 2002, and currently has about 2,920 FTES. In order for the campus to increase its enrollment, more classroom space is needed. The West Hall project would renovate existing buildings and construct a building addition with space for lecture and laboratories, faculty offices, administrative offices, and instructional support spaces. The facility will be occupied by several disciplines, including anthropology, computer science, environmental science and natural resources, geography, geology, physics, and psychology.

The renovation will provide about 6,600 square feet and the additional space will provide 28,800 square feet, for a project total of 35,400 square feet of space. Overall, the project will increase campus capacity space by 555 FTES and 38 faculty offices. The project will allow CSU Channel Islands to meet a target of 6,280 FTES by 2015-16.

Funding Request. The request is for $38,021,000 in lease-revenue bond funds for the construction phase of the West Hall project. The total project cost is $42,184,000, which includes future equipment costs of $1.7 million.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ISSUE 10: CSU Capital Outlay: Fresno

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU Fresno Faculty Office/Lab Building construction.

Project Overview. The Faculty Office/Lab Building project would construct a new 13,400 square foot two-story facility to house graduate research laboratories, classroom space and faculty offices for the Colleges of Health and Human Services and Physical Education. The new facility will provide four research laboratories for kinesiology, Nursing and Physical Therapy departments, a 75 FTES classroom, a computer lab, locker rooms, and 23 academic/athletic faculty offices.

CSU Fresno needs additional space for the athletic program because the College of Health and Human Services has experienced a 27 percent enrollment growth since 2004, and to provide gender-equitable space for men's and women's athletics in compliance with Title IX.

Funding Request. The request is for $9,819,000 in lease-revenue bond funds for the construction phase of the Faculty Office/Lab Building project. The total project cost is $10,737,000, which includes future equipment costs of $356,000.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ISSUE 11: CSU Capital Outlay: Los Angeles

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for Los Angeles campus Corporation Yard and Public Safety equipment only project.

Project Overview. The facility at the Los Angeles campus has already been fully constructed at a cost of $18.2 million in General Obligation bond funds.

Funding Request. The April 1st Finance Letter requests $648,000 from the Higher Education Capital Outlay Bond Fund of 2002 for the equipment phase of the Corporation Yard and Public Safety project. Originally, the equipment phase received an appropriation in the *2009 Budget Act* from the 1998 Higher Education Capital Outlay Bond Fund for the equipment phase.

Staff Recommendation. Staff recommends the Subcommittee approve the April Letter.

ISSUE 12: CSU Capital Outlay: Budget Bill Language

Issue. The issue before the Subcommittee is California State University (CSU) capital outlay budget bill language to allow CSU to use contract savings for minor capital outlay projects.

Proposal Overview. The proposed budget bill language would allow a CSU campus that completes a major capital outlay project under cost to use the left-over funds for minor capital outlay projects on that campus. A minor capital outlay project has a cost of less than $600,000 for the total project. Currently, UC has this kind of authority.

Requested Language. The request is for the following budget bill language:
6610-401—Identified savings in funds encumbered from the Higher Education Capital Outlay Bond Funds of 1996, 1998, 2002, and 2004, and from the 2006 University Capital Outlay Bond Fund, for capital outlay projects, remaining after completion of a capital outlay project and upon resolution of all change orders and claims, may be used: (a) to begin working drawings for a project for which preliminary plan funds have been appropriated and the plans have been approved by the State Public Works Board consistent with the scope and cost approved by the Legislature as adjusted for inflation only, (b) to proceed further with the underground tank corrections program, (c) to perform engineering evaluations on buildings that have been identified as potentially in need of seismic retrofitting, or (d) to proceed with design and construction of projects to meet requirements under the federal Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12101 et seq.)**, or (e) for identified savings in funds encumbered from the Higher Education Capital Outlay Bond Funds of 1996, 1998, 2002, 2004, and from the 2006 University Capital Outlay Bond Fund, to fund minor capital outlay projects.** No later than November 1 of each year, the California State University shall prepare a report showing (a) the identified savings by project and (b) the purpose for which the identified savings were used. This report shall be submitted to the Chairperson

of the Joint Legislative Budget Committee and to the chairpersons of the fiscal committees of each house of the Legislature.

Staff Comment. Allowing campuses to utilize capital outlay contract savings for minor capital outlay projects will encourage them to keep projects at or under cost. However, not returning the savings back to the state also means that those savings then cannot be appropriated for another major capital outlay project.

Staff Recommendation. Staff recommends the Subcommittee approve the budget bill language.

ISSUE 13: CSU Capital Outlay: Extensions of Liquidation

Issue. The issues before the Subcommittee are California State University capital outlay extensions of liquidation.

May Letter. The Governor's May Letter requested the following extensions of liquidation for CSU:

Add Item 6610-493 to extend the liquidation period by one additional year (until June 30, 2012) for the following five projects phases appropriated and/or reappropriated in either 2006, 2007, or 2009:

1. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 2006).
2. Long Beach Campus, Peterson Hall 3 Replacement—Construction.
3. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 2002).
4. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 1998).
5. Fresno Campus, Library Addition and Renovation—Construction and Equipment.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ISSUE 14: CSU Capital Outlay: May Revise Reappropriations

Issue. The issues before the Subcommittee are California State University capital outlay reappropriations.

May Revise. The Governor's May Revise requested the following reappropriations for CSU:

Add Item 6610-492 to reappropriate funds for the following four project phases appropriated from the 2010 Budget Act from general obligation bonds.

1. Chico, Taylor II Replacement Building—Preliminary plans and working drawings.
2. Fresno, Faculty Offices/Lab Building—Preliminary plans and working drawings.
3. Channel Islands, West Hall—Preliminary plans and working drawings.
4. San Jose, Spartan Complex Seismic Renovation—Preliminary plans and working drawings.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ISSUE 15: CSU Capital Outlay: Monterey Library Reappropriation

Issue. The issues before the Subcommittee is a California State University capital outlay reappropriation.

Monterey Bay. Add to Item 6610-492 an additional reappropriation of funds for CSU Monterey Bay: Library Group II equipment phase until June 30, 2012. These funds will revert on June 30, 2011 unless reappropriated. The project is not yet completed, and thus reappropriation is needed.

The project reference is: Per Chapters 171/172, FY 2007/08, 6610-301-6028-(2) Equipment CFIS 06.74.006 $4,228,000.

Staff Recommendation. Staff recommends the Subcommittee approve the reappropriation for this project until June 30, 2012.

ISSUE 16: CCC Capital Outlay: San Francisco

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay proposal for the San Francisco Community College District, City College of San Francisco Performing Arts Complex construction and equipment phases.

Project Overview. The Performing Arts Complex project would provide 59,354 square feet of space containing lecture, laboratory, office, library, and other space. The new facility would contain state-of-the-art technology and other specialty rooms to enhance the delivery of the theater arts and music programs.

This project would serve as a replacement for two previously approved projects, the Classroom/Lab Arts Complex authorized in 2006 and the Performing Arts Center, authorized in 2007. Both projects were halted by the Public Works Board because the scope of the projects was not achievable within the authorized budget.

The district completed the design (preliminary plans and working drawings) for the project in 2007. The design is for a building one-third smaller than the original complex approved in 2006.

Each semester, about 5,000 students take courses from the performing arts and music programs in the existing space designed for use by 1,000 students.

Funding Request. The request is for $38,274,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction and equipment phases of the City College of San Francisco Performing Arts Complex. The total project cost is $151.2 million, of which $101.9 million is from private funding.

Staff Recommendation. Staff recommends the Subcommittee approve the request

ISSUE 17: CCC Capital Outlay: Santa Clarita

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay proposal for the Santa Clarita Community College Districts, College of the Canyons, Administration/Student Services Building.

Project Overview. The Administration/Student Services Building project would demolish the existing Colleges Services Building and construct a new building with 20,544 square feet of space for laboratory, office, administrative support, and other. The project will consolidate student services and administrative functions into one building.

Funding Request. The request is for $6,855,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction and equipment phases of the College of the Canyons Administration/Student Services Building.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ISSUE 18: CCC Capital Outlay: Coast

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay proposal for the Coast Community College District, Orange Coast College, Music Buildings Modernization construction project.

Project Overview. The Music Buildings Modernization project would renovate two existing music buildings. Music Building #3 was constructed in 1975; Music Building #4 was constructed in 1954. Both buildings have physical limitations, including seismic deficiencies, outdated mechanical systems, HVAC inefficiencies, inadequate electrical and telecommunications support, and they are not ADA compliant. The current buildings are not able to sustain the technology that is required in modern music production.

The existing music buildings are central to the academic zone for the arts, and the College would like to modernize them rather than construct new buildings elsewhere.

The modernization project will provide teaching facilities that can support the Music Education Program, including programs for voice, instruments, computers in music, recording technology, and music theory. Portions of the building interior will be reconfigured to better accommodate academic programs. The project will include seismic upgrades to make the building current with the Administrative Code/Field Act. The buildings will also need to meet the current code for fire safety, including the addition of fire alarm/suppression systems and improving the points of ingress and egress.

Funding Request. The request is for $3,489,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction phase of the Orange Coast College Music Buildings modernization. The total project cost is $8 million, including future equipment costs of $345,000.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ISSUE 19: CCC Capital Outlay: May Revise Reappropriations

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay reappropriations in the Governor's May Revise budget proposal.

May Revise. The Governor's May Revise requests that Item 6870-491 be added to reappropriate the following ten project phases appropriated in the 2005, 2008, 2009, and 2010 Budget Acts:

1. Los Angeles CCD, Los Angeles Harbor College, Library Learning Resource Center—Equipment
2. San Joaquin Delta CCD, San Joaquin Delta College, Cunningham Math Science Replacement—Equipment
3. San Luis Obispo CCD, North County Center, Technology and Trades Complex—Construction and equipment
4. San Mateo CCD, Canada College, Electrical Infrastructure Replacement—Construction
5. San Mateo CCD, Skyline College, Electrical Infrastructure Replacement—Construction
6. El Camino CCD, El Camino College Compton Center, Infrastructure Replacement
   Phase 2—Construction
7. El Camino CCD, El Camino College Compton Center, Allied Health Building—Working drawings and construction
8. Kern CCD, Bakersfield College, Performing Arts Modernization—Construction
9. Riverside CCD, Moreno Valley College, Phase III Student Academic Services Building—Construction

10. Redwoods CCD, College of the Redwoods, New Science Humanities Building Seismic Replacement—Working drawings and construction

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ISSUE 20: CCC Capital Outlay: May Revise Extension of Liquidation

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay extension of liquidation in the Governor's May Revise budget proposal.

May Revise. The Governor's May Revise requests a two-year extension of the liquidation period on the construction phase of the Los Angeles CCD, Los Angeles Trade Technical College, Renovate and Modernize Building A project. The project is expected to be completed in September 2011. The extension is necessary because of delays attributed to project redesigns to remain within the approved budget, unexpected site conditions, and the cleanup of undocumented hazardous materials.

Therefore, it is requested that Item 6870-492 be added to extend the liquidation period for this project until June 30, 2013.

Staff Recommendation. Staff recommends the Subcommittee approve this request.

Discussion Items

Capital Outlay Projects Summary Chart

Campus	Project	Project Phase	2011-12 Cost (000)	Full Project Cost (000)	Funding Type
UC San Diego	SIO Research Support Facilities	C	$5,735	$6,348	Lease-revenue
UC Irvine	Business Unit 2	PWC	$39,595	$48,371	Lease-revenue
CSU San Jose	Spartan Complex Renovation (Seismic)	C	$51,479	$55,990	Lease-revenue
CSU Chico	Taylor II Replacement Building	C	$52,891	$58,272	Lease-revenue
CSU East Bay	Warren Hall Replacement Building	PWC	$48,975	$49,975	Lease-revenue
CSU Channel Islands	West Hall	C	$38,021	$42,184	Lease-revenue
CSU Fresno	Faculty Office/Lab Building	C	$9,819	$10,737	Lease-revenue
CSU Los Angeles	Corporation Yard and Public Safety	E	$648	$18,200	GO Bond
CCC Santa Clarita	College of the Canyons, Administration and Student Services Building	CE	$6,855	$14,007	GO Bond
CCC San Francisco	City College of San Francisco, Performing Arts Complex	CE	$38,274	$151,212	GO Bond
CCC Orange Coast	Orange Coast College, Music Building Modernization	C	$3,489	$8,008	GO Bond

ISSUE 21: California State Library – Library Renovation

Issue. The issue before the Subcommittee is the California State Library relocation for infrastructure renovation project, year four.

Renovation Overview. In 1928, the California State Library moved into the Library and Courts Building at 914 Capitol Mall in Sacramento. The Library and Courts Building is a registered state and federal landmark. The building had received few updates since its original construction, and in 2005-06 the Legislature approved a renovation project for the Library and Courts Building with a scope that included fire, life safety, and infrastructure improvements.

In 2009, the State Library collection was moved to a temporary storage facility in West Sacramento in order to allow the renovation project to move forward. The renovation project was initially scheduled to be completed in October 2010. The Department of General Services (DGS) has extended the renovation timeline, and currently estimates that the State Library can move back into the Library and Courts Building by the end of November 2012.

Funding Request. The request is for $707,000 General Fund for the budget year to cover rental, utilities, and other costs related to the temporary move offsite of the State Library's collection during the ongoing renovation of the historic Library and Courts Building.

Increased Costs. The budget year funding request is $111,000 more than the current year funding for the West Sacramento facility rental. The reasons for the increase are:

1. The electrical and natural gas costs were $97,000 for the previous 12 months. The original proposal did not include an allowance for electrical and natural gas costs;
2. An anticipated $12,000 increase in courier services and van rental; and
3. A $2,000 increase in the lease consultant contract.

Staff Recommendation. Staff recommends that the Subcommittee approve the request.

ISSUE 22: UC Capital Outlay: Irvine Business Unit

Speakers:

- Patrick Lenz, University of California
- Stan Hiuga, Department of Finance
- Steve Boilard, Legislative Analyst's Office

Issue. The issue before the Subcommittee is a UC capital outlay proposal for Irvine, Business Unit 2, design and construction phases.

Irvine Business School. The UC Irvine School of Business enrollment has grown by 50 percent since 2001-02. The program is anticipated to grow by another 20 percent by 2014-15 due to the increasing popularity of the business major. The School of Business currently occupies two buildings on the Irvine campus: the School of Business building completed in 1988, and the Multipurpose Academic and Administration Building completed in 2000. Currently, the business major constitutes nearly 10 percent of the campus freshman application pool and 15 percent of the transfer student application pool.

In order to accommodate the increased enrollment, additional faculty will be required. A total of 17 additional faculties are projected, 16 of which would be State-funded. The campus would provide these additional faculties largely through reallocation of positions as existing faculty retire or leave the campus.

Irvine Project Overview. The project would construct a new building with approximately 47,000 square feet of space. State funding would provide 31,950 square feet of instruction, research, and support space for the School of Business. Gift funds included in the project will construct shell space that, when built out, will provide an additional 5,505 square feet for the School of Business, as well as 9,580 square feet for an auditorium and food service space to serve the campus as a whole.

Funding Request. The request is for $39,595,000 in lease-revenue bond funds for the preliminary plans, working drawings, and construction phases of the project. The total project cost is anticipated to be $48,371,000. This project has not yet been started.

The campus is proposing that the Business Unit 2 building be provided through a combination of State and non-State funding.

Staff Recommendation. Staff recommends the Subcommittee reject the proposal without prejudice because this project does not meet the health and safety threshold for consideration.

ISSUE 23: CSU Capital Outlay: East Bay

Speakers:

- Elvyra San Juan, California State University
- Stan Hiuga, Department of Finance
- Judy Heiman, Legislative Analyst's Office

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU East Bay Warren Hall Replacement Building preliminary plans, working drawings, and construction phases.

Project Overview. The Warren Hall replacement building project would demolish the 84,800 square foot Warren Hall building and construct a new replacement office building adjacent to the current Warren Hall site. The replacement facility will provide 113 administrative and faculty offices in a 40,000 square foot building. This project would eliminate 876 FTE in lecture space and provide a net increase of 40 offices. This project would also complete the relocation of the campus main telecommunications switch from the Warren Hall basement into the new Student Services Replacement Building.

Funding Request. The request is for $48,975,000 in lease-revenue bond funds for the preliminary plans, working drawings, and construction phases of the Warren Hall replacement building project. The total project cost is $49,975,000, which includes future equipment costs of $1 million.

Current Building Unsafe. Currently, eight floors of the Warren Hall building are empty because the building has been deemed seismically unsafe. Since Warren Hall is built on a hillside, if an earthquake were to strike the San Francisco East Bay, there is a likelihood that Warren Hall would fall down and cause destruction to the buildings around it.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal due to this project being critical to campus health/life-safety.

SUBCOMMITTEE NO. 1 on Education

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

Thursday, May 26, 2011

Agenda Part A
Outcomes

VOTE ONLY ITEMS

ISSUE 1: California State Library – Sutro Library

Issue. The issue before the Subcommittee is the relocation costs and ongoing operations costs for the Sutro Library.

Sutro Library Overview. The heirs of the former San Francisco mayor Adolph Sutro donated his library to the State in 1913 with the provision that these collections always remain within the city and county of San Francisco. The Sutro Library is viewed as one of the best collections of local and family histories in the United States. Since 1983, the Sutro Library has been located in a modular building that does not provide adequate protection for the aging volumes of books stored there. Problems with the modular building include deficient humidity and climate controls for the collections and inadequate lighting and power for library users.

New Library Facility. SB 682 (Migden, 2005) funded a joint library project for the California State Library and the California State University, San Francisco. The J. Paul Leonard and Sutro Library project will be constructed on the CSU San Francisco campus, and is expected to be completed in November 2011. The new facility will provide a permanent location for the Sutro Library and meeting and study areas for the J. Paul Leonard Library.

Funding Request. The request is for $490,000 General Fund for the budget year and $225,000 General Fund for each subsequent year to support the relocation of the Sutro Library. Specifically, the request is for:

- $320,000 to cover the one-time costs to relocate the Sutro Library from its current location to the new facility during the budget year. This includes removing and reattaching industrial shelving, moving library collections and materials (including invaluable rare book collections), and relocating network and phone lines.
- Ongoing costs associated with the Sutro Library's occupancy of the fifth and sixth floors of the new facility. An augmentation of $170,000 is requested for the budget year and $225,000 for subsequent years. These ongoing costs are for the operating expenses for the new space, minus the costs currently spent on the modular building.

Staff Recommendation. Staff recommends that the Subcommittee approve the request.

ACTION: Approved
VOTE: 3-0

ISSUE 2: California State Library – California Cultural and Historical Endowment

Issue. The issue before the Subcommittee is increasing the funding for the California Cultural and Historical Endowment for the 2011-12 fiscal year.

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

Survey Requirement. In addition to providing grants, the CCHE has an unfulfilled requirement to conduct a survey of the existing collection of preserved historic and cultural resources in California, and to make recommendations to the Governor and Legislature on statewide policy regarding historic and cultural resource preservation. The survey was supposed to be completed in 2005. A new Executive Officer began work on the survey, and the Initial Assessment Summary was completed in April 2010. The State Library now estimates that the survey will be completed in June 2012.

Proposition 40. Proposition 40 was passed by the voters in 2002, and it contained $128.4 million for Historical and Cultural Resource Preservation. Currently, only $2.14 million of the funds remain unencumbered. The California State Library has awarded Proposition 40 bond funds for 170 projects statewide, of which 67 are still active.

Funding Request. The request is for $207,000 from Proposition 40 bond funds to fund the survey mandated by statute. This request augments the $656,000 from Proposition 40 bond funds the Legislature has already approved for the 2011-12 fiscal year.

Staff Recommendation. Staff recommends that the Subcommittee approve the request.

ACTION: Approved
VOTE: 2-1 (Huff No)

CAPITAL OUTLAY

ISSUE 3: UC Capital Outlay: San Diego SIO

Issue. The issue before the Subcommittee is a University of California (UC) capital outlay project in San Diego, the SIO Research Support Facility construction phase.

Scripps Institution of Oceanography (SIO). The SIO is a part of the UC San Diego campus. The SIO is one of the world's leading centers for ocean and earth science research, education, and public service. Research at SIO encompasses physical, chemical, biological, geological, and geophysical studies of the oceans and earth. The SIO operates a fleet of four ships for oceanographic research.

San Diego Project Overview. The project would provide approximately 21,300 square feet of replacement research space for the Scripps Institution of Oceanography. This project will replace currently deficient space by constructing new interior research space and new exterior research support areas. The project also includes improvements to the existing access road.

Funding Request. The request is for $5,735,000 in lease-revenue bond funds for the construction phase of the project. The preliminary plans and working drawings have already been funded. The total project cost is $6,348,000.

Staff Recommendation. Staff recommends the Subcommittee approve the request.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 4: UC Capital Outlay: Reappropriations

Issue. The issues before the Subcommittee are University of California capital outlay reppropriations.

May Letter. The Governor's May Letter requested the following reapproparions for UC:

Amend Item 6440-492 to reappropriate funds for the following 11 project phases appropriated from the 2006, 2007, 2008, 2009, and 2010 Budget Acts:

1. Davis Campus, King Hall Renovation and Expansion—Construction.
2. Davis Campus, Telemedicine Resource Center and Rural PRIME Facility—Equipment.
3. Irvine Campus, Primary and Electrical Improvements, Step 3—Construction.
4. Irvine Campus, Social and Behavioral Sciences—Equipment.
5. Los Angeles Campus, Telemedicine and PRIME Facilities, Phase 2—Construction.
6. Merced Campus, Site Development and Infrastructure, Phase 6—Construction.
7. Riverside Campus, Materials Science and Engineering Building—Equipment.
8. Riverside Campus, Boyce Hall and Webber Hall Renovations—Construction.
9. San Diego Campus, Music Building—Equipment.
10. San Francisco Campus, Telemedicine and PRIME UC Education Facilities—Equipment.
11. Statewide, Telemedicine Services Expansion—Equipment.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 5: UC Capital Outlay: Extensions of Liquidation

Issue. The issues before the Subcommittee are University of California capital outlay extensions of liquidation.

May Letter. The Governor's May Letter requested the following extensions of liquidation for UC:

Add Item 6440-493 to extend the liquidation period by one additional year (until June 30, 2012) for the following eight projects phases appropriated and/or reappropriated in either 2006, 2007, or 2009:

1. Berkeley Campus, Campbell Hall Seismic Replacement Building—Working drawings.
2. Davis Campus, King Hall Renovation and Expansion—Working drawings.
3. Davis Campus, Veterinary Medicine 3B—Working drawings.
4. Irvine Campus, Biological Sciences Unit 3—Equipment.
5. Irvine Campus, Telemedicine/PRIME Latino Community Facilities—Construction.
6. Irvine Campus, Arts Building—Construction.
7. Riverside Campus, Geology Building Renovations, Phase 2—Construction.
8. Riverside Campus, Boyce Hall and Webber Hall Renovations—Working drawings.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 6: UC Capital Outlay: May Revise Reappropriations

Issue. The issues before the Subcommittee are University of California capital outlay reappropriations.

May Revise. The Governor's May Revise requested the following reappropriations for UC:

Amend Item 6440-492 to reappropriate funds for the following two project phases appropriated from the 2010 Budget Act from general obligation bonds:

1. Merced Campus, Site Development and Infrastructure, Phase 4—Preliminary plans, working drawings, construction, and equipment.
2. San Diego Campus, Scripps Institution of Oceanography Research and Support Facilities—Preliminary plans, and working drawings.

Add Item 6440-494 to reappropriate funds for the following four project phases appropriated from the 2010 Budget Act from lease revenue bonds:

1. Berkeley Campus, Campbell Hall Seismic Replacement Building—Construction.

2. Los Angeles Campus, Center for Health Sciences South Tower Seismic Renovation—Construction.
3. Santa Barbara Campus, Davidson Library Addition and Renewal—Working drawings and construction.
4. Merced Campus, Science and Engineering Building 2—Construction.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 7: CSU Capital Outlay: San Jose

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU San Jose Spartan Complex Renovation construction phase.

Project Overview. The Spartan Complex Renovation is a renovation of four buildings: the Uchida Hall/Natatorium, the Uchida Hall Annex, the Spartan Complex East, and Spartan Complex Central. The Spartan Complex Central is a seismically unsafe building.

The project will meet the current seismic, ADA, and life-safety code requirements, as well as replacing the building systems. The project will convert the Uchida Hall/Natatorium into a two-level facility with a judo laboratory and lecture space, locker rooms, and graduate research space.

Funding Request. The request is for $51,479,000 in lease-revenue bond funds for the construction phase of the San Jose Spartan Complex Renovation. The total project cost is $55.99 million, which includes future equipment costs of $1.27 million.

Staff Recommendation. Staff recommends the Subcommittee approve the request.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 8: CSU Capital Outlay: Chico

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU Chico Taylor II Replacement Building construction phase.

Project Overview. The Taylor II Replacement project would demolish the existing 42-year old 33,100 square foot Taylor Hall, and construct a new 62,000 square foot replacement building to accommodate the College of Humanities and Fine Arts. The Taylor II replacement building will accommodate 1,223 FTE in lecture space, 142 FTE in laboratory space, and 100 faculty offices. The new facility would also include a recital hall, recording arts facility, replacement art gallery, and graduate research studios and offices.

The current Taylor facility is not code compliant in fire, plumbing, HVAC, and other building codes. Replacing the Taylor facility is an identified component of the CSU Chico capital outlay Master Plan.

Funding Request. The request is for $52,891,000 in lease-revenue bond funds for the construction phase of the CSU Chico Taylor II Replacement Building. The total project cost is $58,272,000, which includes future equipment costs of $2.58 million.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 9: CSU Capital Outlay: Channel Islands

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU Channel Islands West Hall construction phase.

Project Overview. The CSU Channel Islands campus opened in 2002, and currently has about 2,920 FTES. In order for the campus to increase its enrollment, more classroom space is needed. The West Hall project would renovate existing buildings and construct a building addition with space for lecture and laboratories, faculty offices, administrative offices, and instructional support spaces. The facility will be occupied by several disciplines, including anthropology, computer science, environmental science and natural resources, geography, geology, physics, and psychology.

The renovation will provide about 6,600 square feet and the additional space will provide 28,800 square feet, for a project total of 35,400 square feet of space. Overall, the project will increase campus capacity space by 555 FTES and 38 faculty offices. The project will allow CSU Channel Islands to meet a target of 6,280 FTES by 2015-16.

Funding Request. The request is for $38,021,000 in lease-revenue bond funds for the construction phase of the West Hall project. The total project cost is $42,184,000, which includes future equipment costs of $1.7 million.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 10: CSU Capital Outlay: Fresno

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU Fresno Faculty Office/Lab Building construction.

Project Overview. The Faculty Office/Lab Building project would construct a new 13,400 square foot two-story facility to house graduate research laboratories, classroom space and faculty offices for the Colleges of Health and Human Services and Physical Education. The new facility will provide four research laboratories for kinesiology, Nursing and Physical Therapy departments, a 75 FTES classroom, a computer lab, locker rooms, and 23 academic/athletic faculty offices.

CSU Fresno needs additional space for the athletic program because the College of Health and Human Services has experienced a 27 percent enrollment growth since 2004, and to provide gender-equitable space for men's and women's athletics in compliance with Title IX.

Funding Request. The request is for $9,819,000 in lease-revenue bond funds for the construction phase of the Faculty Office/Lab Building project. The total project cost is $10,737,000, which includes future equipment costs of $356,000.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 11: CSU Capital Outlay: Los Angeles

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for Los Angeles campus Corporation Yard and Public Safety equipment only project.

Project Overview. The facility at the Los Angeles campus has already been fully constructed at a cost of $18.2 million in General Obligation bond funds.

Funding Request. The April 1st Finance Letter requests $648,000 from the Higher Education Capital Outlay Bond Fund of 2002 for the equipment phase of the Corporation Yard and Public Safety project. Originally, the equipment phase received an appropriation in the *2009 Budget Act* from the 1998 Higher Education Capital Outlay Bond Fund for the equipment phase.

Staff Recommendation. Staff recommends the Subcommittee approve the April Letter.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 12: CSU Capital Outlay: Budget Bill Language

Issue. The issue before the Subcommittee is California State University (CSU) capital outlay budget bill language to allow CSU to use contract savings for minor capital outlay projects.

Proposal Overview. The proposed budget bill language would allow a CSU campus that completes a major capital outlay project under cost to use the left-over funds for minor capital outlay projects on that campus. A minor capital outlay project has a cost of less than $600,000 for the total project. Currently, UC has this kind of authority.

Requested Language. The request is for the following budget bill language:
6610-401—Identified savings in funds encumbered from the Higher Education Capital Outlay Bond Funds of 1996, 1998, 2002, and 2004, and from the 2006 University Capital Outlay Bond Fund, for capital outlay projects, remaining after completion of a capital outlay project and upon resolution of all change orders and claims, may be used: (a) to begin working drawings for a project for which preliminary plan funds have been appropriated and the plans have been approved by the State Public Works Board consistent with the scope and cost approved by the Legislature as adjusted for inflation only, (b) to proceed further with the underground tank corrections program, (c) to perform engineering evaluations on buildings that have been identified as potentially in need of seismic retrofitting, or (d) to proceed with design and construction of projects to meet requirements under the federal Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12101 et seq.)**, or (e) for identified savings in funds encumbered from the Higher Education Capital Outlay Bond Funds of 1996, 1998, 2002, 2004, and from the 2006 University Capital Outlay Bond Fund, to fund minor capital outlay projects.** No later than November 1 of each year, the California State University shall prepare a report showing (a) the identified savings by project and (b) the purpose for which the identified savings were used. This report shall be submitted to the Chairperson of the Joint Legislative Budget Committee and to the chairpersons of the fiscal committees of each house of the Legislature.

Staff Comment. Allowing campuses to utilize capital outlay contract savings for minor capital outlay projects will encourage them to keep projects at or under cost. However, not returning the savings back to the state also means that those savings then cannot be appropriated for another major capital outlay project.

Staff Recommendation. Staff recommends the Subcommittee approve the budget bill language.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 13: CSU Capital Outlay: Extensions of Liquidation

Issue. The issues before the Subcommittee are California State University capital outlay extensions of liquidation.

May Letter. The Governor's May Letter requested the following extensions of liquidation for CSU:

Add Item 6610-493 to extend the liquidation period by one additional year (until June 30, 2012) for the following five projects phases appropriated and/or reappropriated in either 2006, 2007, or 2009:

1. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 2006).
2. Long Beach Campus, Peterson Hall 3 Replacement—Construction.
3. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 2002).
4. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 1998).
5. Fresno Campus, Library Addition and Renovation—Construction and Equipment.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 14: CSU Capital Outlay: May Revise Reappropriations

Issue. The issues before the Subcommittee are California State University capital outlay reappropriations.

May Revise. The Governor's May Revise requested the following reappropriations for CSU:

Add Item 6610-492 to reappropriate funds for the following four project phases appropriated from the 2010 Budget Act from general obligation bonds.

1. Chico, Taylor II Replacement Building—Preliminary plans and working drawings.
2. Fresno, Faculty Offices/Lab Building—Preliminary plans and working drawings.
3. Channel Islands, West Hall—Preliminary plans and working drawings.
4. San Jose, Spartan Complex Seismic Renovation—Preliminary plans and working drawings.

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 15: CSU Capital Outlay: Monterey Library Reappropriation

Issue. The issues before the Subcommittee is a California State University capital outlay reappropriation.

Monterey Bay. Add to Item 6610-492 an additional reappropriation of funds for CSU Monterey Bay: Library Group II equipment phase until June 30, 2012. These funds will revert on June 30, 2011 unless reappropriated. The project is not yet completed, and thus reappropriation is needed.

The project reference is: Per Chapters 171/172, FY 2007/08, 6610-301-6028-(2) Equipment CFIS 06.74.006 $4,228,000.

Staff Recommendation. Staff recommends the Subcommittee approve the reappropriation for this project until June 30, 2012.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 16: CCC Capital Outlay: San Francisco

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay proposal for the San Francisco Community College District, City College of San Francisco Performing Arts Complex construction and equipment phases.

Project Overview. The Performing Arts Complex project would provide 59,354 square feet of space containing lecture, laboratory, office, library, and other space. The new facility would contain state-of-the-art technology and other specialty rooms to enhance the delivery of the theater arts and music programs.

This project would serve as a replacement for two previously approved projects, the Classroom/Lab Arts Complex authorized in 2006 and the Performing Arts Center, authorized in 2007. Both projects were halted by the Public Works Board because the scope of the projects was not achievable within the authorized budget.

The district completed the design (preliminary plans and working drawings) for the project in 2007. The design is for a building one-third smaller than the original complex approved in 2006.

Each semester, about 5,000 students take courses from the performing arts and music programs in the existing space designed for use by 1,000 students.

Funding Request. The request is for $38,274,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction and equipment phases of the City College of San Francisco Performing Arts Complex. The total project cost is $151.2 million, of which $101.9 million is from private funding.

Staff Recommendation. Staff recommends the Subcommittee approve the request

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 17: CCC Capital Outlay: Santa Clarita

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay proposal for the Santa Clarita Community College Districts, College of the Canyons, Administration/Student Services Building.

Project Overview. The Administration/Student Services Building project would demolish the existing Colleges Services Building and construct a new building with 20,544 square feet of space for laboratory, office, administrative support, and other. The project will consolidate student services and administrative functions into one building.

Funding Request. The request is for $6,855,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction and equipment phases of the College of the Canyons Administration/Student Services Building.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 18: CCC Capital Outlay: Coast

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay proposal for the Coast Community College District, Orange Coast College, Music Buildings Modernization construction project.

Project Overview. The Music Buildings Modernization project would renovate two existing music buildings. Music Building #3 was constructed in 1975; Music Building #4 was constructed in 1954. Both buildings have physical limitations, including seismic deficiencies, outdated mechanical systems, HVAC inefficiencies, inadequate electrical and telecommunications support, and they are not ADA compliant. The current buildings are not able to sustain the technology that is required in modern music production.

The existing music buildings are central to the academic zone for the arts, and the College would like to modernize them rather than construct new buildings elsewhere.

The modernization project will provide teaching facilities that can support the Music Education Program, including programs for voice, instruments, computers in music, recording technology, and music theory. Portions of the building interior will be reconfigured to better accommodate academic programs. The project will include seismic upgrades to make the building current with the Administrative Code/Field Act. The buildings will also need to meet the current code for fire safety, including the addition of fire alarm/suppression systems and improving the points of ingress and egress.

Funding Request. The request is for $3,489,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction phase of the Orange Coast College Music Buildings modernization. The total project cost is $8 million, including future equipment costs of $345,000.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 19: CCC Capital Outlay: May Revise Reappropriations

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay reappropriations in the Governor's May Revise budget proposal.

May Revise. The Governor's May Revise requests that Item 6870-491 be added to reappropriate the following ten project phases appropriated in the 2005, 2008, 2009, and 2010 Budget Acts:

1. Los Angeles CCD, Los Angeles Harbor College, Library Learning Resource Center—Equipment
2. San Joaquin Delta CCD, San Joaquin Delta College, Cunningham Math Science Replacement—Equipment
3. San Luis Obispo CCD, North County Center, Technology and Trades Complex—Construction and equipment
4. San Mateo CCD, Canada College, Electrical Infrastructure Replacement—Construction
5. San Mateo CCD, Skyline College, Electrical Infrastructure Replacement—Construction
6. El Camino CCD, El Camino College Compton Center, Infrastructure Replacement
Phase 2—Construction
7. El Camino CCD, El Camino College Compton Center, Allied Health Building—Working drawings and construction
8. Kern CCD, Bakersfield College, Performing Arts Modernization—Construction
9. Riverside CCD, Moreno Valley College, Phase III Student Academic Services Building—Construction
10. Redwoods CCD, College of the Redwoods, New Science Humanities Building Seismic Replacement—Working drawings and construction

Staff Recommendation. Staff recommends the Subcommittee approve this item.

ACTION: Approved
VOTE: 2-1 (Huff No)

ISSUE 20: CCC Capital Outlay: May Revise Extension of Liquidation

Issue. The issue before the Subcommittee is a California Community Colleges (CCC) capital outlay extension of liquidation in the Governor's May Revise budget proposal.

May Revise. The Governor's May Revise requests a two-year extension of the liquidation period on the construction phase of the Los Angeles CCD, Los Angeles Trade Technical College, Renovate and Modernize Building A project. The project is expected to be completed in September 2011. The extension is necessary because of delays attributed to project redesigns to remain within the approved budget, unexpected site conditions, and the cleanup of undocumented hazardous materials.

Therefore, it is requested that Item 6870-492 be added to extend the liquidation period for this project until June 30, 2013.

Staff Recommendation. Staff recommends the Subcommittee approve this request.

ACTION: Approved
VOTE: 2-1 (Huff No)

Discussion Items

ISSUE 21: California State Library – Library Renovation

Issue. The issue before the Subcommittee is the California State Library relocation for infrastructure renovation project, year four.

Renovation Overview. In 1928, the California State Library moved into the Library and Courts Building at 914 Capitol Mall in Sacramento. The Library and Courts Building is a registered state and federal landmark. The building had received few updates since its original construction, and in 2005-06 the Legislature approved a renovation project for the Library and Courts Building with a scope that included fire, life safety, and infrastructure improvements.

In 2009, the State Library collection was moved to a temporary storage facility in West Sacramento in order to allow the renovation project to move forward. The renovation project was initially scheduled to be completed in October 2010. The Department of General Services (DGS) has extended the renovation timeline, and currently estimates that the State Library can move back into the Library and Courts Building by the end of November 2012.

Funding Request. The request is for $707,000 General Fund for the budget year to cover rental, utilities, and other costs related to the temporary move offsite of the State Library's collection during the ongoing renovation of the historic Library and Courts Building.

Increased Costs. The budget year funding request is $111,000 more than the current year funding for the West Sacramento facility rental. The reasons for the increase are:

1. The electrical and natural gas costs were $97,000 for the previous 12 months. The original proposal did not include an allowance for electrical and natural gas costs;
2. An anticipated $12,000 increase in courier services and van rental; and
3. A $2,000 increase in the lease consultant contract.

Staff Recommendation. Staff recommends that the Subcommittee approve the request.

ACTION: Approved
VOTE: 3-0

ISSUE 22: UC Capital Outlay: Irvine Business Unit

Speakers:

- Patrick Lenz, University of California
- Stan Hiuga, Department of Finance
- Steve Boilard, Legislative Analyst's Office

Issue. The issue before the Subcommittee is a UC capital outlay proposal for Irvine, Business Unit 2, design and construction phases.

Irvine Business School. The UC Irvine School of Business enrollment has grown by 50 percent since 2001-02. The program is anticipated to grow by another 20 percent by 2014-15 due to the increasing popularity of the business major. The School of Business currently occupies two buildings on the Irvine campus: the School of Business building completed in 1988, and the Multipurpose Academic and Administration Building completed in 2000. Currently, the business major constitutes nearly 10 percent of the campus freshman application pool and 15 percent of the transfer student application pool.

In order to accommodate the increased enrollment, additional faculty will be required. A total of 17 additional faculties are projected, 16 of which would be State-funded. The campus would provide these additional faculties largely through reallocation of positions as existing faculty retire or leave the campus.

Irvine Project Overview. The project would construct a new building with approximately 47,000 square feet of space. State funding would provide 31,950 square feet of instruction, research, and support space for the School of Business. Gift funds included in the project will construct shell space that, when built out, will provide an additional 5,505 square feet for the School of Business, as well as 9,580 square feet for an auditorium and food service space to serve the campus as a whole.

Funding Request. The request is for $39,595,000 in lease-revenue bond funds for the preliminary plans, working drawings, and construction phases of the project. The total project cost is anticipated to be $48,371,000. This project has not yet been started.

The campus is proposing that the Business Unit 2 building be provided through a combination of State and non-State funding.

Staff Recommendation. Staff recommends the Subcommittee reject the proposal without prejudice because this project does not meet the health and safety threshold for consideration.

ACTION: Approved Project
VOTE: 2-1 (Huff No)

ISSUE 23: CSU Capital Outlay: East Bay

Speakers:

- Elvyra San Juan, California State University
- Stan Hiuga, Department of Finance
- Judy Heiman, Legislative Analyst's Office

Issue. The issue before the Subcommittee is a California State University (CSU) capital outlay proposal for CSU East Bay Warren Hall Replacement Building preliminary plans, working drawings, and construction phases.

Project Overview. The Warren Hall replacement building project would demolish the 84,800 square foot Warren Hall building and construct a new replacement office building adjacent to the current Warren Hall site. The replacement facility will provide 113 administrative and faculty offices in a 40,000 square foot building. This project would eliminate 876 FTE in lecture space and provide a net increase of 40 offices. This project would also complete the relocation of the campus main telecommunications switch from the Warren Hall basement into the new Student Services Replacement Building.

Funding Request. The request is for $48,975,000 in lease-revenue bond funds for the preliminary plans, working drawings, and construction phases of the Warren Hall replacement building project. The total project cost is $49,975,000, which includes future equipment costs of $1 million.

Current Building Unsafe. Currently, eight floors of the Warren Hall building are empty because the building has been deemed seismically unsafe. Since Warren Hall is built on a hillside, if an earthquake were to strike the San Francisco East Bay, there is a likelihood that Warren Hall would fall down and cause destruction to the buildings around it.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal due to this project being critical to campus health/life-safety.

ACTION: Approved
VOTE: 2-1 (Huff No)

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Thursday, May 26, 2011
9:30 a.m.
Room 3191, State Capitol

Agenda Part B

Vote-Only Issues

ISSUE 1: UC Cancer Research

Issue. The issue before the Subcommittee is increasing expenditure authority from the California Cancer Research Fund.

Purpose of Fund. The University of California (UC) administers the California Cancer Research Fund to provide grants to conduct cancer research, education, and prevention and awareness activities.

May Revise Request. The Governor's May Revise requests that expenditure authority from the California Cancer Research Fund be increased by **$175,000** based on personal income tax contributions made to the fund through 2010-11.

May Revise also requests that budget bill language Provision 2, which prevents the UC from spending from the fund until the Franchise Tax Board (FTB) verifies the revenues collected from voluntary contributions, be deleted. The Governor argues that this provision is unnecessary, as current law allows the UC to spend only those amounts from voluntary contributions that the FTB has notified the State Controller to transfer into the fund.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 2: UC Tobacco Research

Issue. The issue before the Subcommittee is increasing expenditure authority from Proposition 99 funds for UC.

May Revise Request. The Governor's May Revise requests that expenditure authority from the Proposition 99 (Tobacco Tax and Health Protection Act of 1988) Research Account be increased by **$137,000**, due to an increase in funds available in this fund. The UC administers the account for its Tobacco-Related Disease Research Program.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 3: CSU Audit Reports

Issue. The issue before the Subcommittee is trailer bill language to allow CSU to produce one comprehensive audit of financial statements, rather than a separate one for each campus.

May Revise Request. It is requested that trailer bill language be adopted to eliminate duplicative audits required biennially at each of the 23 campuses of the California State University (CSU), which the CSU estimates will save $1.6 million annually. The financial information provided in the individual campus audits will be included in the annual systemwide financial statement, which is publicly available on the CSU's website.

Savings. The savings from this proposal are estimated at $1.6 million annually.

Policy Bill. The language proposed in the trailer bill is in a policy bill, SB 736 (Canella), which is currently moving through the Legislature.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 4: CCC Local Property Tax Revenues

Issue. The issues before the Subcommittee is an increase in the local property tax revenues available to CCC.

May Revise Request. The Governor's May Revise requests that CCC local assistance be **decreased by $75,060,000** Proposition 98 General Fund to reflect an estimated increase in local property tax revenues for community colleges of the same amount. It is further requested that property tax expenditures be increased to conform to this action.

Staff Comment. If local property taxes do not materialize for the CCC, there is no automatic backfill of the shortfall with Proposition 98 General Fund.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 5: CCC Oil and Mineral Revenues

Issue. The issue before the Subcommittee is increased Oil and Mineral Revenues for CCC, and decreasing apportionments by a like amount.

May Revise Request. The Governor's May Revise requests that Schedule (1) of Item 6870-101-0001 be decreased by **$731,000** Proposition 98 General Fund to reflect an estimated increase in oil and mineral revenues for community colleges. It is further requested that oil and mineral expenditures be increased to conform to this action.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 6: CCC Restore Positions Removed in Error

Issue. The issue before the Subcommittee is the restoration of 1.0 position to the CCC Chancellor's Office.

May Revise Request. The Governor's May Revise requests that one position be restored to the CCC Chancellor's Office, because the position was removed twice from the Governor's Budget. The position was dedicated to administrating funds received through an interagency agreement with the Department of Corrections and Rehabilitation (CDCR) that supported training and instruction services. The contract with CDCR was cancelled and the position was no longer necessary. However, the position was accidentally removed twice from the budget.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 7: CSAC Restore Position Authority

Issue. The issue before the Subcommittee is restoration of three positions which were removed from the budget in administrative error.

May Revise Request. The Governor's May Revise requests that authority for 3.0 positions erroneously eliminated from the Governor's Proposed Budget be restored. The California Student Aid Commission's (CSAC) Federal Policy and Programs Division (FPPD), which previously oversaw CSAC's auxiliary, EdFund, had 6.0 positions. With EdFund responsibilities shifted outside the state, the FPPD was eliminated; however, the Department of Finance erroneously removed 9.0 positions from the Budget—three too many.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 8: CSAC – Offset CalGrant Costs With SLOF

Issue. The issue before the Subcommittee is increased funding from the Student Loan Operating Fund (SLOF) to offset General Fund for CalGrants.

May Revise Request. The Governor's May Revise requests that the CalGrant General Fund funding be decreased by **$12,250,000** and the SLOF be increased by $12,250,000 to reflect the receipt of additional Student Loan Operating Fund.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 9: CSAC – CalGrant Caseload Estimates

Issue. The issue before the Subcommittee is funding for an increased caseload estimate for the CalGrant program.

May Revise Request. The Governor's May Revise requests that funding for the CalGrant program be increased by **$16,358,000** General Fund for fiscal year 2011-12 to reflect revised base caseload estimates.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 10: CSAC – LEAP

Issue. The issue before the Subcommittee is the loss of federal funding for the Leveraging Educational Assistance Partnership (LEAP) and backfilling those funds with General Fund.

May Revise Request. The Governor's May Revise requests that General Fund be used to offset the loss of **$5,011,000** in federal funds to reflect the federal government's elimination of the LEAP program. It is further requested that Provision 1 of Item 7980-101-0890 be deleted to conform to this action.

The LEAP program provided grants to states to assist them in providing need-based grants to postsecondary students. In California, LEAP funds were used to provide CalGrants to students.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 11: CSAC – Robert C. Byrd Honors Scholarship Program

Issue. The issue before the Subcommittee is the elimination of the funding for the Robert C. Byrd Honors Scholarship Program.

May Revise Request. The Governor's May Revise requests that funding for the Robert C. Byrd Honors Scholarship program be decreased by **$5,671,000** to reflect the federal government's elimination of the program.

Program Background. The Robert C. Byrd Honors Scholarship Program provided merit-based scholarships to exceptional high school seniors who showed promise of continued excellence in postsecondary education. The program did not evaluate financial need, and the students were not required to attend university in California.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 12: CSAC – Decreased TANF Funding

Issue. The issue before the Subcommittee is a decrease in Temporary Assistant for Needy Families (TANF) funding and a backfill with General Fund.

May Revise Request. The Governor's May Revise requests that CalGrants General Fund funding [Schedules (1) and (2) of Item 7980-101-0001] be increased by **$113,344,000** and Reimbursements be decreased $113,344,000 to reflect the amount of TANF Block Grant resources available to offset General Fund Cal Grant program costs.

It is further requested that Provision 9 of this item be amended to conform to this action:

> "9. Of the funds appropriated in Schedules (1) and (2), ~~$285,279,000~~$171,935,00 reflects reimbursements from the State Department of Social Services from the Temporary Assistance for Needy Families Block Grant for the purposes of offsetting General Fund costs of the Cal Grant Program."

March Budget. Budget actions through the March Conference Committee would have provided $285,279,000 TANF to offset General Fund Cal Grant program costs. This was a result of funding adjustments to the California Work Opportunities and Responsibility to Kids (CalWORKs) program.

Reasons for TANF Funding Decrease. Based on updated CalWORKs caseload projections, the amount of TANF available for Cal Grant program costs decreased by $60,669,000. Additionally, delays in the implementation of various CalWORKs solutions included in the March Conference Committee Budget resulted in an erosion of $67,346,000 of available TANF. Finally, due to a May Revision proposal to suspend certain automation projects funded within the Department of Social Services' (DSS) budget, the amount available from TANF will increase by $14,671,000. Therefore, the total amount of federal TANF resources available for Cal Grant program costs is $171,935,000.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 13: CSAC – Savings Erosion

Issue. The issue before the Subcommittee is the erosion of savings from the three-year student loan cohort default rate requirements for CalGrants.

May Revise Request. The Governor's May Revise requests that funding for financial aid grants be increased by **$13,258,000** General Fund to reflect an erosion of the March Conference Committee Budget solution that created a student loan default rate requirement for institutional Cal Grant program eligibility. Specifically, Chapter 7 of the Statutes of 2011 (SB 70) requires all higher education institutions that elect to participate in the CalGrant program to have a three-year student loan cohort default rate that does not exceed 24.6 percent in 2011-12 and 30 percent in 2012-13 and beyond as annually reported by the U.S. Department of Education (USDOE). The solution was estimated to achieve savings of $19.0 million General Fund.

Revised Data. Recently, the USDOE reported that its three-year default rates were incorrectly calculated. Because the error resulted in all institutions being reported as having higher default rates than they actually have, the Commission reports that the General Fund savings eroded by $13,258,000. This adjustment is necessary to accurately reflect the amount of savings this solution is estimated to generate.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 14: CSAC – Technical Cleanup

Issue. The issue before the Subcommittee is technical cleanup to the three-year cohort default rate trailer bill.

Trailer Bill Background. The March budget package included SB 70, the education trailer bill, which created new requirements for higher education institutions to participate in the CalGrant program based on the institution's three-year cohort default rate. SB 70 specified multiple times that the disqualified institutions would be ineligible for both the initial and renewal CalGrant awards. However, one paragraph used the word "or" instead of "and".

Proposed Cleanup Language. The following change to SB 70 is proposed:

> Education Code 69432.7(l)(3)(C) For purposes of the 2012-13 academic year, and every academic year thereafter, an otherwise qualifying institution with a three-year cohort deault rate that is equal to or greater than 30 percent, as certified by the commission on October 1, 2011, and every year thereafter, shall be ineligible for initial ~~or~~ and renewal CalGrant awards at the institution, expect as provided in subparagraph (F).

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 15: CSAC – Current Year CalGrant Caseload

Issue. The issue before the Subcommittee is increased funding to meet the 2010-11 CalGrant caseload.

May Revise Request. The Governor's May Revise requests that the local assistance appropriation be increased by **$33,170,000** General Fund reflecting Cal Grant costs that will exceed the 2010 Budget Act appropriation by approximately $180.0 million. Provision 6 of the 2010 Budget Act authorizes Finance to increase this appropriation for CalGrant costs upon notification of the Legislature. In its May 2, 2011 letter, Finance stated its intent to increase the appropriation by $146,689,000. A final true-up adjustment late in the calendar year is also expected.

The increase is caused by:

1. $103.6 million to cover the UC fee increase
2. $17.2 million to cover the CSU fee increase including mid-year fee increase

3. $2.1 million increase in CalGrant C awards
4. $56.9 million increase in new and renewal recipients

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 16: CSAC – Current Year LEAP

Issue. The issue before the Subcommittee is an adjustment to the 2010-11 federal fund expenditures of LEAP.

May Revise Request. The Governor's May Revise requests that Schedule (1) of Item 7980-101-0001 be decreased by **$186,000** General Fund and Item 7980-101-0890 be increased by $186,000 Federal Trust Fund to align the LEAP budget appropriations with the federal grant award.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

Discussion Issues

ISSUE 17: Higher Education Budget Overview

Speaker: Steve Boilard, Legislative Analyst's Office

Higher Education Core Funding

Dollars in millions

		2007-08	2010-11	2011-12		
		Actual	**Estimated**	**January Proposal**	**March Conference**	**MR Proposal**
UC	GF	$3,257.4	$2,911.6	$2,524.1	$2,524.1	$2,524.1
	Tuition	$1,116.8	$1,793.6	$1,909.5	$1,909.5	$1,909.5
	ARRA		$106.6			
	Lottery	$25.5	$30.0	$30.0	$30.0	$30.0
	subtotal	*$4,399.7*	*$4,841.9*	*$4,463.6*	*$4,463.6*	*$4,463.6*
CSU	GF	$2,970.6	$2,682.7	$2,291.3	$2,291.3	$2,291.3
	Tuition	$916.3	$1,254.9	$1,400.7	$1,400.7	$1,400.7
	ARRA		$106.6			
	Lottery	$58.1	$45.8	$45.8	$45.8	$45.8
	subtotal	*$3,945.0*	*$4,090.1*	*$3,737.8*	*$3,737.8*	*$3,737.8*
CCC	GF	$4,272.2	$3,994.7	$3,599.8	$3,599.8	$3,865.0
	Fees	$291.3	$350.1	$456.6	$456.6	$456.6
	LPT	$1,970.8	$1,949.2	$1,873.5	$1,873.5	$1,948.5
	ARRA		$4.0			
	Lottery	$168.7	$168.5	$168.5	$168.5	$168.5
	subtotal	*$6,702.9*	*$6,466.4*	*$6,098.3*	*$6,098.3*	*$6,438.7*
Hastings	GF	$10.6	$8.4	$6.9	$6.9	$6.9
	Fees	$21.6	$34.2	$35.3	$35.3	$35.3
	Lottery	$0.1	$0.2	$0.2	$0.2	$0.2
	subtotal	*$32.3*	*$42.7*	*$42.4*	*$42.4*	*$42.4*
CPEC	GF	$2.1	$1.9	$1.9	$1.9	$1.0
CSAC	GF	$866.7	$1,257.3	$577.6	$1,115.1	$1,250.8
	Other*		$100.2	$976.8	$315.2	$209.1
	subottal	*$866.7*	*$1,357.5*	*$1,554.4*	*$1,430.3*	*$1,459.9*
GRAND TOTALS		**$15,948.7**	**$16,800.4**	**$15,898.5**	**$15,774.4**	**$16,143.5**
	GF	$11,379.6	$10,856.5	$9,001.5	$9,539.0	$9,939.1
	other funds	$4,569.2	$5,943.9	$6,897.0	$6,235.4	$6,204.4

*** Other funds for CSAC include SLOF and TANF reimbursements**

ISSUE 18: UC and CSU Unallocated Budget Reductions

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University

Issue. The issues before the Subcommittee are the steps UC and CSU are taking to address the $500 million unallocated reduction provided to each of them by the Governor and the Legislature.

March Budget. The March budget package reduced UC total core funding by $377.6 million (including a $387 million General Fund reduction), and CSU total core funding by $351.6 million (including a $391 million General Fund reduction). Both segments were directed by SB 70 to limit the impact on enrollment and student fees when addressing these reductions, and instead direct reductions to the costs of instruction and administration.

Plans Due June 1st. SB 70 requires both segments to submit a plan to the Legislature by June 1, 2011, to discuss how they will address their unallocated reductions. The UC and CSU have both already indicated to their campuses that some of those reductions will be passed to the campuses as unallocated reductions. Some of the reductions will come from the UC Office of the President and CSU Chancellor's Office budgets. In addition, the UC has indicated that certain public service and student services programs will be either reduced or eliminated.

Enrollment. SB 70 specified that for the 2011-12 fiscal year the UC should enroll a minimum of 209,977 full-time equivalent students (FTES) and the CSU should enroll a minimum of 331,716 FTES. If the segments do not meet these enrollment targets, they must return the marginal cost per student amount back to the state for each student they are short of the enrollment target. For UC, the 2011-12 enrollment target is the same as in 2010-11. For CSU, the 2011-12 enrollment target is 8,157 FTES lower than their 2010-11 enrollment target.

ISSUE 19: CCC Deferrals and Apportionment Funding

Speakers:

- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is trailer bill language to undo $350 million of the California Community College (CCC) deferrals, and increase CCC apportionments by a like amount.

May Revise Request. The Governor's May Revise requests that the CCC local assistance apportionment funding be **increased by $350.0 million** Proposition 98 General Fund to restore apportionment funding that has been deferred. This augmentation would reduce the amount deferred from $961.0 million to $611.0 million.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open to be included in the final Proposition 98 package.

ISSUE 20: CCC Mandates Suspension

Speakers:

- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is community college mandates funding.

May Revise Request. The Governor's May Revise requests that CCC mandates funding (Item 6870-295-0001) be **decreased by $5,925,000** Proposition 98 General Fund to reflect the suspension of five mandates:

1. Health Fees
2. Sexual Assault Response Procedures
3. Reporting Improper Governmental Activities
4. Student Records
5. Prevailing Wage Rate mandates

Under the May Revise proposal, these mandates would be suspended until statutory revisions can be made to eliminate all of these activities or render them optional. Trailer bill language will be introduced to add these five mandates to the five currently suspended mandates in Government Code section 17581.5.

In order to suspend these five mandates, the following budget bill language changes should be adopted:

"3. Pursuant to Section 17581.5 of the Government Code, the mandates identified in Schedules (1), (3), (6), (7), (9), (13), (16), ~~and~~ (17), (20), and (21) are specifically identified by the Legislature for suspension until June 30, 2013."

Staff Recommendation. Staff recommends that the Subcommittee approve the suspension of Sexual Assault Response Procedures mandate, and reject the remaining four mandate suspensions.

ISSUE 21: CCC Financial Aid Mandates

Speakers:

- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is community college mandates funding.

May Revise Request. The Governor's May Revise requests that funds for the community colleges financial aid assistance and activities be first used to offset reimbursable costs associated with the Enrollment Fee Collection mandate and the Enrollment Fee Waivers mandate.

As part of the change to the Enrollment Fee Collection and Enrollment Fee Waivers mandates, May Revise also requests that Item 6870-295-0001 be **decreased by $3,013,000** Proposition 98 General Fund to reflect savings achieved by offsetting reimbursable mandated costs. Specifically, it is requested that Schedule (8), Enrollment Fee Collections and Waivers, be reduced by $3.0 million and that Schedule (19), Tuition Fee Waivers, be reduced by $13,000.

May Revise is requesting the following budget bill language in order to implement the Enrollment Fee Collection and Enrollment Fee Waivers mandates:

"(c) Funding provided to community college districts in subdivisions (a) and (b) is provided to directly offset any mandated costs claimed by community college districts pursuant to Commission on State Mandates Test Claims 99-TC-13 (Enrollment Fee Collection) and 00-TC-15 (Enrollment Fee Waivers). Reimbursable costs for the Enrollment Fee Collections mandate shall be offset first and any remaining funding shall be used to offset reimbursable mandate costs for the Enrollment Fee Waivers mandate."

"(3) Funding provided to community college districts in paragraph (2) is provided to directly offset any mandated costs claimed by community college districts pursuant to the Commission on State Mandates Test Claims 02-TC-28 (Cal Grants), and 02-TC-21 (Tuition Fee Waivers), and 00-TC-15 (Enrollment Fee Waivers)."

Financial Aid Categorical. SB 69 provides the student financial aid administration categorical at $56.7 million. Using these funds to first pay for the financial aid mandates leaves the community colleges with a de facto budget reduction of $3 million, because they will no longer be reimbursed after the fiscal year for activities they are conducting.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ISSUE 22: CCC Vocational Education

Speakers:

- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is a decrease in federal funds for CCC vocational education.

Tech Prep Program. The Tech Prep program is an articulated, planned sequence of study in vocational education beginning in high school and extending through at least two years of postsecondary education or an apprenticeship program; however, federal budget reductions eliminated the program. The Chancellor's Office receives federal Vocational Education funding through an interagency agreement with the Department of Education.

May Revise Request. The Governor's May Revise requests that local assistance vocational education reimbursements (6870-111-0001 (3)) be decreased by **$5,542,000** to reflect:

1. $7,764,000 decrease in funding due to the elimination of the federal Tech Prep component of the Vocational Education Program; and
2. $2,222,000 increase due to one-time carryover funds.

May Revise further requests that provisional language be added as follows to conform to this action:

> X. Of the funds appropriated in Schedule (3), $2,222,000 is provided in one-time carryover funds.

Unspent Funds. Prior year unencumbered vocational education funds can alleviate the loss of the federal funds. There are $2.03 million in unspent funds from the Budget Act of 2008-09, item 6870-101-0001 (21). These funds are available to be reappropriated for SB 70 career technical education purposes.

Staff Recommendation. Staff recommends that the Subcommittee approve the Governor's May Revise proposal and in addition reappropriate the 2008-09 unspent Career Technical Education (CTE) funds for SB 70 purposes.

ISSUE 23: CPEC Proposed Elimination

Speakers:

- Karen Humphrey, California Postsecondary Education Commission
- Kevin Woolfork, California Postsecondary Education Commission
- Judy Heiman, Legislative Analyst's Office
- Sara Swan, Department of Finance

Issue. The issue before the Subcommittee is the proposed elimination of the California Postsecondary Education Commission (CPEC).

May Revise Request. The Governor's May Revise requests that the CPEC budget be **decreased by $927,000** General Fund in 2011-12. According to the May Revise proposal, CPEC would cease operations on January 1, 2012, with authority remaining in statute until July 1, 2012.

Also, the May Revise proposal would transfer the Improving Teacher Quality State Grants Program (ITQ) and funds associated with that program to the California Department of Education (CDE).

CPEC MISSION

The CPEC was established in 1974 as the State planning and coordinating body for higher education. AB 770 (1973) created the Commission as an integral part of the planning and facilities growth for all new campuses and off-campus centers of the public systems of higher education. New facilities may not qualify to receive state capital funding without Commission approval, which ensures that campuses and centers are developed in accordance with statewide needs and that state capital funds are wisely allocated to regions with the most pressing capacity needs.

The CPEC's role in program review is to coordinate the long-range planning of the state's higher education systems – University of California, California State University, and California Community Colleges – and review specific proposals that require extensive evaluation. The review of individual programs, determined by CPEC staff, is intended to determine whether the costs of a program are justified by societal needs and student demand for that program. CPEC also serves as the State's primary clearinghouse for postsecondary education data.

Improving Teacher Quality State Grant Program. The ITQ was established under the No Child Left Behind (NCLB) Act of 2001. Building on the success of fifteen years of the Eisenhower State Grant Program, NCLB left the program largely intact making just one potentially far-ranging change: all proposals and projects must be evidence-based.

California receives $8.4 million for the ITQ, of which five percent is used for administrative costs. The remainder is for competitive grants to qualified partnerships of postsecondary and K-12 agencies to provide intensive, evidence-based, high quality teacher professional development that is grounded in the needs of teachers, students, and schools.

CPEC currently is funding more than 40 projects engaged in high quality professional development with an integrated research component seeking to determine if and how that professional development led to increases in student achievement.

LAO ALTERNATIVES

The LAO has identified several options for addressing performance issues while maintaining important coordination functions currently performed by CPEC.

Reform CPEC. In the LAO's 2010 report on higher education coordination the LAO recommended, as one option, reforming CPEC. Specific reforms include:

- ***Increase independence.*** Maintain independence from executive and legislative branch control to avoid partisan or ideological bias. Increase independence from higher education institutions by removing segment representation from the commission, replacing it with a high-level advisory board of segment representatives, and requiring the commission to consult with the advisory group. The California Education Round Table could potentially serve as the advisory body.
- ***Revise commissioner appointment process.*** The diffuse nature of the current appointment process, while providing broad representation, has several drawbacks. A more concentrated appointment process and clearly established qualifications for commissioners could improve the balance, cohesiveness, and ultimately the effectiveness of the commission.
- ***Focus responsibilities and resources on shepherding public agenda.*** Current efforts in the Legislature to identify goals and priorities for higher education could provide needed focus to CPEC's efforts. The Legislature may wish to modify CPEC's statutory mission and authority to concentrate exclusively on advancing the state's goals and facilitating statewide accountability efforts related to those goals. This could include an expanded role in advising policymakers on finance policies and other mechanisms to bring the segments' performance in line with state priorities.
- ***Develop comprehensive statewide data resource.*** Create a comprehensive statewide student data resource with enhanced research and analysis capabilities and linkages to other state systems.

Replace CPEC. If the Legislature determines that needed reforms are not workable with the existing structure and leadership, it could eliminate CPEC and create a new coordinating body that meets the state's needs for coordination.

Relocate CPEC Functions. Alternatively, the Legislature could relocate CPEC's functions to an existing board or department. One candidate is CDE, where the Governor has proposed to move CPEC's federal grant management function. Although CDE concerns itself primarily with K-12 education, it has provided leadership in intersegmental K-16 efforts and could provide valuable coordination across educational levels.

A portion of CPEC's funding and position authority could be transferred to CDE to perform the highest priority coordinating functions such as data collection and analysis and academic program review. CDE already manages extensive longitudinal data from school districts, and conducts compliance review and program evaluation. Co-locating K-12 and higher education data at CDE could provide the opportunity to link these data for state policy purposes.

A relocation of duties could be a temporary measure. In the future the state could establish a new coordinating body for higher education, or one with broader purview including the linkages among K-12 and the higher education segments, both public and private.

Enact Sunset for CPEC. Another alternative is to maintain CPEC for the time being and enact legislation to repeal its authority on a specified future date. This would create pressure to identify alternatives by that date. The LAO does point out that this action would serve only to postpone a decision and would not make resolution of an ongoing concern any more likely. Instead, the LAO believes the proposed elimination of CPEC provides an opportunity to address a problem that has been an ongoing concern for quite some time and has defied past executive and legislative attempts to resolve it.

STAFF COMMENT

The Improving Teacher Quality (ITQ) program is proposed to sunset in the federal budget within the next year. So moving the program now, and potentially disrupting grant administration in the process, is not advisable until it is known if the federal government will continue funding the program.

Also, though CPEC's effectiveness as an oversight entity for the higher education segments may leave room for criticism, staff does not believe it is advisable to have the segments entirely responsible for their own data. Due to the short timeframe between the release of the May Revise (May 16) and the hearing (May 26) there has not been sufficient time to consider a comprehensive approach to reforming CPEC. It may be best to have the policy committees consider changes to CPEC's structure during the normal policy bill process.

Staff Recommendation. Staff recommends that the Subcommittee reject the elimination of CPEC, and instead adopt trailer bill language to sunset CPEC on January 1, 2014. Staff also recommends that the Subcommittee reject moving the ITQ to CDE, because the program is likely to end in 2011-12 and moving it could disrupt the current grants.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Thursday, May 26, 2011

Agenda Part B
Outcomes

Vote-Only Issues

ISSUE 1: UC Cancer Research

Issue. The issue before the Subcommittee is increasing expenditure authority from the California Cancer Research Fund.

Purpose of Fund. The University of California (UC) administers the California Cancer Research Fund to provide grants to conduct cancer research, education, and prevention and awareness activities.

May Revise Request. The Governor's May Revise requests that expenditure authority from the California Cancer Research Fund be increased by **$175,000** based on personal income tax contributions made to the fund through 2010-11.

May Revise also requests that budget bill language Provision 2, which prevents the UC from spending from the fund until the Franchise Tax Board (FTB) verifies the revenues collected from voluntary contributions, be deleted. The Governor argues that this provision is unnecessary, as current law allows the UC to spend only those amounts from voluntary contributions that the FTB has notified the State Controller to transfer into the fund.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 2: UC Tobacco Research

Issue. The issue before the Subcommittee is increasing expenditure authority from Proposition 99 funds for UC.

May Revise Request. The Governor's May Revise requests that expenditure authority from the Proposition 99 (Tobacco Tax and Health Protection Act of 1988) Research Account be increased by **$137,000**, due to an increase in funds available in this fund. The UC administers the account for its Tobacco-Related Disease Research Program.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 3: CSU Audit Reports

Issue. The issue before the Subcommittee is trailer bill language to allow CSU to produce one comprehensive audit of financial statements, rather than a separate one for each campus.

May Revise Request. It is requested that trailer bill language be adopted to eliminate duplicative audits required biennially at each of the 23 campuses of the California State University (CSU), which the CSU estimates will save $1.6 million annually. The financial information provided in the individual campus audits will be included in the annual systemwide financial statement, which is publicly available on the CSU's website.

Savings. The savings from this proposal are estimated at $1.6 million annually.

Policy Bill. The language proposed in the trailer bill is in a policy bill, SB 736 (Canella), which is currently moving through the Legislature.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 4: CCC Local Property Tax Revenues

Issue. The issues before the Subcommittee is an increase in the local property tax revenues available to CCC.

May Revise Request. The Governor's May Revise requests that CCC local assistance be **decreased by $75,060,000** Proposition 98 General Fund to reflect an estimated increase in local property tax revenues for community colleges of the same amount. It is further requested that property tax expenditures be increased to conform to this action.

Staff Comment. If local property taxes do not materialize for the CCC, there is no automatic backfill of the shortfall with Proposition 98 General Fund.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 5: CCC Oil and Mineral Revenues

Issue. The issue before the Subcommittee is increased Oil and Mineral Revenues for CCC, and decreasing apportionments by a like amount.

May Revise Request. The Governor's May Revise requests that Schedule (1) of Item 6870-101-0001 be decreased by **$731,000** Proposition 98 General Fund to reflect an estimated increase in oil and mineral revenues for community colleges. It is further requested that oil and mineral expenditures be increased to conform to this action.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.
ACTION: Approved
VOTE: 3-0

ISSUE 6: CCC Restore Positions Removed in Error

Issue. The issue before the Subcommittee is the restoration of 1.0 position to the CCC Chancellor's Office.

May Revise Request. The Governor's May Revise requests that one position be restored to the CCC Chancellor's Office, because the position was removed twice from the Governor's Budget. The position was dedicated to administrating funds received through an interagency agreement with the Department of Corrections and Rehabilitation (CDCR) that supported training and instruction services. The contract with CDCR was cancelled and the position was no longer necessary. However, the position was accidentally removed twice from the budget.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 7: CSAC Restore Position Authority

Issue. The issue before the Subcommittee is restoration of three positions which were removed from the budget in administrative error.

May Revise Request. The Governor's May Revise requests that authority for 3.0 positions erroneously eliminated from the Governor's Proposed Budget be restored. The California Student Aid Commission's (CSAC) Federal Policy and Programs Division (FPPD), which previously oversaw CSAC's auxiliary, EdFund, had 6.0 positions. With EdFund responsibilities shifted outside the state, the FPPD was eliminated; however, the Department of Finance erroneously removed 9.0 positions from the Budget—three too many.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 8: CSAC – Offset CalGrant Costs With SLOF

Issue. The issue before the Subcommittee is increased funding from the Student Loan Operating Fund (SLOF) to offset General Fund for CalGrants.

May Revise Request. The Governor's May Revise requests that the CalGrant General Fund funding be decreased by **$12,250,000** and the SLOF be increased by $12,250,000 to reflect the receipt of additional Student Loan Operating Fund.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.
ACTION: Approved
VOTE: 3-0

ISSUE 9: CSAC – CalGrant Caseload Estimates

Issue. The issue before the Subcommittee is funding for an increased caseload estimate for the CalGrant program.

May Revise Request. The Governor's May Revise requests that funding for the CalGrant program be increased by **$16,358,000** General Fund for fiscal year 2011-12 to reflect revised base caseload estimates.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 10: CSAC – LEAP

Issue. The issue before the Subcommittee is the loss of federal funding for the Leveraging Educational Assistance Partnership (LEAP) and backfilling those funds with General Fund.

May Revise Request. The Governor's May Revise requests that General Fund be used to offset the loss of **$5,011,000** in federal funds to reflect the federal government's elimination of the LEAP program. It is further requested that Provision 1 of Item 7980-101-0890 be deleted to conform to this action.

The LEAP program provided grants to states to assist them in providing need-based grants to postsecondary students. In California, LEAP funds were used to provide CalGrants to students.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 11: CSAC – Robert C. Byrd Honors Scholarship Program

Issue. The issue before the Subcommittee is the elimination of the funding for the Robert C. Byrd Honors Scholarship Program.

May Revise Request. The Governor's May Revise requests that funding for the Robert C. Byrd Honors Scholarship program be decreased by **$5,671,000** to reflect the federal government's elimination of the program.

Program Background. The Robert C. Byrd Honors Scholarship Program provided merit-based scholarships to exceptional high school seniors who showed promise of continued excellence in postsecondary education. The program did not evaluate financial need, and the students were not required to attend university in California.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 12: CSAC – Decreased TANF Funding

Issue. The issue before the Subcommittee is a decrease in Temporary Assistant for Needy Families (TANF) funding and a backfill with General Fund.

May Revise Request. The Governor's May Revise requests that CalGrants General Fund funding [Schedules (1) and (2) of Item 7980-101-0001] be increased by **$113,344,000** and Reimbursements be decreased $113,344,000 to reflect the amount of TANF Block Grant resources available to offset General Fund Cal Grant program costs.

It is further requested that Provision 9 of this item be amended to conform to this action:

> "9. Of the funds appropriated in Schedules (1) and (2), ~~$285,279,000~~$171,935,00 reflects reimbursements from the State Department of Social Services from the Temporary Assistance for Needy Families Block Grant for the purposes of offsetting General Fund costs of the Cal Grant Program."

March Budget. Budget actions through the March Conference Committee would have provided $285,279,000 TANF to offset General Fund Cal Grant program costs. This was a result of funding adjustments to the California Work Opportunities and Responsibility to Kids (CalWORKs) program.

Reasons for TANF Funding Decrease. Based on updated CalWORKs caseload projections, the amount of TANF available for Cal Grant program costs decreased by $60,669,000. Additionally, delays in the implementation of various CalWORKs solutions included in the March Conference Committee Budget resulted in an erosion of $67,346,000 of available TANF. Finally, due to a May Revision proposal to suspend certain automation projects funded within the Department of Social Services' (DSS) budget, the amount available from TANF will increase by $14,671,000. Therefore, the total amount of federal TANF resources available for Cal Grant program costs is $171,935,000.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 13: CSAC – Savings Erosion

Issue. The issue before the Subcommittee is the erosion of savings from the three-year student loan cohort default rate requirements for CalGrants.

May Revise Request. The Governor's May Revise requests that funding for financial aid grants be increased by **$13,258,000** General Fund to reflect an erosion of the March Conference Committee Budget solution that created a student loan default rate requirement for institutional Cal Grant program eligibility. Specifically, Chapter 7 of the Statutes of 2011 (SB 70) requires all higher education institutions that elect to participate in the CalGrant program to have a three-year student loan cohort default rate that does not exceed 24.6 percent in 2011-12 and 30 percent in 2012-13 and beyond as annually reported by the U.S. Department of Education (USDOE). The solution was estimated to achieve savings of $19.0 million General Fund.

Revised Data. Recently, the USDOE reported that its three-year default rates were incorrectly calculated. Because the error resulted in all institutions being reported as having higher default rates than they actually have, the Commission reports that the General Fund savings eroded by $13,258,000. This adjustment is necessary to accurately reflect the amount of savings this solution is estimated to generate.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 14: CSAC – Technical Cleanup

Issue. The issue before the Subcommittee is technical cleanup to the three-year cohort default rate trailer bill.

Trailer Bill Background. The March budget package included SB 70, the education trailer bill, which created new requirements for higher education institutions to participate in the CalGrant program based on the institution's three-year cohort default rate. SB 70 specified multiple times that the disqualified institutions would be ineligible for both the initial and renewal CalGrant awards. However, one paragraph used the word "or" instead of "and".

Proposed Cleanup Language. The following change to SB 70 is proposed:

> Education Code 69432.7(l)(3)(C) For purposes of the 2012-13 academic year, and every academic year thereafter, an otherwise qualifying institution with a three-year cohort deault rate that is equal to or greater than 30 percent, as certified by the commission on October 1, 2011, and every year thereafter, shall be ineligible for initial ~~or~~ <u>and</u> renewal CalGrant awards at the institution, expect as provided in subparagraph (F).

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 15: CSAC – Current Year CalGrant Caseload

Issue. The issue before the Subcommittee is increased funding to meet the 2010-11 CalGrant caseload.

May Revise Request. The Governor's May Revise requests that the local assistance appropriation be increased by **$33,170,000** General Fund reflecting Cal Grant costs that will exceed the 2010 Budget Act appropriation by approximately $180.0 million. Provision 6 of the 2010 Budget Act authorizes Finance to increase this appropriation for CalGrant costs upon notification of the Legislature. In its May 2, 2011 letter, Finance stated its intent to increase the appropriation by $146,689,000. A final true-up adjustment late in the calendar year is also expected.

The increase is caused by:

1. $103.6 million to cover the UC fee increase
2. $17.2 million to cover the CSU fee increase including mid-year fee increase
3. $2.1 million increase in CalGrant C awards
4. $56.9 million increase in new and renewal recipients

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 16: CSAC – Current Year LEAP

Issue. The issue before the Subcommittee is an adjustment to the 2010-11 federal fund expenditures of LEAP.

May Revise Request. The Governor's May Revise requests that Schedule (1) of Item 7980-101-0001 be decreased by **$186,000** General Fund and Item 7980-101-0890 be increased by $186,000 Federal Trust Fund to align the LEAP budget appropriations with the federal grant award.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

Discussion Issues

ISSUE 17: Higher Education Budget Overview

Speaker: Steve Boilard, Legislative Analyst's Office

Higher Education Core Funding

Dollars in millions

		2007-08	2010-11	2011-12		
		Actual	**Estimated**	**January Proposal**	**March Conference**	**MR Proposal**
UC	GF	$3,257.4	$2,911.6	$2,524.1	$2,524.1	$2,524.1
	Tuition	$1,116.8	$1,793.6	$1,909.5	$1,909.5	$1,909.5
	ARRA		$106.6			
	Lottery	$25.5	$30.0	$30.0	$30.0	$30.0
	subtotal	*$4,399.7*	*$4,841.9*	*$4,463.6*	*$4,463.6*	*$4,463.6*
CSU	GF	$2,970.6	$2,682.7	$2,291.3	$2,291.3	$2,291.3
	Tuition	$916.3	$1,254.9	$1,400.7	$1,400.7	$1,400.7
	ARRA		$106.6			
	Lottery	$58.1	$45.8	$45.8	$45.8	$45.8
	subtotal	*$3,945.0*	*$4,090.1*	*$3,737.8*	*$3,737.8*	*$3,737.8*
CCC	GF	$4,272.2	$3,994.7	$3,599.8	$3,599.8	$3,865.0
	Fees	$291.3	$350.1	$456.6	$456.6	$456.6
	LPT	$1,970.8	$1,949.2	$1,873.5	$1,873.5	$1,948.5
	ARRA		$4.0			
	Lottery	$168.7	$168.5	$168.5	$168.5	$168.5
	subtotal	*$6,702.9*	*$6,466.4*	*$6,098.3*	*$6,098.3*	*$6,438.7*
Hastings	GF	$10.6	$8.4	$6.9	$6.9	$6.9
	Fees	$21.6	$34.2	$35.3	$35.3	$35.3
	Lottery	$0.1	$0.2	$0.2	$0.2	$0.2
	subtotal	*$32.3*	*$42.7*	*$42.4*	*$42.4*	*$42.4*
CPEC	GF	$2.1	$1.9	$1.9	$1.9	$1.0
CSAC	GF	$866.7	$1,257.3	$577.6	$1,115.1	$1,250.8
	Other*		$100.2	$976.8	$315.2	$209.1
	subottal	*$866.7*	*$1,357.5*	*$1,554.4*	*$1,430.3*	*$1,459.9*
GRAND TOTALS		**$15,948.7**	**$16,800.4**	**$15,898.5**	**$15,774.4**	**$16,143.5**
	GF	$11,379.6	$10,856.5	$9,001.5	$9,539.0	$9,939.1
	other funds	$4,569.2	$5,943.9	$6,897.0	$6,235.4	$6,204.4

*** Other funds for CSAC include SLOF and TANF reimbursements**

ACTION: Informational item, no action

ISSUE 18: UC and CSU Unallocated Budget Reductions

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University

Issue. The issues before the Subcommittee are the steps UC and CSU are taking to address the $500 million unallocated reduction provided to each of them by the Governor and the Legislature.

March Budget. The March budget package reduced UC total core funding by $377.6 million (including a $387 million General Fund reduction), and CSU total core funding by $351.6 million (including a $391 million General Fund reduction). Both segments were directed by SB 70 to limit the impact on enrollment and student fees when addressing these reductions, and instead direct reductions to the costs of instruction and administration.

Plans Due June 1st. SB 70 requires both segments to submit a plan to the Legislature by June 1, 2011, to discuss how they will address their unallocated reductions. The UC and CSU have both already indicated to their campuses that some of those reductions will be passed to the campuses as unallocated reductions. Some of the reductions will come from the UC Office of the President and CSU Chancellor's Office budgets. In addition, the UC has indicated that certain public service and student services programs will be either reduced or eliminated.

Enrollment. SB 70 specified that for the 2011-12 fiscal year the UC should enroll a minimum of 209,977 full-time equivalent students (FTES) and the CSU should enroll a minimum of 331,716 FTES. If the segments do not meet these enrollment targets, they must return the marginal cost per student amount back to the state for each student they are short of the enrollment target. For UC, the 2011-12 enrollment target is the same as in 2010-11. For CSU, the 2011-12 enrollment target is 8,157 FTES lower than their 2010-11 enrollment target.

ACTION: Approved the following items of budget bill language:

1. 11) It is the intent of the Legislature that, if the budget reductions contained in this item require the University of California to make budget reductions to the Student Academic Preparation and Education Programs (SAPEP), <u>no individual reduction to any program</u> ~~those aggregate reductions~~ shall be no greater, proportionally, than the reduction in overall General Fund support for the University of California. The university shall submit a report on funding levels of SAPEP to the fiscal committees of each house of the Legislature no later than April 1, 2012.
2. x) The Legislature expects the university to enroll 209,977 state-supported full-time equivalent students (FTES) during the 2011-12 academic year. This enrollment target does not include nonresident students and students enrolled in nonstate-supported summer programs. The regents shall report to the Legislature

by May 1, 2012, on whether the university has met the 2011-12 enrollment goal. If the university does not meet its total state-supported enrollment goal by at least 1,050 FTES, the Director of Finance shall revert to the General Fund by May 15, 2012, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met, using the marginal cost per student of no more than $10,011.

3. Placeholder language to indicate that the AIDS Research and Drew University programs should be maintained.

VOTE: 2-1 (Huff No)

ISSUE 19: CCC Deferrals and Apportionment Funding

Speakers:

- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is trailer bill language to undo $350 million of the California Community College (CCC) deferrals, and increase CCC apportionments by a like amount.

May Revise Request. The Governor's May Revise requests that the CCC local assistance apportionment funding be **increased by $350.0 million** Proposition 98 General Fund to restore apportionment funding that has been deferred. This augmentation would reduce the amount deferred from $961.0 million to $611.0 million.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open to be included in the final Proposition 98 package.

ACTION: Held open

ISSUE 20: CCC Mandates Suspension

Speakers:

- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is community college mandates funding.

May Revise Request. The Governor's May Revise requests that CCC mandates funding (Item 6870-295-0001) be **decreased by $5,925,000** Proposition 98 General Fund to reflect the suspension of five mandates:

1. Health Fees
2. Sexual Assault Response Procedures
3. Reporting Improper Governmental Activities
4. Student Records
5. Prevailing Wage Rate mandates

Under the May Revise proposal, these mandates would be suspended until statutory revisions can be made to eliminate all of these activities or render them optional. Trailer bill language will be introduced to add these five mandates to the five currently suspended mandates in Government Code section 17581.5.

In order to suspend these five mandates, the following budget bill language changes should be adopted:

> "3. Pursuant to Section 17581.5 of the Government Code, the mandates identified in Schedules (1), (3), (6), (7), (9), (13), (16), ~~and~~ (17), (20), and (21) are specifically identified by the Legislature for suspension until June 30, 2013."

Staff Recommendation. Staff recommends that the Subcommittee approve the suspension of Sexual Assault Response Procedures mandate, and reject the remaining four mandate suspensions.

ACTION: Approved suspensions of the Sexual Assault Response Procedures and Student Records mandates. Rejected the suspensions of the Health Fees, Reporting Improper Governmental Activities, and Prevailing Wage Rate mandates.'

VOTE: 2-1 (Huff No)

ISSUE 21: CCC Financial Aid Mandates

Speakers:
- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is community college mandates funding.

May Revise Request. The Governor's May Revise requests that funds for the community colleges financial aid assistance and activities be first used to offset reimbursable costs associated with the Enrollment Fee Collection mandate and the Enrollment Fee Waivers mandate.

As part of the change to the Enrollment Fee Collection and Enrollment Fee Waivers mandates, May Revise also requests that Item 6870-295-0001 be **decreased by $3,013,000** Proposition 98 General Fund to reflect savings achieved by offsetting reimbursable mandated costs. Specifically, it is requested that Schedule (8), Enrollment

Fee Collections and Waivers, be reduced by $3.0 million and that Schedule (19), Tuition Fee Waivers, be reduced by $13,000.

May Revise is requesting the following budget bill language in order to implement the Enrollment Fee Collection and Enrollment Fee Waivers mandates:

> "(c) Funding provided to community college districts in subdivisions (a) and (b) is provided to directly offset any mandated costs claimed by community college districts pursuant to Commission on State Mandates Test Claims 99-TC-13 (Enrollment Fee Collection) and 00-TC-15 (Enrollment Fee Waivers). Reimbursable costs for the Enrollment Fee Collections mandate shall be offset first and any remaining funding shall be used to offset reimbursable mandate costs for the Enrollment Fee Waivers mandate."

> "(3) Funding provided to community college districts in paragraph (2) is provided to directly offset any mandated costs claimed by community college districts pursuant to the Commission on State Mandates Test Claims 02-TC-28 (Cal Grants), and 02-TC-21 (Tuition Fee Waivers), and 00-TC-15 (Enrollment Fee Waivers)."

Financial Aid Categorical. SB 69 provides the student financial aid administration categorical at $56.7 million. Using these funds to first pay for the financial aid mandates leaves the community colleges with a de facto budget reduction of $3 million, because they will no longer be reimbursed after the fiscal year for activities they are conducting.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 22: CCC Vocational Education

Speakers:

- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is a decrease in federal funds for CCC vocational education.

Tech Prep Program. The Tech Prep program is an articulated, planned sequence of study in vocational education beginning in high school and extending through at least two years of postsecondary education or an apprenticeship program; however, federal budget reductions eliminated the program. The Chancellor's Office receives federal Vocational Education funding through an interagency agreement with the Department of Education.

May Revise Request. The Governor's May Revise requests that local assistance vocational education reimbursements (6870-111-0001 (3)) be decreased by **$5,542,000** to reflect:

1. $7,764,000 decrease in funding due to the elimination of the federal Tech Prep component of the Vocational Education Program; and
2. $2,222,000 increase due to one-time carryover funds.

May Revise further requests that provisional language be added as follows to conform to this action:

> X. Of the funds appropriated in Schedule (3), $2,222,000 is provided in one-time carryover funds.

Unspent Funds. Prior year unencumbered vocational education funds can alleviate the loss of the federal funds. There are $2.03 million in unspent funds from the Budget Act of 2008-09, item 6870-101-0001 (21). These funds are available to be reappropriated for SB 70 career technical education purposes.

Staff Recommendation. Staff recommends that the Subcommittee approve the Governor's May Revise proposal and in addition reappropriate the 2008-09 unspent Career Technical Education (CTE) funds for SB 70 purposes.

ACTION 1: Approved Governor's May Revise proposal
VOTE: 3-0

ACTION 2: Reappropriated $2 million for SB 70 purposes
VOTE: 2-1 (Huff No)

ISSUE 23: CPEC Proposed Elimination

Speakers:

- Karen Humphrey, California Postsecondary Education Commission
- Kevin Woolfork, California Postsecondary Education Commission
- Judy Heiman, Legislative Analyst's Office
- Sara Swan, Department of Finance

Issue. The issue before the Subcommittee is the proposed elimination of the California Postsecondary Education Commission (CPEC).

May Revise Request. The Governor's May Revise requests that the CPEC budget be **decreased by $927,000** General Fund in 2011-12. According to the May Revise proposal, CPEC would cease operations on January 1, 2012, with authority remaining in statute until July 1, 2012.

Also, the May Revise proposal would transfer the Improving Teacher Quality State Grants Program (ITQ) and funds associated with that program to the California Department of Education (CDE).

CPEC MISSION

The CPEC was established in 1974 as the State planning and coordinating body for higher education. AB 770 (1973) created the Commission as an integral part of the planning and facilities growth for all new campuses and off-campus centers of the public systems of higher education. New facilities may not qualify to receive state capital funding without Commission approval, which ensures that campuses and centers are developed in accordance with statewide needs and that state capital funds are wisely allocated to regions with the most pressing capacity needs.

The CPEC's role in program review is to coordinate the long-range planning of the state's higher education systems – University of California, California State University, and California Community Colleges – and review specific proposals that require extensive evaluation. The review of individual programs, determined by CPEC staff, is intended to determine whether the costs of a program are justified by societal needs and student demand for that program. CPEC also serves as the State's primary clearinghouse for postsecondary education data.

Improving Teacher Quality State Grant Program. The ITQ was established under the No Child Left Behind (NCLB) Act of 2001. Building on the success of fifteen years of the Eisenhower State Grant Program, NCLB left the program largely intact making just one potentially far-ranging change: all proposals and projects must be evidence-based.

California receives $8.4 million for the ITQ, of which five percent is used for administrative costs. The remainder is for competitive grants to qualified partnerships of postsecondary and K-12 agencies to provide intensive, evidence-based, high quality teacher professional development that is grounded in the needs of teachers, students, and schools.

CPEC currently is funding more than 40 projects engaged in high quality professional development with an integrated research component seeking to determine if and how that professional development led to increases in student achievement.

LAO ALTERNATIVES

The LAO has identified several options for addressing performance issues while maintaining important coordination functions currently performed by CPEC.

Reform CPEC. In the LAO's 2010 report on higher education coordination the LAO recommended, as one option, reforming CPEC. Specific reforms include:

- ***Increase independence.*** Maintain independence from executive and legislative branch control to avoid partisan or ideological bias. Increase independence from higher education institutions by removing segment representation from the commission, replacing it with a high-level advisory board of segment representatives, and requiring the commission to consult with the advisory group. The California Education Round Table could potentially serve as the advisory body.
- ***Revise commissioner appointment process.*** The diffuse nature of the current appointment process, while providing broad representation, has several drawbacks. A more concentrated appointment process and clearly established qualifications for commissioners could improve the balance, cohesiveness, and ultimately the effectiveness of the commission.
- ***Focus responsibilities and resources on shepherding public agenda.*** Current efforts in the Legislature to identify goals and priorities for higher education could provide needed focus to CPEC's efforts. The Legislature may wish to modify CPEC's statutory mission and authority to concentrate exclusively on advancing the state's goals and facilitating statewide accountability efforts related to those goals. This could include an expanded role in advising policymakers on finance policies and other mechanisms to bring the segments' performance in line with state priorities.
- ***Develop comprehensive statewide data resource.*** Create a comprehensive statewide student data resource with enhanced research and analysis capabilities and linkages to other state systems.

Replace CPEC. If the Legislature determines that needed reforms are not workable with the existing structure and leadership, it could eliminate CPEC and create a new coordinating body that meets the state's needs for coordination.

Relocate CPEC Functions. Alternatively, the Legislature could relocate CPEC's functions to an existing board or department. One candidate is CDE, where the Governor has proposed to move CPEC's federal grant management function. Although CDE concerns itself primarily with K-12 education, it has provided leadership in intersegmental K-16 efforts and could provide valuable coordination across educational levels.

A portion of CPEC's funding and position authority could be transferred to CDE to perform the highest priority coordinating functions such as data collection and analysis and academic program review. CDE already manages extensive longitudinal data from school districts, and conducts compliance review and program evaluation. Co-locating K-12 and higher education data at CDE could provide the opportunity to link these data for state policy purposes.

A relocation of duties could be a temporary measure. In the future the state could establish a new coordinating body for higher education, or one with broader purview including the linkages among K-12 and the higher education segments, both public and private.

Enact Sunset for CPEC. Another alternative is to maintain CPEC for the time being and enact legislation to repeal its authority on a specified future date. This would create pressure to identify alternatives by that date. The LAO does point out that this action would serve only to postpone a decision and would not make resolution of an ongoing concern any more likely. Instead, the LAO believes the proposed elimination of CPEC provides an opportunity to address a problem that has been an ongoing concern for quite some time and has defied past executive and legislative attempts to resolve it.

STAFF COMMENT

The Improving Teacher Quality (ITQ) program is proposed to sunset in the federal budget within the next year. So moving the program now, and potentially disrupting grant administration in the process, is not advisable until it is known if the federal government will continue funding the program.

Also, though CPEC's effectiveness as an oversight entity for the higher education segments may leave room for criticism, staff does not believe it is advisable to have the segments entirely responsible for their own data. Due to the short timeframe between the release of the May Revise (May 16) and the hearing (May 26) there has not been sufficient time to consider a comprehensive approach to reforming CPEC. It may be best to have the policy committees consider changes to CPEC's structure during the normal policy bill process.

Staff Recommendation. Staff recommends that the Subcommittee reject the elimination of CPEC, and instead adopt trailer bill language to sunset CPEC on January 1, 2014. Staff also recommends that the Subcommittee reject moving the ITQ to CDE, because the program is likely to end in 2011-12 and moving it could disrupt the current grants.

ACTION: Rejected elimination of CPEC and approved trailer bill language to sunset CPEC on January 1, 2014.
VOTE: 2-1 (Huff No)

Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair

SUBCOMMITTEE NO.1 on Education

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

Thursday, May 26, 2011
9:30 a.m.
Room 3191, State Capitol

K-12 AGENDA – PART C

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 1. Various State Operations and Local Assistance Adjustments (Vote Only)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to various state operations and local assistance items in the 2011-12 budget. These revisions are proposed by the DOF April and May Budget Letters. Most of these items involve technical adjustments to update budget appropriation levels so they match the latest federal grant estimates and utilize funds consistent with current programs and policies. Remaining items update special fund reimbursements.

DOF April Letter – Federal Fund Adjustments

1. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, Public Charter Schools Grant Program (Issue 801).** Requests that Item 6110-001-0890 be increased by $1,225,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect an increase in the federal grant award. The Public Charter Schools Grant Program (PCSGP) provides planning and implementation grants to new charter schools. Up to 15 percent of PCSGP funds may be used for state-level activities including contracting for an independent evaluation of the program, providing technical assistance to sub-grantees, and awarding best practices dissemination sub-grants.

2. **Item 6110-156-0890, Local Assistance, Adult Education Program (Issues 482 and 483).** Requests that Provision 1 of this item be amended to delete the reference to the 25 percent advance payment process and to clarify that Reimbursements would be provided on a quarterly basis. The SDE transitioned to a reimbursement-only funding process for the federal Adult Education Program.

   It is also requested that this item be increased by $2,298,000 federal Title II funds to reflect the availability of one-time carryover funds for the Adult Education Program, which supports the Adult Basic Education, English as a Second Language, and Adult Secondary Education programs.

   It is further requested that Provisions 1 and 5 be amended as follows to conform to these actions:

   > “1. Under~~ any grant awarded by the~~ The State Department of Education shall reimburse claims from ~~under this item to a~~ qualifying community-based organizations ~~to provide~~ that provide adult basic education under this item~~ in English as a Second Language and English as a Second Language-Citizenship classes, the department shall make an initial payment to the organization of 25 percent of the amount of the grant. In order to qualify for an advance payment, a community-based organization shall submit an expenditure plan and shall guarantee that appropriate standards of educational quality and fiscal accountability are maintained. In addition, reimbursement of claims shall be distributed~~ on a quarterly basis. ~~The department shall withhold 10 percent of the~~

~~final payment of a grant as described in this provision until all claims for that community-based organization have been submitted for final payment.~~"

"5. Of the funds appropriated in this item, ~~$802,000~~ $3,100,000 is provided in one-time carryover funds for the federal Adult Education Program."

3. **Item 6110-161-0890, Local Assistance, Special Education (Issues 681).** Requests that this item be decreased by $24,267,000 in Schedule (1) to align it with the anticipated federal IDEA, Part B grant award for 2011-12. It is further requested that provisional language be amended as follows to conform to this action:

   "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 $~~1,242,154,000~~ 1,217,887,000, 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 $~~1,242,154,000~~ 1,217,887,000 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 $~~1,242,154,000~~ 1,217,887,000, the reduction shall be taken in other state-level activities."

DOF May Revise Letter – Federal Fund Adjustments

4. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), One-time Carryover for the Striving Readers Comprehensive Literacy Program (Issue 570).** Requests that Item 6110-001-0890 be increased by $500,000 Federal Trust 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 Striving Readers Comprehensive Literacy Program provides support to the State Literacy Team in developing California's State Literacy Plan and applying for a federal implementation grant. Due to the compressed timeline for developing the plan and submitting the application to the United States Department of Education, the entire grant amount of approximately $841,000 will not be expended in the current year. The SDE anticipates using the $500,000 to implement the grant award in fiscal year 2011-12.

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

   X. Of the funds appropriated in this item, $500,000 is provided in one-time Title I carryover funds for the Striving Readers Comprehensive Literacy Program.

5. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), One-Time Carryover Authority for School Violence and Substance Abuse Prevention (Issue 752).** Requests that Item 6110-001-0890 be increased by $100,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds from the Building State Capacity for Preventing Youth Substance Use and Violence Prevention grant, a

"bridge" grant received in 2010 after the Title IV Safe and Drug-Free Schools (SADFS) Program ended. These funds will be used to close-out the SADFS Program and to sustain other substance abuse and violence prevention services.

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, $100,000 is provided in one-time carryover funds to support school violence and substance abuse prevention programs.

6. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), One-time Carryover for County Court Schools Special Education Technical Assistance (Issue 808).** Requests that Item 6110-001-0890 be increased by $201,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds for technical assistance for county court schools on special education issues. In 2008-09, $1,250,000 in one-time federal special education carryover funding was provided over three fiscal years to contract for special education instructional training and technical assistance for county court schools. This request would allow an additional year, until June 30, 2012, for the completion of the project and expenditure of the remaining funds.

   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, $201,000 is provided in one-time carryover funds for existing contracts with county offices of education for special education instructional training and technical assistance in county court schools.

7. **Item 6110-136-0890, Local Assistance, Federal Title I Even Start Program (Issue 309).** Requests that Schedule (2) of this item be decreased by $7,088,000 federal Title I funds to reflect the elimination of the Even Start Program at the federal level. Although all 2011-12 base funding is eliminated, $970,000 in prior year carryover funding will remain available for allocation during 2011-12.

8. **Item 6110-161-0001, Local Assistance, Special Education (Issue 642).** Requests that Proposition 98 General Funds for this item be decreased by $7,237,000 to reflect offsetting property tax revenues.

9. **Item 6110-166-0890, Local Assistance, Decrease Vocational Education (Issue 503).** Requests that this item be decreased by $10.0 million federal Title I funds to reflect a reduction in available Vocational Education funding due to the elimination of the Tech Prep component of the program. The Tech Prep program is an articulated, planned sequence of study in vocational education beginning in high school and extending through at least two years of postsecondary education or an apprenticeship program. Federal budget reductions eliminated funding for the Tech Prep program.

10. **Item 6110-180-0890, Local Assistance, Education Technology (Issue 310).** Requests that this item be decreased by $10,983,000 Federal Trust Fund to reflect the elimination of the Enhancing Education Through Technology Program at the federal level. This adjustment includes a decrease of $5,452,000 to Schedule (1), a decrease of $5,452,000 to Schedule (2), and a decrease of $79,000 to Schedule (3). While all 2011-12 base funding is eliminated, one-time prior year carryover funding of $258,000 in Schedule (1), $5,000 in Schedule (2), and $230,000 in Schedule (3) will remain available for allocation in 2011-12.

11. **Item 6110-240-0890, Local Assistance, Advanced Placement Fee Waiver Program (Issue 758).** Requests that this item be increased by $2,853,000 Federal Trust Fund to align the appropriation with the federal grant award of $7,231,000 for the Advanced Placement (AP) Fee Waiver Program, which reimburses school districts for specified costs of AP and International Baccalaureate (IB) test fees paid on behalf of eligible students. The AP and IB programs allow students to pursue college-level course work while still in secondary school.

DOF May Revise Letter - General Fund and Other Adjustments

12. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, One-Time Carryover for the Federal Public Charter School Grant Program (Issue 809).** Requests that Item 6110-001-0890 be increased by $530,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds for the Public Charter School Grant Program. Of this amount, $150,000 would be provided for an independent evaluation of the program, and $380,000 would be for charter school best practices dissemination through the Brokers of Expertise website. This carryover is the result of a late grant award notification and subsequent delays in the contracting process.

    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, $530,000 is provided in one-time carryover funds for the Public Charter School Grant Program.

13. **Item 6110-101-0231, Local Assistance, Tobacco-Use Prevention Education Program (Issue 759).** Requests that this item be increased by $68,000 Health Education Account funds to reflect increased 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.

14. **Item 6110-113-0001, Local Assistance, Restore California High School Exit Exam Funding Erroneously Eliminated from the Governor's Budget (Issue 083).** Requests that Schedule (4) of this item be increased by $425,000 Proposition 98 General Fund to fully fund the California High School Exit Exam (CAHSEE) contract. During development of the Governor's Budget, the SDE's request for

CAHSEE was incorrectly decreased by $350,000 due to a Department of Finance miscalculation. This requested action will net to an increase of $350,000 Proposition 98 General Fund after a budget adjustment is made per Control Section 12.42.

15. **Items 6110-492 and 6110-001-3085, Support, Reappropriation, Mental Health Services Act, Proposition 63 (Issue 641).** Requests that $111,000 Mental Health Services Fund appropriated in Item 6110-001-3085 of the 2010 Budget Act be reappropriated in 2011-12. These funds will be provided to contract with an outside source to develop an on-line professional development training program for LEA staff regarding youth suicide issues and prevention, which was delayed in the current year due to contract issues.

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

    > 6110-492—Reappropriation, Department of Education. Notwithstanding any other provision of law, the balance of the appropriation provided in Item 6110-001-3085 of the Budget Act of 2010 (Ch. 712, Stats. 2010) is reappropriated and shall be available for encumbrance or expenditure until June 30, 2012, to contract with mental health/educational professionals or local education agencies to support the involvement of local education agencies in local mental health planning and implementation efforts pursuant to the Mental Health Services Act (Proposition 63, as approved by the voters at the November 2, 2004, statewide general election).

STAFF RECOMMENDATION: Staff recommends approval of all of the DOF Budget Letters proposals listed above, including staff revisions highlighted for issue #2. These revisions align appropriations with the latest federal grant estimates from the U.S. Department of Education and other technical changes agreed to by all parties. No issues have been raised for any of these issues.

ISSUE 2. DOF Budget Letters – Federal Funds – Child Nutrition (Vote Only)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to various state operations and local assistance items for federal child nutrition programs in the 2011-12 budget. These revisions are proposed by the DOF April and May Budget Letters. Most of these items involve technical adjustments to update budget appropriation levels for child nutrition programs and administration so they match the latest federal grant estimates and utilize funds consistent with current programs and policies.

DOF April Letter -- Federal Funds Adjustments

1. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), Support for Child Nutrition Reauthorization Workload (Issue 722).** Requests that Item 6110-001-0890 be increased by $200,000 Federal Trust Fund and that Item 6110-001-0001 be amended to support 2.0 existing positions on a limited-term basis through June 30, 2013, and associated travel and technical assistance costs for the purpose of assisting School Food Authorities with implementation of new requirements contained in the federal Healthy, Hunger-Free Kids Act of 2010.

   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, $200,000 is available to fund 2.0 existing positions on a limited-term basis through June 30, 2013, and other costs to support increased technical assistance activities associated with new federal child nutrition requirements under the Healthy, Hunger-Free Kids Act of 2010.

DOF May Revise Letter -- Federal Funds Adjustments

2. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), Child Nutrition Compliance Monitoring Workload (Issue 751).** Requests that Item 6110-001-0890 be increased by $500,000 Federal Trust Fund and that Item 6110-001-0001 be amended to support an increase in the frequency of required compliance reviews of federal child nutrition programs. This funding is available through the child nutrition State Administrative Expense (SAE) Fund and reflects estimated half-year costs associated with staff needed to support the anticipated workload increase.

   The federal Healthy, Hunger-Free Kids Act passed by Congress in December 2010 requires each National School Lunch Program and School Breakfast Program to be reviewed once every three years. Previously, only lunch programs were reviewed once every five years. The United States Department of Agriculture (USDA) is expected to release a final rule this winter, including an implementation timeline and, possibly, revisions that will streamline the compliance review process. Therefore, it is proposed that the use of this funding be contingent on additional justification from the SDE, based upon the final rule issued by the USDA.

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

X. Of the funds appropriated in this item, $500,000 is provided 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: (1) the effective date of the requirement to review each National School Lunch Program and School Breakfast Program once every three years, and (2) 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 department.

3. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), One-Time Carryover Authority for Child Nutrition State Administrative Expense (SAE) Fund (Issue 753).** Requests that Item 6110-001-0890 be increased by $2.0 million Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds from the child nutrition SAE Fund. These funds will be used for one-time projects that will support the efficiency and quality of child nutrition program administration, including the development of a Fresh Fruit and Vegetable Program payment module within the Child Nutrition Information and Payment System and revising the SDE's nutrition education curriculum to align with new standards and requirements contained in the federal Healthy, Hunger-Free Kids Act passed by Congress in December 2010.

   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, $2,000,000 is provided in one-time carryover funds to support one-time projects to improve the efficiency and quality of child nutrition program administration.

4. **Item 6110-201-0890, Local Assistance, Federal Child Nutrition Programs (Issue 755).** Requests that Schedule (2) of this item be increased by $2.0 million Federal Trust Fund due to the anticipated increase in meals served through the Summer Food Service Program. Sponsors of this federal entitlement program include public or private nonprofit schools; local, municipal, county or tribal governments; residential camps; and private nonprofit organizations.

STAFF RECOMMENDATION (Vote Only): Staff recommends approval of all of the DOF Budget Letters proposals listed above for federal child nutrition programs and administration. These revisions align child nutrition appropriations with the latest federal program requirements and grant estimates from the U.S. Department of Education. No concerns have been raised for these issues.

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 3. DOF May Revise Letter - Capital Outlay - State Special Schools - Item 6110-490 (Vote Only)

DESCRIPTION: The Department of Finance (DOF) May Revise Letter requests that a new budget item be added to the 2011-12 Budget Act to reflect the reappropriation of the unencumbered balances of the bond funded appropriations for four capital outlay projects at the California School for the Deaf, Riverside.

BACKGROUND: Pursuant to Budget Letter 08-33 in December 2008, state departments were directed to suspend any projects that require cash disbursement from Pooled Money Investment Account loans. In order to comply with this budget letter, the California Department of Education (CDE) suspended project activities for four lease-revenue bond funded projects at the State Special School in Riverside. These projects were all authorized in previous state budgets. Due to suspension, implementation of these projects was delayed in recent years, but all these projects have now resumed.

DOF MAY LETTER REQUEST:

Addition of Budget Bill Item 6110-490, Capital Outlay, Department of Education (Issue 302). It is requested that Item 6110-490 be added to reappropriate the following unencumbered balances of bond funded appropriations for four CDE Education projects at the California School for the Deaf, Riverside until June 30, 2015. Funding for these projects was originally appropriated in the Budget Acts of 2005, 2006, 2007, and 2008; and unencumbered balances of all four projects were previously reappropriated for one year in the 2010 Budget Act.

- **~~$22,567,000~~ $23,974,000** for the New Gymnasium and Pool Center Project – Working Drawings, Construction and Equipment.
- **~~$18,223,000~~ $19,449,000** for the Career and Technical Education Complex and Service Yard Project – Working Drawings, Construction and Equipment.
- **~~$12,317,000~~ $13,087,000** for the Kitchen and Dining Hall Renovation Project – Working Drawings, Construction and Equipment.
- **$9,757,000** for the Academic Support Core, Bus Loop and Renovation Project – Working Drawings, Construction and Equipment.

STAFF RECOMMENDATION: Staff recommends approval of the DOF May Revise Letter request with DOF revisions reflected above to reflect funds for working drawings. This DOF request reappropriates funds for four capital outlay projects at the School for the Deaf, Riverside. These bond funded projects were approved in previous state budgets with state lease-revenue bonds. No issues have been raised for any of these reappropriations.

ISSUE 4: Reduction of K-12 Inter-Year Payment Deferrals

DESCRIPTION: The Governor's May Revision proposes to reduce the amount of inter-year payment deferrals for K-12 school districts by nearly **$2.5 million** in 2011-12, as a means of expending most of the $3.0 billion in additional Proposition 98 funding proposed by the Governor at May Revise. Specifically, this proposal would eliminate a new **$2.1 billion** deferral in 2011-12 enacted by the March budget package and eliminate roughly **$434 million** in other existing deferrals that would otherwise continue in 2011-12. As a result, ongoing inter-year payment deferrals would drop from **$9.4 billion** to **$6.9 billion** for K-12 schools in 2011-12.

BACKGROUND:

Inter-Year Deferrals Used for Ten Years as Alternative to K-12 Program Cuts. The state has been utilizing inter-year payment deferrals for ten years – since 2001-02. Deferrals have allowed K-12 local education agencies (LEAs) to essentially borrow from the next fiscal year to cover current programmatic costs.

The Legislative Analyst's Office (LAO) points out, that initially, inter-year payment deferrals were a means of making mid-year budget reductions that would not cut programs well after the school year had commenced. Since the initial years, deferrals have become more a part of primary budget packages, as is the case with the Governor's current proposal.

In addition, the size of deferrals has grown significantly in recent years. While remaining at about $1.1 billion for most of the first seven years, inter-year deferrals have grown by $6.280 billion in the last three years (2008-09 through 2010-11), as indicated by the LAO's figures below. <u>The March budget package bring annual K-12 inter-year payment deferrals to **$9.4 billion** in 2011-12, which equates to **21 percent** of annual K-12 Proposition 98 payments.</u>

K-12 Inter-Year Deferrals	**Amount**
Prior Year Base (Beginning in 2001-02)	$1.103 billion
2008-09 New	$2.851 billion
2009-10 New	$1.679 billion
2010-11 New	$1.750 billion
2011-12 (March Package)	$2.064 billion
TOTAL	**$9.417 billion**
Share of Proposition 98 Program	**(21 percent)**

While a portion of the 2002-03 inter-year payment deferral was repaid in 2003-04, no other inter-year payment deferral has been repaid since then.

GOVERNOR'S MAY REVISE PROPOSAL:

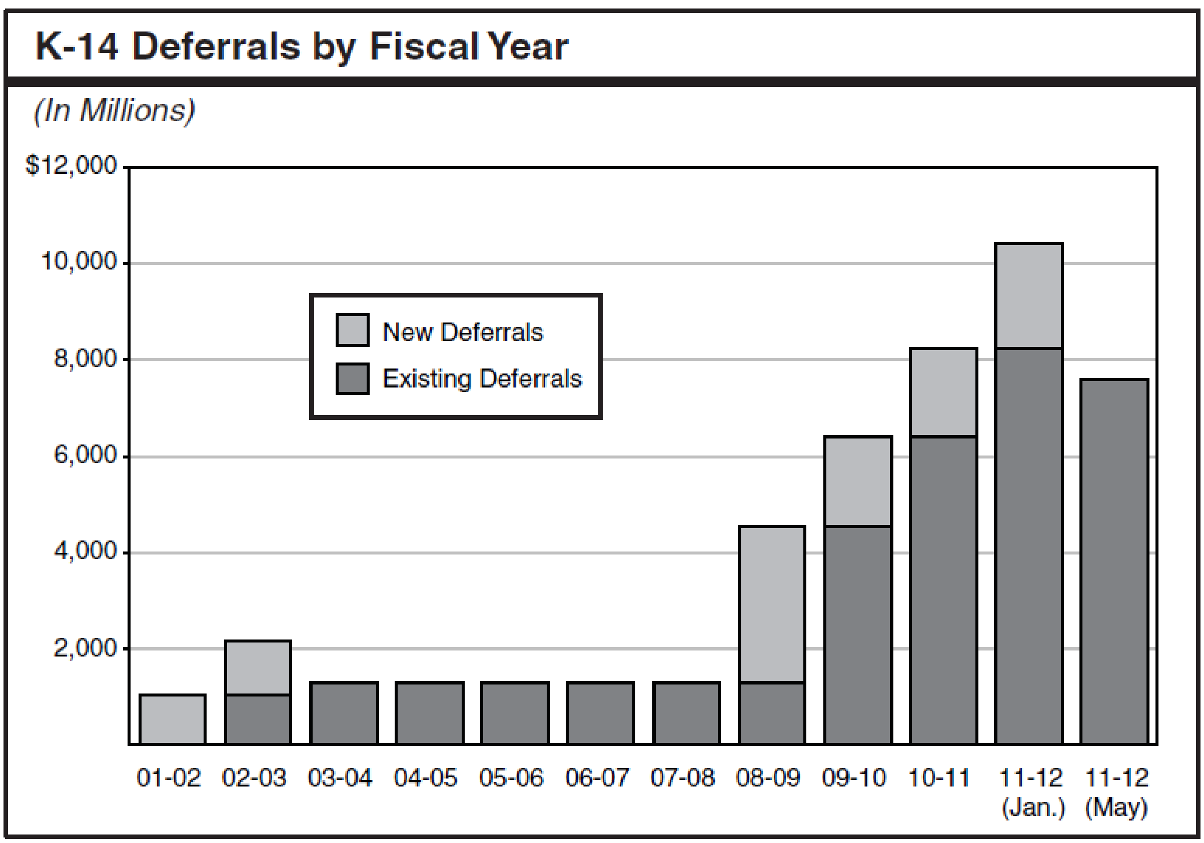
The Governor's May Revise proposes to pay down inter-year payment deferrals for K-12 school districts by a total of **$2.5 billion** in 2011-12. More specifically, the Governor proposes to:

- Eliminate the new **$2.1 billion** payment deferral in 2011-12 enacted by the March budget package (Chapter 70; Statues of 2011). This new deferral shifts $1.3 billion in apportionment payments from March 2012 and $764 million in payments from April 2012 to August 2012.

- Reduce other existing, ongoing February to July payment deferrals from $2.0 billion to $1.565 billion – a reduction of **$434 million**.

The Governor proposes trailer bill language to make these changes. The Governor also proposes to reduce community college deferrals by **$350 million** in 2011-12, bringing total inter-year payment deferrals for K-14 education to **$2.8 billion**.

LAO COMMENTS: The LAO has developed the following chart summarizing inter-year payment deferrals for K-12 schools and community colleges over the last ten years, including the **$2.8 billion** reduction proposed by the Governor at May Revise. Per the Governor's May Revise proposal, **15 percent** of the K-14 Proposition 98 program would be paid late, compared to **20 percent** under the March budget proposal.



LAO RECOMMENDATIONS:

If the final state budget package contains revenues able to support the May Revision level of Proposition 98 spending, the LAO recommends that the Legislature adopt the Administration's May Revise plan to rescind previously adopted deferrals. Per the LAO, by not creating new programs and instead paying down deferrals, the May Revision provides benefits to both the state and school districts:

- From the state's perspective, outstanding state obligations as well as out–year state budget shortfalls are reduced.
- From districts' perspective, less borrowing is needed, thereby reducing associated transaction and interest costs and potentially allowing districts to build back some programmatic support and/or replenish their reserves.
- From both perspectives, using additional funds for deferrals is fiscally responsible.

STAFF COMMENTS:

- **Governor's May Revise Makes Significant Reduction to Ongoing K-12 Inter-Year Deferrals.** The March budget package will bring total inter-year payment deferrals for K-12 school districts to **$9.4 billion** in 2011-12, which equates to **21 percent** of annual K-12 Proposition 98 payments. The Governor's May Revise proposal would reduce ongoing, inter-year payment deferrals to **$6.9 billion** in 2011-12, which equates to **15 percent** of annual K-12 Proposition 98 payments.

- **Good Fiscal Policy.** Large ongoing inter-year deferrals enacted in March – coupled with significant intra-year deferrals also enacted in March – will place a large cash flow burden on school districts in 2011-12. The LAO is concerned that additional deferrals would continue the deterioration of LEA fiscal health and could result in the need for emergency loans to avoid insolvency. Reducing deferrals will reduce these burdens on school districts and reduce state obligations for repayment at the same time. The Governor also proposes to use future increases in Proposition 98 funding to pay off remaining deferrals. According to DOF Proposition 98 forecasts, the Governor proposes to pay off all inter-year payment deferrals by 2013-14. This is prudent policy to reduce long-term debt obligations to school districts.

- **No Programmatic Change, But Some Savings From Reduced Borrowing.** The Governor's proposal to reduce deferrals by $2.5 billion does not increase programmatic funding for K-12 schools, but simply makes payments on time. However, by avoiding additional borrowing associated with delayed payments, districts can reduce costs associated with deferrals – savings that can be used to preserve K-12 programs.

STAFF RECOMMENDATIONS:

(1) Approve Governor's May Revision proposal to reduce K-12 inter-year payment deferrals, but conform final amount to reflect Subcommittee action to restore **$122 million** in Proposition 98 funds for child care. This action provides nearly **$2.4 billion** in K-12 payment deferral reductions in 2011-12, instead of **$2.5 billion** proposed by the Governor.

(2) Adopt Administration's placeholder trailer bill language to eliminate the new 2011-12 inter-year deferral enacted in March, and make remaining reductions to ongoing February to July inter-year deferrals.

ISSUE 5: Special Education Mental Health Related Services

DESCRIPTION: The Governor's May Revise proposes to repeal the state AB 3632 mandate program and shift responsibility for special education mental health related services back to K-12 schools. In so doing, the Governor proposes to provide **$221.8 million** in Proposition 98 funds to K-12 schools for this purpose in 2011-12. The Governor proposes to "rebench" the Proposition 98 minimum funding guarantee to reflect this programmatic shift. In addition, the Governor proposes to continue **$69 million** in federal funds and **$98.6 million** in Proposition 63 funds, bringing total funding for K-12 schools for this purpose to **$389.4 million** in 2011-12.

BACKGROUND:

The federal Individuals with Disabilities Education Act (IDEA) requires schools to provide "special education and related services" to students with disabilities. Related services are defined to cover "transportation, and such developmental, corrective, and other supportive services as may be required to assist a child with a disability to benefit from special education." Mental health services clearly fall into the category of a related service. For example, federal law explicitly states that related services include, but are not limited to – social work, counseling, and psychological services.

Until 1984, California schools provided mental health services to special education pupils who needed the services to benefit from their Individualized Education Plans (IEP). At that time, the Legislature saw a need to assure coordination of services among publicly funded agencies. In 1984, the Legislature passed AB 3632 (Chapter 1747, Statutes of 1984) and assigned county mental health departments the responsibility for providing students these services [except students placed out-of-state].

In 1996, the Legislature passed AB 2726 (Chapter 654, Statutes of 1995), which expanded county responsibilities to include services to students placed in out-of-state schools.

Approximately **20,000** students with disabilities receive mental health services under the AB 3632 program. According to the LAO, about half of these students are enrolled in the Medi-Cal program.

While AB 3632 was written in response to federal IDEA requirements, state law is more specific than federal law in articulating all allowable mental health services. The statute defines mental health related services to include therapy and counseling, day treatment, medication management, and for children with the most severe problems, 24-hour therapeutic residential programs with on-site schools.

AB 3632 tasks mental health professionals, in consultation with other members of the IEP team (parents/students, teachers, administrators) with deciding what special education and related services are needed in the student's IEP.

Funding for the AB 3632 Program. The LAO has prepared the chart below summarizing the irregular pattern of funding for the AB 3632 program through 2009-10. (The following section details more significant program and funding beginning in 2010-11 and 2011-12.) 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.

For mental health services, counties have received federal special education funds from the California Department of Education (CDE), state General Fund from the Departments of Mental Health (DMH), and reimbursements for remaining costs through the state mandate claims program. (The Constitution requires the state to pay mandate bills or suspend or repeal the mandate.) Counties can also receive Medi-Cal funding for eligible students; however, these funds are not reflected in the LAO chart above.

For residential care, county welfare departments receive state General Fund through the Department of Social Services and use local funds (mostly from 1991 realignment) to pay the room and board costs for students requiring residential placements. In addition, the state currently makes payments for mandate claims submitted by counties to cover costs in excess of other state and federal appropriations.

Recent Funding Changes for the AB 3632 Program. Due to the state's budget shortfall, the Legislature did not provide funding in the 2010-11 budget for either DMH mental health services or DSS residential services. The Legislature did include $133 million for AB 3632 mandate payments to offset these funding reductions, but Governor Schwarzenegger vetoed these funds and suspended the AB 3632 state mandate on counties. While the Governor's authority to suspend by elimination of funding was challenged in court, recent decisions have upheld the action. As a result, the state mandate for providing mental health related services for students with disabilities effectively shifted to schools pursuant to federal law.

Governor Schwarzenegger also vetoed language requiring $76 million in federal funds be allocated to counties for mental health services in the 2010-11 budget. The Department of Education elected to release these funds to counties to continue some AB 3632 services. These federal funds were the only funds appropriated in the 2010-11 budget act for AB 3632. As a result of the uncertainty around the legality of suspending a mandate through a line-item veto, responsibility for funding and service delivery between schools and counties has been characterized as unclear, confusing, and even chaotic by the field in 2010-11.

In January 2011, Governor Brown continued the AB 3632 suspension and proposed no additional funding for the program in 2010-11. Due to mounting concerns about the lack of funding, the March 2011 budget package appropriated an additional $80 million in one-time Proposition 98 savings to schools for mental health related services in 2010-11.

For 2011-12, the Governor proposed $98 million from Proposition 63 funds for mental health services. These funds were proposed as a part of a larger county realignment proposal that shifted the AB 3632 program to the counties, but eliminated the state mandated program. The final March budget package (AB 100/ Chapter 5; Statutes of 2011) appropriates $98.6 million for mental health services for special education students. The Governor's May Revise continues these funds, but realigns mental health related services to schools, instead of counties.

GOVERNOR'S MAY REVISE BUDGET PROPOSAL: The May Revise proposes a total of **$389.4 million** to shift mental health related services for students with disabilities back to K-12 schools in 2011-12, as follows:

- **Proposition 98 Funds.** The May Revise provides an increase of **$221.8** million in Proposition 98 General Funds to shift responsibility for providing mental health services, including out-of-home residential services, required under the federal Individuals with Disabilities Education Act (IDEA) from county mental health and county welfare agencies (where it has been funded as a reimbursable state mandate) to school districts . The $221.8 million in Proposition 98 funds includes:

  - ✓ $ 218.8 million available only for the purpose of providing mental health services allocated to special education local plan areas (SELPAs) based on an equal rate per student, calculated using total average daily attendance (ADA) from the prior year's second principal apportionment in each school district within the special education local plan area.

  - ✓ Up to $3.0 million shall be made available for the Superintendent, in collaboration with the Department of Finance and the Legislative Analyst and subject to Department of Finance approval, to administer an extraordinary cost pool associated with mental health services for necessary small special education local plan areas as defined in Section 56212 of the Education Code.

The Governor's May Revise "rebenches" the Proposition 98 minimum guarantee upward by **$221.8 million** to reflect the programmatic shift from counties to schools.

As a part of the May Revision, the Administration proposes a permanent repeal of the AB 3632 state mandate and removes mental health related services from the realignment proposal for counties. More specifically, the Administration requests that Chapter 1747, Statutes of 1984 (AB 3632), and Chapter 654, Statutes of 1995 (AB 2726), be repealed in separate trailer bill legislation to conform to this action.

- **Federal Funds**. The May Revise also continues **$69 million** in federal IDEA funds for mental health related services required by federal law in 2011-12 and conforms provisional budget language to reflect realignment of mental health services from counties to schools. More specifically, federal funding would be allocated to SELPAs on an equal rate per student, calculated using total average daily attendance, from the prior year's second principal apportionment in each school district within the special education local plan area.

- **Proposition 63 Funds.** The May Revision continues to provide **$98.6 million** in Proposition 63 funds appropriated in the March package pursuant to AB 100 (Chapter 5; Statutes of 2011). These funds are provided to counties on a one-time basis for the purpose of providing mental health services for students with disabilities. These funds would be allocated based upon a formula developed by the state (DMH) and local counties (the California Mental Health Directors Association). These funds would only be available for school districts that choose to contract with county mental health agencies for mental health related services. In furtherance of the Governor's May Revise proposal, the 3632 program will be removed from the continuing realignment proposal for counties.

The Governor's May Revise proposal states that the existing approach to delivering mental health services for students receiving special education, by which the state reimburses counties for providing mental health services in response to claims, has lacked accountability for program funding and service efficiencies. Per the Administration, shifting this responsibility back to school districts and limiting services to only those required under federal law would create a stronger correlation to educational outcomes and also result in greater cost containment.

LAO COMMENTS/RECOMMENDATIONS: Consistent with their approach in recent years, <u>the LAO recommend the Legislature adopt the Governor's May Revise proposal to officially shift mental health responsibilities to school districts.</u> The LAO supports the Governor's proposal for the following major policy and fiscal reasons:

- Refocuses emphasis on students' educational needs.
- Strengthens program accountability.
- Encourages cost-effective provision of services.

Per the LAO, in implementing the Governor's proposals, districts can continue to contract with county mental health agencies, choose a different service provider, or develop in-house expertise. The LAO raises the following implementation issues to consider if the Legislature adopts the Governor's May Revision proposal:

- **Amount and Sources of Funding.** Provide the $389 million proposed by the Governor, including Proposition 63, or some other amount/source?

- **Allocation of Funding.** Allocate funding to districts based on an equal per-pupil basis (Governor's proposal) or based on caseload and costs from the existing program? To avoid inappropriate incentives, the current special education funding model is based on a per-pupil formula.

- **Requirements for Use of Funds.** Require that districts use new funds only for mental health services or allow usage for any special education costs? Caseload may vary across the state, and the current special education funding model does not restrict funds for particular services.

- **Program Requirements.** Repeal state law and default to the broad federal special education mandate (Governor's proposal) or maintain some California-specific statutory requirements for student mental health services?

- **Transitional Issues.** Are there additional ways the state can or should assist districts through this transition?

- **Schools' Access to Medi-Cal Funding.** Should the state enable school districts to claim full Medi-Cal reimbursements the way counties currently do?

CDE COMMENTS: The California Department of Education (CDE) does not oppose the Governor's May Revise proposal and will provide comments at the Subcommittee hearing.

CDE requests $789,000 in federal IDEA carryover funds be redirected on a one-time basis for state operations and state level transition planning activities, including technical assistance to special education local planning areas (SELPAs) and local educational agencies (LEAs) during the transition period.

CDE reports it has already redirected $3.0 million in federal special education funds from current ongoing workload required under federal law to respond to the confusion created by Governor's Schwarzenegger's veto last fall. Specific activities include providing advisories to the field, investigating complaints, providing support to legal staff, and providing oversight for the provision of mental health related services by SELPAs in 2010-11.

STAFF RECOMMENDATIONS: <u>Approve Governor's May Revise proposal to shift funding and responsibilities for mental health related services back to schools. Adopt placeholder trailer bill language proposed by the Governor to eliminate the state mandated program for mental health related services.</u>

Staff makes the following additional recommendations – building on issues raised by LAO and CDE - to address implementation issues for the Governor's proposal.

1. **Work with Administration and LAO to (a) Refine Funding for the Governor's Proposal to Better Reflect Program Costs and More Accurately Rebench Proposition 98, and (b) Refine the Funding Formulas, as Needed, to Ensure they are Workable.**

2. **Designate State and Federal Funds for Mental Health Related Services Only, at Least in the Short Term.** Specifically, revise budget provisional language for items 6110-161-0000 and 6110-161-0890 to require that federal and state appropriations for mental health related services, be used "only" for these purposes in the transition period.

3. **Add Accountability Provisions to Track and Monitor Services and Outcomes for Students, Especially During Transition Period.** Staff to work with DOF, CDE, LAO, in consultation with other stakeholders, to develop trailer bill language that is workable and agreeable to all parties.

4. **Redirect Some One-Time Federal Savings for CDE Program Oversight and Technical Assistance Activities During Transition Period**. Staff to work with DOF, CDE and LAO to redirect savings for limited-term, state level activities that does not include any new positions and is agreeable to all parties.

5. **Align $31 Million in Ongoing Proposition 98 Funds for Pre-Referral Services to Governor's Proposal.** These funds were initially authorized by Chapter 493; Statues of 2004 for mental health pre-referral services. Adopt placeholder budget provisional language.

6. **Pursue Changes to Allow LEAs to Maximize Medi-Cal Reimbursement for Mental Health Related Services for Eligible Students.** DOF is researching this issue, which could be addressed in trailer bill, if needed.

7. **Direct State Improvement Grant Carryover Funds to Build SELPA Capacity for Mental Health Related Services**. The DOF April Letter (Issue 682) requests approval of $520,000 in federal one-time local assistance funds for the State Improvement Grant. Per the April Letter request, these funds would be distributed to LEAs for innovative, special education professional development ideas. Staff recommends that these one-time federal carryover funds be directed to professional development in the area of mental health related services, to the extent permitted by the federal grant.

Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair

SUBCOMMITTEE NO.1 on Education

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

Thursday, May 26, 2011
9:30 a.m.
Room 3191, State Capitol

K-12 AGENDA – PART C
OUTCOMES

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 1. Various State Operations and Local Assistance Adjustments (Vote Only)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to various state operations and local assistance items in the 2011-12 budget. These revisions are proposed by the DOF April and May Budget Letters. Most of these items involve technical adjustments to update budget appropriation levels so they match the latest federal grant estimates and utilize funds consistent with current programs and policies. Remaining items update special fund reimbursements.

DOF April Letter – Federal Fund Adjustments

1. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, Public Charter Schools Grant Program (Issue 801).** Requests that Item 6110-001-0890 be increased by $1,225,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect an increase in the federal grant award. The Public Charter Schools Grant Program (PCSGP) provides planning and implementation grants to new charter schools. Up to 15 percent of PCSGP funds may be used for state-level activities including contracting for an independent evaluation of the program, providing technical assistance to sub-grantees, and awarding best practices dissemination sub-grants.

2. **Item 6110-156-0890, Local Assistance, Adult Education Program (Issues 482 and 483).** Requests that Provision 1 of this item be amended to delete the reference to the 25 percent advance payment process and to clarify that Reimbursements would be provided on a quarterly basis. The SDE transitioned to a reimbursement-only funding process for the federal Adult Education Program.

   It is also requested that this item be increased by $2,298,000 federal Title II funds to reflect the availability of one-time carryover funds for the Adult Education Program, which supports the Adult Basic Education, English as a Second Language, and Adult Secondary Education programs.

   It is further requested that Provisions 1 and 5 be amended as follows to conform to these actions:

   "1. Under ~~any grant awarded by the~~ The State Department of Education shall reimburse claims from ~~under this item to a~~ qualifying community-based organizations ~~to provide~~ that provide adult basic education under this item ~~in English as a Second Language and English as a Second Language-Citizenship classes, the department shall make an initial payment to the organization of 25 percent of the amount of the grant. In order to qualify for an advance payment, a community-based organization shall submit an expenditure plan and shall guarantee that appropriate standards of educational quality and fiscal accountability are maintained. In addition, reimbursement of claims shall be distributed~~ on a quarterly basis. ~~The department shall withhold 10 percent of the~~

~~final payment of a grant as described in this provision until all claims for that community-based organization have been submitted for final payment.~~"

"5. Of the funds appropriated in this item, ~~$802,000~~ $3,100,000 is provided in one-time carryover funds for the federal Adult Education Program."

3. **Item 6110-161-0890, Local Assistance, Special Education (Issues 681).** Requests that this item be decreased by $24,267,000 in Schedule (1) to align it with the anticipated federal IDEA, Part B grant award for 2011-12. It is further requested that provisional language be amended as follows to conform to this action:

   "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 $~~1,242,154,000~~ 1,217,887,000, 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 $~~1,242,154,000~~ 1,217,887,000 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 $~~1,242,154,000~~ 1,217,887,000, the reduction shall be taken in other state-level activities."

DOF May Revise Letter – Federal Fund Adjustments

4. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), One-time Carryover for the Striving Readers Comprehensive Literacy Program (Issue 570).** Requests that Item 6110-001-0890 be increased by $500,000 Federal Trust 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 Striving Readers Comprehensive Literacy Program provides support to the State Literacy Team in developing California's State Literacy Plan and applying for a federal implementation grant. Due to the compressed timeline for developing the plan and submitting the application to the United States Department of Education, the entire grant amount of approximately $841,000 will not be expended in the current year. The SDE anticipates using the $500,000 to implement the grant award in fiscal year 2011-12.

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

   X. Of the funds appropriated in this item, $500,000 is provided in one-time Title I carryover funds for the Striving Readers Comprehensive Literacy Program.

5. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), One-Time Carryover Authority for School Violence and Substance Abuse Prevention (Issue 752).** Requests that Item 6110-001-0890 be increased by $100,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds from the Building State Capacity for Preventing Youth Substance Use and Violence Prevention grant, a

"bridge" grant received in 2010 after the Title IV Safe and Drug-Free Schools (SADFS) Program ended. These funds will be used to close-out the SADFS Program and to sustain other substance abuse and violence prevention services.

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, $100,000 is provided in one-time carryover funds to support school violence and substance abuse prevention programs.

6. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), One-time Carryover for County Court Schools Special Education Technical Assistance (Issue 808).** Requests that Item 6110-001-0890 be increased by $201,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds for technical assistance for county court schools on special education issues. In 2008-09, $1,250,000 in one-time federal special education carryover funding was provided over three fiscal years to contract for special education instructional training and technical assistance for county court schools. This request would allow an additional year, until June 30, 2012, for the completion of the project and expenditure of the remaining funds.

   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, $201,000 is provided in one-time carryover funds for existing contracts with county offices of education for special education instructional training and technical assistance in county court schools.

7. **Item 6110-136-0890, Local Assistance, Federal Title I Even Start Program (Issue 309).** Requests that Schedule (2) of this item be decreased by $7,088,000 federal Title I funds to reflect the elimination of the Even Start Program at the federal level. Although all 2011-12 base funding is eliminated, $970,000 in prior year carryover funding will remain available for allocation during 2011-12.

8. **Item 6110-161-0001, Local Assistance, Special Education (Issue 642).** Requests that Proposition 98 General Funds for this item be decreased by $7,237,000 to reflect offsetting property tax revenues.

9. **Item 6110-166-0890, Local Assistance, Decrease Vocational Education (Issue 503).** Requests that this item be decreased by $10.0 million federal Title I funds to reflect a reduction in available Vocational Education funding due to the elimination of the Tech Prep component of the program. The Tech Prep program is an articulated, planned sequence of study in vocational education beginning in high school and extending through at least two years of postsecondary education or an apprenticeship program. Federal budget reductions eliminated funding for the Tech Prep program.

10. **Item 6110-180-0890, Local Assistance, Education Technology (Issue 310).** Requests that this item be decreased by $10,983,000 Federal Trust Fund to reflect the elimination of the Enhancing Education Through Technology Program at the federal level. This adjustment includes a decrease of $5,452,000 to Schedule (1), a decrease of $5,452,000 to Schedule (2), and a decrease of $79,000 to Schedule (3). While all 2011-12 base funding is eliminated, one-time prior year carryover funding of $258,000 in Schedule (1), $5,000 in Schedule (2), and $230,000 in Schedule (3) will remain available for allocation in 2011-12.

11. **Item 6110-240-0890, Local Assistance, Advanced Placement Fee Waiver Program (Issue 758).** Requests that this item be increased by $2,853,000 Federal Trust Fund to align the appropriation with the federal grant award of $7,231,000 for the Advanced Placement (AP) Fee Waiver Program, which reimburses school districts for specified costs of AP and International Baccalaureate (IB) test fees paid on behalf of eligible students. The AP and IB programs allow students to pursue college-level course work while still in secondary school.

DOF May Revise Letter - General Fund and Other Adjustments

12. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education, One-Time Carryover for the Federal Public Charter School Grant Program (Issue 809).** Requests that Item 6110-001-0890 be increased by $530,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds for the Public Charter School Grant Program. Of this amount, $150,000 would be provided for an independent evaluation of the program, and $380,000 would be for charter school best practices dissemination through the Brokers of Expertise website. This carryover is the result of a late grant award notification and subsequent delays in the contracting process.

    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, $530,000 is provided in one-time carryover funds for the Public Charter School Grant Program.

13. **Item 6110-101-0231, Local Assistance, Tobacco-Use Prevention Education Program (Issue 759).** Requests that this item be increased by $68,000 Health Education Account funds to reflect increased 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.

14. **Item 6110-113-0001, Local Assistance, Restore California High School Exit Exam Funding Erroneously Eliminated from the Governor's Budget (Issue 083).** Requests that Schedule (4) of this item be increased by $425,000 Proposition 98 General Fund to fully fund the California High School Exit Exam (CAHSEE) contract. During development of the Governor's Budget, the SDE's request for

CAHSEE was incorrectly decreased by $350,000 due to a Department of Finance miscalculation. This requested action will net to an increase of $350,000 Proposition 98 General Fund after a budget adjustment is made per Control Section 12.42.

15. **Items 6110-492 and 6110-001-3085, Support, Reappropriation, Mental Health Services Act, Proposition 63 (Issue 641).** Requests that $111,000 Mental Health Services Fund appropriated in Item 6110-001-3085 of the 2010 Budget Act be reappropriated in 2011-12. These funds will be provided to contract with an outside source to develop an on-line professional development training program for LEA staff regarding youth suicide issues and prevention, which was delayed in the current year due to contract issues.

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

    > 6110-492—Reappropriation, Department of Education. Notwithstanding any other provision of law, the balance of the appropriation provided in Item 6110-001-3085 of the Budget Act of 2010 (Ch. 712, Stats. 2010) is reappropriated and shall be available for encumbrance or expenditure until June 30, 2012, to contract with mental health/educational professionals or local education agencies to support the involvement of local education agencies in local mental health planning and implementation efforts pursuant to the Mental Health Services Act (Proposition 63, as approved by the voters at the November 2, 2004, statewide general election).

STAFF RECOMMENDATION: Staff recommends approval of all of the DOF Budget Letters proposals listed above, including staff revisions highlighted for issue #2. These revisions align appropriations with the latest federal grant estimates from the U.S. Department of Education and other technical changes agreed to by all parties. No issues have been raised for any of these issues.
OUTCOME: Approve staff recommendation. (Vote: 3-0.)

ISSUE 2. DOF Budget Letters – Federal Funds – Child Nutrition (Vote Only)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to various state operations and local assistance items for federal child nutrition programs in the 2011-12 budget. These revisions are proposed by the DOF April and May Budget Letters. Most of these items involve technical adjustments to update budget appropriation levels for child nutrition programs and administration so they match the latest federal grant estimates and utilize funds consistent with current programs and policies.

DOF April Letter -- Federal Funds Adjustments

1. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), Support for Child Nutrition Reauthorization Workload (Issue 722).** Requests that Item 6110-001-0890 be increased by $200,000 Federal Trust Fund and that Item 6110-001-0001 be amended to support 2.0 existing positions on a limited-term basis through June 30, 2013, and associated travel and technical assistance costs for the purpose of assisting School Food Authorities with implementation of new requirements contained in the federal Healthy, Hunger-Free Kids Act of 2010.

   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, $200,000 is available to fund 2.0 existing positions on a limited-term basis through June 30, 2013, and other costs to support increased technical assistance activities associated with new federal child nutrition requirements under the Healthy, Hunger-Free Kids Act of 2010.

DOF May Revise Letter -- Federal Funds Adjustments

2. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), Child Nutrition Compliance Monitoring Workload (Issue 751).** Requests that Item 6110-001-0890 be increased by $500,000 Federal Trust Fund and that Item 6110-001-0001 be amended to support an increase in the frequency of required compliance reviews of federal child nutrition programs. This funding is available through the child nutrition State Administrative Expense (SAE) Fund and reflects estimated half-year costs associated with staff needed to support the anticipated workload increase.

   The federal Healthy, Hunger-Free Kids Act passed by Congress in December 2010 requires each National School Lunch Program and School Breakfast Program to be reviewed once every three years. Previously, only lunch programs were reviewed once every five years. The United States Department of Agriculture (USDA) is expected to release a final rule this winter, including an implementation timeline and, possibly, revisions that will streamline the compliance review process. Therefore, it is proposed that the use of this funding be contingent on additional justification from the SDE, based upon the final rule issued by the USDA.

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

X. Of the funds appropriated in this item, $500,000 is provided 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: (1) the effective date of the requirement to review each National School Lunch Program and School Breakfast Program once every three years, and (2) 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 department.

3. **Items 6110-001-0001 and 6110-001-0890, Support, State Department of Education (SDE), One-Time Carryover Authority for Child Nutrition State Administrative Expense (SAE) Fund (Issue 753).** Requests that Item 6110-001-0890 be increased by $2.0 million Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds from the child nutrition SAE Fund. These funds will be used for one-time projects that will support the efficiency and quality of child nutrition program administration, including the development of a Fresh Fruit and Vegetable Program payment module within the Child Nutrition Information and Payment System and revising the SDE's nutrition education curriculum to align with new standards and requirements contained in the federal Healthy, Hunger-Free Kids Act passed by Congress in December 2010.

   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, $2,000,000 is provided in one-time carryover funds to support one-time projects to improve the efficiency and quality of child nutrition program administration.

4. **Item 6110-201-0890, Local Assistance, Federal Child Nutrition Programs (Issue 755).** Requests that Schedule (2) of this item be increased by $2.0 million Federal Trust Fund due to the anticipated increase in meals served through the Summer Food Service Program. Sponsors of this federal entitlement program include public or private nonprofit schools; local, municipal, county or tribal governments; residential camps; and private nonprofit organizations.

STAFF RECOMMENDATION (Vote Only): <u>Staff recommends</u> approval of all of the DOF Budget Letters proposals listed above for federal child nutrition programs and administration. These revisions align child nutrition appropriations with the latest federal program requirements and grant estimates from the U.S. Department of Education. No concerns have been raised for these issues.

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

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 3. DOF May Revise Letter - Capital Outlay - State Special Schools - Item 6110-490 (Vote Only)

DESCRIPTION: The Department of Finance (DOF) May Revise Letter requests that a new budget item be added to the 2011-12 Budget Act to reflect the reappropriation of the unencumbered balances of the bond funded appropriations for <u>four</u> capital outlay projects at the California School for the Deaf, Riverside.

BACKGROUND: Pursuant to Budget Letter 08-33 in December 2008, state departments were directed to suspend any projects that require cash disbursement from Pooled Money Investment Account loans. In order to comply with this budget letter, the California Department of Education (CDE) suspended project activities for four lease-revenue bond funded projects at the State Special School in Riverside. These projects were all authorized in previous state budgets. Due to suspension, implementation of these projects was delayed in recent years, but all these projects have now resumed.

DOF MAY LETTER REQUEST:

Addition of Budget Bill Item 6110-490, Capital Outlay, Department of Education (Issue 302). It is requested that Item 6110-490 be added to reappropriate the following unencumbered balances of bond funded appropriations for four CDE Education projects at the California School for the Deaf, Riverside <u>until June 30, 2015.</u> Funding for these projects was originally appropriated in the Budget Acts of 2005, 2006, 2007, and 2008; and unencumbered balances of all four projects were previously reappropriated for one year in the 2010 Budget Act.

- **~~$22,567,000~~** **<u>$23,974,000</u>** for the New Gymnasium and Pool Center Project – <u>Working Drawings,</u> Construction and Equipment.
- **~~$18,223,000~~** **<u>$19,449,000</u>** for the Career and Technical Education Complex and Service Yard Project – <u>Working Drawings</u>, Construction and Equipment.
- **~~$12,317,000~~** **<u>$13,087,000</u>** for the Kitchen and Dining Hall Renovation Project – <u>Working Drawings,</u> Construction and Equipment.
- **$9,757,000** for the Academic Support Core, Bus Loop and Renovation Project – Working Drawings, Construction and Equipment.

STAFF RECOMMENDATION: <u>Staff recommends approval</u> of the DOF May Revise Letter request with DOF revisions reflected above to reflect funds for working drawings. This DOF request reappropriates funds for four capital outlay projects at the School for the Deaf, Riverside. These bond funded projects were approved in previous state budgets with state lease-revenue bonds. No issues have been raised for any of these reappropriations.

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

ISSUE 4: Reduction of K-12 Inter-Year Payment Deferrals

DESCRIPTION: The Governor's May Revision proposes to reduce the amount of inter-year payment deferrals for K-12 school districts by nearly **$2.5 million** in 2011-12, as a means of expending most of the $3.0 billion in additional Proposition 98 funding proposed by the Governor at May Revise. Specifically, this proposal would eliminate a new **$2.1 billion** deferral in 2011-12 enacted by the March budget package and eliminate roughly **$434 million** in other existing deferrals that would otherwise continue in 2011-12. As a result, ongoing inter-year payment deferrals would drop from **$9.4 billion** to **$6.9 billion** for K-12 schools in 2011-12.

BACKGROUND:

Inter-Year Deferrals Used for Ten Years as Alternative to K-12 Program Cuts. The state has been utilizing inter-year payment deferrals for ten years – since 2001-02. Deferrals have allowed K-12 local education agencies (LEAs) to essentially borrow from the next fiscal year to cover current programmatic costs.

The Legislative Analyst's Office (LAO) points out, that initially, inter-year payment deferrals were a means of making mid-year budget reductions that would not cut programs well after the school year had commenced. Since the initial years, deferrals have become more a part of primary budget packages, as is the case with the Governor's current proposal.

In addition, the size of deferrals has grown significantly in recent years. While remaining at about $1.1 billion for most of the first seven years, inter-year deferrals have grown by $6.280 billion in the last three years (2008-09 through 2010-11), as indicated by the LAO's figures below. The March budget package bring annual K-12 inter-year payment deferrals to **$9.4 billion** in 2011-12, which equates to **21 percent** of annual K-12 Proposition 98 payments.

K-12 Inter-Year Deferrals	**Amount**
Prior Year Base (Beginning in 2001-02)	$1.103 billion
2008-09 New	$2.851 billion
2009-10 New	$1.679 billion
2010-11 New	$1.750 billion
2011-12 (March Package)	$2.064 billion
TOTAL	**$9.417 billion**
Share of Proposition 98 Program	**(21 percent)**

While a portion of the 2002-03 inter-year payment deferral was repaid in 2003-04, no other inter-year payment deferral has been repaid since then.

GOVERNOR'S MAY REVISE PROPOSAL:

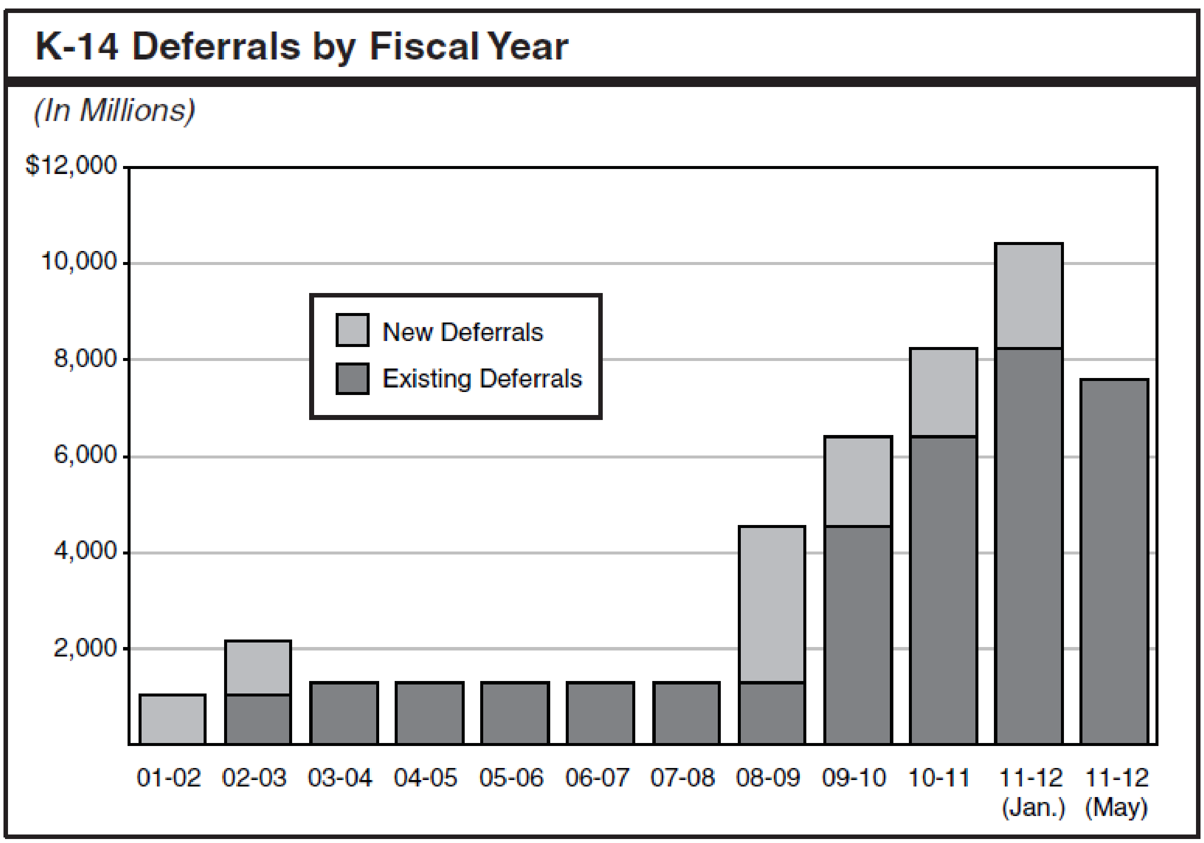
The Governor's May Revise proposes to pay down inter-year payment deferrals for K-12 school districts by a total of **$2.5 billion** in 2011-12. More specifically, the Governor proposes to:

- Eliminate the new **$2.1 billion** payment deferral in 2011-12 enacted by the March budget package (Chapter 70; Statues of 2011). This new deferral shifts $1.3 billion in apportionment payments from March 2012 and $764 million in payments from April 2012 to August 2012.

- Reduce other existing, ongoing February to July payment deferrals from $2.0 billion to $1.565 billion – a reduction of **$434 million**.

The Governor proposes trailer bill language to make these changes. The Governor also proposes to reduce community college deferrals by **$350 million** in 2011-12, bringing total inter-year payment deferrals for K-14 education to **$2.8 billion**.

LAO COMMENTS: The LAO has developed the following chart summarizing inter-year payment deferrals for K-12 schools and community colleges over the last ten years, including the **$2.8 billion** reduction proposed by the Governor at May Revise. Per the Governor's May Revise proposal, **15 percent** of the K-14 Proposition 98 program would be paid late, compared to **20 percent** under the March budget proposal.



LAO RECOMMENDATIONS:

If the final state budget package contains revenues able to support the May Revision level of Proposition 98 spending, the LAO recommends that the Legislature adopt the Administration's May Revise plan to rescind previously adopted deferrals. Per the LAO, by not creating new programs and instead paying down deferrals, the May Revision provides benefits to both the state and school districts:

- From the state's perspective, outstanding state obligations as well as out–year state budget shortfalls are reduced.
- From districts' perspective, less borrowing is needed, thereby reducing associated transaction and interest costs and potentially allowing districts to build back some programmatic support and/or replenish their reserves.
- From both perspectives, using additional funds for deferrals is fiscally responsible.

STAFF COMMENTS:

- **Governor's May Revise Makes Significant Reduction to Ongoing K-12 Inter-Year Deferrals.** The March budget package will bring total inter-year payment deferrals for K-12 school districts to **$9.4 billion** in 2011-12, which equates to **21 percent** of annual K-12 Proposition 98 payments. The Governor's May Revise proposal would reduce ongoing, inter-year payment deferrals to **$6.9 billion** in 2011-12, which equates to **15 percent** of annual K-12 Proposition 98 payments.

- **Good Fiscal Policy.** Large ongoing inter-year deferrals enacted in March – coupled with significant intra-year deferrals also enacted in March – will place a large cash flow burden on school districts in 2011-12. The LAO is concerned that additional deferrals would continue the deterioration of LEA fiscal health and could result in the need for emergency loans to avoid insolvency. Reducing deferrals will reduce these burdens on school districts and reduce state obligations for repayment at the same time. The Governor also proposes to use future increases in Proposition 98 funding to pay off remaining deferrals. According to DOF Proposition 98 forecasts, the Governor proposes to pay off all inter-year payment deferrals by 2013-14. This is prudent policy to reduce long-term debt obligations to school districts.

- **No Programmatic Change, But Some Savings From Reduced Borrowing.** The Governor's proposal to reduce deferrals by $2.5 billion does not increase programmatic funding for K-12 schools, but simply makes payments on time. However, by avoiding additional borrowing associated with delayed payments, districts can reduce costs associated with deferrals – savings that can be used to preserve K-12 programs.

STAFF RECOMMENDATIONS:

(1) Approve Governor's May Revision proposal to reduce K-12 inter-year payment deferrals, but conform final amount to reflect Subcommittee action to restore **$122 million** in Proposition 98 funds for child care. This action provides nearly **$2.4 billion** in K-12 payment deferral reductions in 2011-12, instead of **$2.5 billion** proposed by the Governor.

(2) Adopt Administration's placeholder trailer bill language to eliminate the new 2011-12 inter-year deferral enacted in March, and make remaining reductions to ongoing February to July inter-year deferrals.

OUTCOME: Approve staff recommendation. (Vote: 2-1.)

ISSUE 5: Special Education Mental Health Related Services

DESCRIPTION: The Governor's May Revise proposes to repeal the state AB 3632 mandate program and shift responsibility for special education mental health related services back to K-12 schools. In so doing, the Governor proposes to provide **$221.8 million** in Proposition 98 funds to K-12 schools for this purpose in 2011-12. The Governor proposes to "rebench" the Proposition 98 minimum funding guarantee to reflect this programmatic shift. In addition, the Governor proposes to continue **$69 million** in federal funds and **$98.6 million** in Proposition 63 funds, bringing total funding for K-12 schools for this purpose to **$389.4 million** in 2011-12.

BACKGROUND:

The federal Individuals with Disabilities Education Act (IDEA) requires schools to provide "special education and related services" to students with disabilities. Related services are defined to cover "transportation, and such developmental, corrective, and other supportive services as may be required to assist a child with a disability to benefit from special education." Mental health services clearly fall into the category of a related service. For example, federal law explicitly states that related services include, but are not limited to – social work, counseling, and psychological services.

Until 1984, California schools provided mental health services to special education pupils who needed the services to benefit from their Individualized Education Plans (IEP). At that time, the Legislature saw a need to assure coordination of services among publicly funded agencies. In 1984, the Legislature passed AB 3632 (Chapter 1747, Statutes of 1984) and assigned county mental health departments the responsibility for providing students these services [except students placed out-of-state].

In 1996, the Legislature passed AB 2726 (Chapter 654, Statutes of 1995), which expanded county responsibilities to include services to students placed in out-of-state schools.

Approximately **20,000** students with disabilities receive mental health services under the AB 3632 program. According to the LAO, about half of these students are enrolled in the Medi-Cal program.

While AB 3632 was written in response to federal IDEA requirements, state law is more specific than federal law in articulating all allowable mental health services. The statute defines mental health related services to include therapy and counseling, day treatment, medication management, and for children with the most severe problems, 24-hour therapeutic residential programs with on-site schools.

AB 3632 tasks mental health professionals, in consultation with other members of the IEP team (parents/students, teachers, administrators) with deciding what special education and related services are needed in the student's IEP.

Funding for the AB 3632 Program. The LAO has prepared the chart below summarizing the irregular pattern of funding for the AB 3632 program through 2009-10. (The following section details more significant program and funding beginning in 2010-11 and 2011-12.) 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.

For mental health services, counties have received federal special education funds from the California Department of Education (CDE), state General Fund from the Departments of Mental Health (DMH), and reimbursements for remaining costs through the state mandate claims program. (The Constitution requires the state to pay mandate bills or suspend or repeal the mandate.) Counties can also receive Medi-Cal funding for eligible students; however, these funds are not reflected in the LAO chart above.

For residential care, county welfare departments receive state General Fund through the Department of Social Services and use local funds (mostly from 1991 realignment) to pay the room and board costs for students requiring residential placements. In addition, the state currently makes payments for mandate claims submitted by counties to cover costs in excess of other state and federal appropriations.

Recent Funding Changes for the AB 3632 Program. Due to the state's budget shortfall, the Legislature did not provide funding in the 2010-11 budget for either DMH mental health services or DSS residential services. The Legislature did include $133 million for AB 3632 mandate payments to offset these funding reductions, but Governor Schwarzenegger vetoed these funds and suspended the AB 3632 state mandate on counties. While the Governor's authority to suspend by elimination of funding was challenged in court, recent decisions have upheld the action. As a result, the state mandate for providing mental health related services for students with disabilities effectively shifted to schools pursuant to federal law.

Governor Schwarzenegger also vetoed language requiring $76 million in federal funds be allocated to counties for mental health services in the 2010-11 budget. The Department of Education elected to release these funds to counties to continue some AB 3632 services. These federal funds were the only funds appropriated in the 2010-11 budget act for AB 3632. As a result of the uncertainty around the legality of suspending a mandate through a line-item veto, responsibility for funding and service delivery between schools and counties has been characterized as unclear, confusing, and even chaotic by the field in 2010-11.

In January 2011, Governor Brown continued the AB 3632 suspension and proposed no additional funding for the program in 2010-11. Due to mounting concerns about the lack of funding, the March 2011 budget package appropriated an additional $80 million in one-time Proposition 98 savings to schools for mental health related services in 2010-11.

For 2011-12, the Governor proposed $98 million from Proposition 63 funds for mental health services. These funds were proposed as a part of a larger county realignment proposal that shifted the AB 3632 program to the counties, but eliminated the state mandated program. The final March budget package (AB 100/ Chapter 5; Statutes of 2011) appropriates $98.6 million for mental health services for special education students. The Governor's May Revise continues these funds, but realigns mental health related services to schools, instead of counties.

GOVERNOR'S MAY REVISE BUDGET PROPOSAL: The May Revise proposes a total of **$389.4 million** to shift mental health related services for students with disabilities back to K-12 schools in 2011-12, as follows:

- **Proposition 98 Funds.** The May Revise provides an increase of **$221.8** million in Proposition 98 General Funds to shift responsibility for providing mental health services, including out-of-home residential services, required under the federal Individuals with Disabilities Education Act (IDEA) from county mental health and county welfare agencies (where it has been funded as a reimbursable state mandate) to school districts . The $221.8 million in Proposition 98 funds includes:

    - ✓ $ 218.8 million available only for the purpose of providing mental health services allocated to special education local plan areas (SELPAs) based on an equal rate per student, calculated using total average daily attendance (ADA) from the prior year's second principal apportionment in each school district within the special education local plan area.

    - ✓ Up to $3.0 million shall be made available for the Superintendent, in collaboration with the Department of Finance and the Legislative Analyst and subject to Department of Finance approval, to administer an extraordinary cost pool associated with mental health services for necessary small special education local plan areas as defined in Section 56212 of the Education Code.

The Governor's May Revise "rebenches" the Proposition 98 minimum guarantee upward by **$221.8 million** to reflect the programmatic shift from counties to schools.

As a part of the May Revision, the Administration proposes a permanent repeal of the AB 3632 state mandate and removes mental health related services from the realignment proposal for counties. More specifically, the Administration requests that Chapter 1747, Statutes of 1984 (AB 3632), and Chapter 654, Statutes of 1995 (AB 2726), be repealed in separate trailer bill legislation to conform to this action.

- **Federal Funds**. The May Revise also continues **$69 million** in federal IDEA funds for mental health related services required by federal law in 2011-12 and conforms provisional budget language to reflect realignment of mental health services from counties to schools. More specifically, federal funding would be allocated to SELPAs on an equal rate per student, calculated using total average daily attendance, from the prior year's second principal apportionment in each school district within the special education local plan area.

- **Proposition 63 Funds.** The May Revision continues to provide **$98.6 million** in Proposition 63 funds appropriated in the March package pursuant to AB 100 (Chapter 5; Statutes of 2011). These funds are provided to counties on a one-time basis for the purpose of providing mental health services for students with disabilities. These funds would be allocated based upon a formula developed by the state (DMH) and local counties (the California Mental Health Directors Association). These funds would only be available for school districts that choose to contract with county mental health agencies for mental health related services. In furtherance of the Governor's May Revise proposal, the 3632 program will be removed from the continuing realignment proposal for counties.

The Governor's May Revise proposal states that the existing approach to delivering mental health services for students receiving special education, by which the state reimburses counties for providing mental health services in response to claims, has lacked accountability for program funding and service efficiencies. Per the Administration, shifting this responsibility back to school districts and limiting services to only those required under federal law would create a stronger correlation to educational outcomes and also result in greater cost containment.

LAO COMMENTS/RECOMMENDATIONS: Consistent with their approach in recent years, <u>the LAO recommend the Legislature adopt the Governor's May Revise proposal to officially shift mental health responsibilities to school districts.</u> The LAO supports the Governor's proposal for the following major policy and fiscal reasons:

- Refocuses emphasis on students' educational needs.
- Strengthens program accountability.
- Encourages cost-effective provision of services.

Per the LAO, in implementing the Governor's proposals, districts can continue to contract with county mental health agencies, choose a different service provider, or develop in-house expertise. The LAO raises the following implementation issues to consider if the Legislature adopts the Governor's May Revision proposal:

- **Amount and Sources of Funding.** Provide the $389 million proposed by the Governor, including Proposition 63, or some other amount/source?

- **Allocation of Funding.** Allocate funding to districts based on an equal per-pupil basis (Governor's proposal) or based on caseload and costs from the existing program? To avoid inappropriate incentives, the current special education funding model is based on a per-pupil formula.

- **Requirements for Use of Funds.** Require that districts use new funds only for mental health services or allow usage for any special education costs? Caseload may vary across the state, and the current special education funding model does not restrict funds for particular services.

- **Program Requirements.** Repeal state law and default to the broad federal special education mandate (Governor's proposal) or maintain some California-specific statutory requirements for student mental health services?

- **Transitional Issues.** Are there additional ways the state can or should assist districts through this transition?

- **Schools' Access to Medi-Cal Funding.** Should the state enable school districts to claim full Medi-Cal reimbursements the way counties currently do?

CDE COMMENTS: The California Department of Education (CDE) does not oppose the Governor's May Revise proposal and will provide comments at the Subcommittee hearing.

CDE requests $789,000 in federal IDEA carryover funds be redirected on a one-time basis for state operations and state level transition planning activities, including technical assistance to special education local planning areas (SELPAs) and local educational agencies (LEAs) during the transition period.

CDE reports it has already redirected $3.0 million in federal special education funds from current ongoing workload required under federal law to respond to the confusion created by Governor's Schwarzenegger's veto last fall. Specific activities include providing advisories to the field, investigating complaints, providing support to legal staff, and providing oversight for the provision of mental health related services by SELPAs in 2010-11.

STAFF RECOMMENDATIONS: <u>Approve Governor's May Revise proposal to shift funding and responsibilities for mental health related services back to schools. Adopt placeholder trailer bill language proposed by the Governor to eliminate the state mandated program for mental health related services.</u>

Staff makes the following additional recommendations – building on issues raised by LAO and CDE - to address implementation issues for the Governor's proposal.

1. **Work with Administration and LAO to (a) Refine Funding for the Governor's Proposal to Better Reflect Program Costs and More Accurately Rebench Proposition 98, and (b) Refine the Funding Formulas, as Needed, to Ensure they are Workable.**

2. **Designate State and Federal Funds for Mental Health Related Services Only, at Least in the Short Term.** Specifically, revise budget provisional language for items 6110-161-0000 and 6110-161-0890 to require that federal and state appropriations for mental health related services, be used "only" for these purposes in the transition period.

3. **Add Accountability Provisions to Track and Monitor Services and Outcomes for Students, Especially During Transition Period.** Staff to work with DOF, CDE, LAO, in consultation with other stakeholders, to develop trailer bill language that is workable and agreeable to all parties.

4. **Redirect Some One-Time Federal Savings for CDE Program Oversight and Technical Assistance Activities During Transition Period**. Staff to work with DOF, CDE and LAO to redirect savings for limited-term, state level activities that does not include any new positions and is agreeable to all parties.

5. **Align $31 Million in Ongoing Proposition 98 Funds for Pre-Referral Services to Governor's Proposal.** These funds were initially authorized by Chapter 493; Statues of 2004 for mental health pre-referral services. Adopt placeholder budget provisional language.

6. **Pursue Changes to Allow LEAs to Maximize Medi-Cal Reimbursement for Mental Health Related Services for Eligible Students.** DOF is researching this issue, which could be addressed in trailer bill, if needed.

7. **Direct State Improvement Grant Carryover Funds to Build SELPA Capacity for Mental Health Related Services**. The DOF April Letter (Issue 682) requests approval of $520,000 in federal one-time local assistance funds for the State Improvement Grant. Per the April Letter request, these funds would be distributed to LEAs for innovative, special education professional development ideas. Staff recommends that these one-time federal carryover funds be directed to professional development in the area of mental health related services, to the extent permitted by the federal grant.

OUTCOME: Approve staff recommendations. (Vote: 3-0.)

Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair

SUBCOMMITTEE NO.1 on Education

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

Friday, May 27, 2011
9:30 a.m. or Upon Adjournment of Session
Room 3191, State Capitol

AGENDA

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: CCC Deferrals and Apportionment Funding

Speakers:

- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is trailer bill language to undo $350 million of the California Community College (CCC) deferrals, and increase CCC apportionments by a like amount.

May Revise Request. The Governor's May Revise requests that the CCC local assistance apportionment funding be **increased by $350.0 million** Proposition 98 General Fund to restore apportionment funding that has been deferred. This augmentation would reduce the amount deferred from $961.0 million to $611.0 million.

Staff Recommendation. Staff recommends that the Subcommittee approve reducing the CCC deferral by $347 million, and move $3 million to the Health Fee mandate in order to meet the funding obligation for that mandate.

ISSUE 2: CCC Basic Aid Funding

Speakers:

- Paul Steenhausen, Legislative Analyst's Office
- Dan Troy, California Community Colleges
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is shifting basic aid funding from three CCC districts to pay for community college mandates.

Basic Aid Districts. An "entitlement", or apportionment obligation, amount is calculated for all districts based on the number of students they serve. For all districts, the local property taxes and student fee revenue is counted toward the entitlement first. If the local property taxes and student fee revenue fall short of the entitlement amount, the district gets general fund to make up the difference. There are only three districts in the state that have their local property taxes and student fee revenues amount to more than their entitlement. These districts, commonly referred to as "basic aid" districts, can keep the excess local revenue and use it for educational programs and services at their discretion. There are three basic aid community college districts: Marin, MiraCosta, and South Orange.

Excess Funding. Between 1998-99 and 2003-04, the Legislature funded a categorical program known as Partnership for Excellence (PFE). This program had been established in statute. In general, the PFE provided supplementary funding to each district in exchange for its commitment to improve student outcomes in specified areas (such as transfers to four-year institutions). The PFE was allowed to sunset in January 2005. Anticipating this sunset, the Legislature and Governor redesignated PFE monies as apportionment funding in the 2004-05 Budget Act. Since basic aid districts do not receive apportionment funds, the budget included provisional language that allowed three basic aid districts to receive about $6 million for that year. This language was eliminated the following year. Despite the fact that the provisional language was taken out of the budget, CCC has continued to provide those funds to basic aid districts.

LAO Recommendation. The LAO recommends the Legislature prohibit the Chancellor's Office from making any such future payments to basic aid districts. Depending on the state's fiscal condition, the Legislature may wish to either reallocate the freed-up monies to non-basic aid districts, or use the funds for General Fund savings (a total of $5.9 million).

Staff Recommendation. Staff recommends the Subcommittee prohibit the Chancellor's Office from using the $5.9 million for basic aid districts. Staff recommends the Subcommittee shift $3 million of the basic aid funds to the Financial Aid categorical to pay for two mandates, and utilize the other $2.9 million to pay for mandates.

ISSUE 3: CalWORKs Child Care Caseload Adjustment

Speakers:

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

Issue. The issue before the Subcommittee is revised caseload estimates for Stage 2 and Stage 3, and adjustments in funding accordingly.

Stage 3 Funding Background. In October 2010, Governor Schwarzenegger vetoed funding for the CalWORKs Stage 3 child care program. Pursuant to a court order, the termination of Stage 3 services were delayed until December 31, 2010, to allow for eligibility screening and possible placement of Stage 3 families in other programs. Families were given the opportunity to participate in a lottery for available openings in other child care programs, provided that they were not already determined eligible for either Stage 1 or Stage 2.

Stage 3 Caseload Decline. While funding for Stage 3 was restored in the current year, the estimated costs reflect a significant decline in caseload. Based upon reported caseload for the months of January through March, average monthly caseload has declined by approximately 70 percent from the level prior to the veto. The transfer of families to Stage 2 and other child care programs funded through the Department of Education (CDE) accounts for a portion of this decline.

May Revise Request. The Governor's May Revise requests that child care programs be **decreased by $123,474,000** to reflect revised estimates of caseload costs for CalWORKs Stage 2 and Stage 3 child care. These adjustments reflect:

1. Increase of $64,350,000 to Stage 2, and
2. Decrease of $187,824,000 to Stage 3.

The decrease to Stage 3 is due mainly to the implementation of the Stage 3 veto reflected in the 2010 Budget Act which terminated funding for the program on November 1, 2010.

Due to uncertainty in the Stage 3 caseload number, the Administration is proposing to retain approximately $56.0 million in the current-year appropriation for Stage 3, after accounting for increased current-year costs in Stage 2, and to set aside $33.645 million in one-time funds to be appropriated for Stage 3 pending receipt of updated caseload data from the CDE.

New Caseload Information. CDE testified on May 25, 2011, that the CalWORKs Stage 3 caseload is underfunded by approximately $25 million in the budget year. The reserve is sufficient to cover this shortfall.

Staff Recommendation. Staff recommends that the Subcommittee approve the May Revise proposal.

6110 Department of Education
6360 Commission on Teacher Credentialing

ISSUE 4: Statewide Student Data & Teacher Data Systems

DESCRIPTION: The Governor's May Revise proposes to eliminate **$3.5 million** in remaining federal funding from the March budget package in order to suspend support and development activities for two statewide data systems – the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Teacher Information Data System (CALTIDES) in 2011-12. The Governor proposes to maintain **$5.2 million** in one-time funding for the California School Information System to provide data support to school districts in 2011-12.

GOVERNOR'S MAY REVISE PROPOSAL:

- **Eliminate Funding to Suspend Student Data System Development. (Issue 315).** Proposes to reduce **$2.9 million** in federal Title VI funds and **5.3 positions** to the Department of Education state operations in 2011-12 to reflect suspension of funding for all development and implementation activities for California Longitudinal Pupil Achievement Data System (CALPADS), pending continued review of the system.

- **Eliminate Funding for Teacher Data System (Issue 573).** Reduces **$560,000** in Federal Trust Funds and **3.0 positions** to the Department of Education state operations in 2011-12 for California Teacher Information Data System (CALTIDES) development amended to reflect the SDE's termination of the California Longitudinal Teacher Integrated Data Education System **(**CALTIDES) project as previously proposed and to conform with the termination of the CALPADS project.

- **Eliminate Funding for Teacher Data System (Issue 101).** Reduces **$84,000** in special funds and **1.0 position** to the Commission on Teacher Credentialing state operations in 2011-12 for CALTIDES development to reflect the SDE's termination of the California Longitudinal Teacher Integrated Data Education System **(**CALTIDES) project as previously proposed and to conform to the termination of the CALPADS project.

- **Shift CALPADS Funding to Student Assessments (Issue 086).** Requests that **$5.4 million** in federal Title VI funds be used for state student assessment development, administration, and reporting activities instead of CALPADS.

- **Create Proposition 98 Savings in Student Assessment Program (Issue 087).** Reduces Proposition 98 General Fund spending for the student assessment program by **$5.4 million** to reflect the shift of federal funds redirected from CALPADS for this program.

- **Continue One-Time Proposition 98 Funds for CSIS (Issue 306).** Reappropriates **$5.2 million** in one-time Proposition 98 General Fund savings for California School Information Services (CSIS) activities. These funds will allow CSIS to provide technical support to local districts with meeting federal and state student data collection and reporting after the potential termination of CALPADS.

LAO COMMENTS/RECOMMENDATIONS: The LAO recommends that the Legislature reject the Governor's May Revision proposal to eliminate funding for CALPADS and CALTIDES in 2011-12.

More specifically, the LAO recommends funding CALPADS at **$6.135 million** -- slightly less than CDE-requested level and funding – and funding CALTIDES at the CDE requested level of **$2.124 million.**

Education Data Systems: Expenditure Options

2011-12 (In Thousands)

	CDE Request	LAO Recommendation
CALPADS		
System technical maintenance	$2,753	$2,753
System improvements	1,491	1,491
CDE non-CALPADS staff[a]	974	687
CDE CALPADS staff[b]	879	665
Other agency charges (indirect)	405	405
Oversight	134	134
Totals	**$6,636**	**$6,135**
CALTIDES		
Contracts for CALTIDES development	$600	$600
CDE CALTIDES staff	560	560
Technical systems improvement contract	500	500
Other[c]	314	314
CTC staff	150	150
Totals	**$2,124**	**$2,124**

[a] Reflects several non-CALPADS staff positions responsible for federal reporting.
[b] Includes operating expenses and equipment ($89,000). Also includes one-time funding for CDE Technical Lead ($183,000).
[c] Includes indirect costs ($260,000), training ($50,000), and other operating expenses.
CDE = California Department of Education; CALPADS = California Longitudinal Pupil Achievement Data System; CALTIDES = California Longitudinal Teacher Integrated Data Education System; and CTC = Commission on Teacher Credentialing.

CDE REQUEST TO ADDRESS CSIS SHORTFALL:

CDE requests a one-time appropriation of **$679,000** for the California School Information Services (CSIS) program in 2011-12 from the Proposition 98 Reversion Account to cover a shortfall in the Education Telecommunications Fund.

The 2010-11 budget appropriates $2.5 million from the Education Telecommunication Fund. These funds are allocated to the Fiscal Crisis and Management Assistance Team for the purpose of administering the CSIS program and non-CSIS participating school districts for support of maintenance of individual student identifiers.

The budget assumed that the fund would recover $2.5 million from LEAs based on audit recoveries/settlements; however, the recoveries have fallen short this fiscal year and CDE is projecting a $679,000 shortfall in 2011-12.

STAFF RECOMMENDATIONS: Adopt LAO recommendation to continue funding for both CALPADS and CALTIDES in 2011-12, as follows:

1. Approve Governor's May Revise proposal (Issue 306) to extend **$5.4 million** in one-time Proposition 98 funds for CSIS in 2011-12.

2. Approve CDE request to backfill the CSIS shortfall from the Education Telecommunications Fund with **$679,000** in one-time Proposition 98 funds in 2011-12.

3. Reject Governor's May Revise proposals (Issues 86, 87, and 315) to eliminate CDE funding for CALPADS. Continue federal funding for CALPADS in 2011-12 at **$6.135 million,** which is slightly below the CDE requested level.

4. Reject Governor's May Revise proposals (Issues 573 and 101) to eliminate CDE and CTC funding for CALTIDES. Continue **$2.124 million** in federal funds for CALTIDES in 2011-12, which is the level requested by CDE.

ISSUE 5: FEDERAL FUNDS ADJUSTMENTS (Vote Only)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to federal programs in the 2011-12 budget to reflect federal grant updates released very recently due to delays in federal appropriations bills.

Budget Item	Program	Adjustment to Tie to Latest Base Grant	Proposed Final Budget Authority
102-0890	Learn and Serve America	-2,219,000	200,000
103-0890	Byrd Scholarship	-5,181,000	0
112-0890	Charter Schools	0	57,799,000
113-0890	State Assessments	-2,974,000	29,223,000
119-0890	Neglected and Delinquent	-8,000	1,761,000
125-0890 (1)	Migrant Education	-278,000	135,457,000
125-0890 (2)	Education of LEP	-7,471,000	170,669,000
125-0890	***Item Total***	-7,749,000	306,126,000
134-0890 (1,2)	Title I Program Improvement	-15,609,000	56,558,000
134-0890 (3)	School Improvement	-6,024,000	62,920,000
134-0890 (4)	Title I -Basic	-83,076,000	1,584,780,000
134-0890	***Item Total***	-104,709,000	1,704,258,000
136-0890 (1)	Homeless Education	-772,000	7,368,000
136-0890 (2)	Even Start	240,000	1,210,000
136-0890	***Item Total***	-532,000	8,578,000
137-0890	Rural/Low-Income School Program	-2,000	1,291,000
156-0890	Adult Education	-2,205,000	87,659,000
161-0890 (1-3)	Special Education-Entitlements	534,000	1,111,114,000
161-0890 (4 & 7)	Special Education -OSLA	1,000	77,408,000
161-0890 (5)	Special Education-Preschool (619)	-94,000	37,747,000
161-0890 (6)	Special Education-Program Improvement	0	2,716,000
161-0890 (8)	Special Education-Newborn Hearing	0	100,000
161-0890	***Item Total***	441,000	1,229,085,000
166-0890	Vocational Education	-8,414,000	116,218,000
180-0890 (1)	Education Technology-Formula Grants	-1,000	258,000
180-0890 (2)	Education Technology-Competitive Grants	-1,000	5,000
180-0890 (3)	California Technical Assistance Project	-1,000	230,000
180-0890	***Item Total***	-3,000	493,000
193-0890	Math and Science Partnerships	-1,140,000	23,501,000
195-0890	Teacher Quality - Local Grants	-56,510,000	255,309,000
195-0890	Teacher Quality- State Activities	-1,062,000	7,357,000
	Item Total	-57,572,000	262,666,000
197-0890	21st Century Community Learning	6,679,000	157,605,000
240-0890	Advanced Placement	1,000	7,232,000

STAFF RECOMMENDATION: Staff recommends approval of all federal grant adjustments proposed by DOF, as displayed on the previous page. These are technical adjustments only. No issues have been raised for any of these adjustments.

ISSUE 6: K-12 Mandate Funding

DESCRIPTION: The Governor's May Revise proposal reduces K-12 mandates by **$32.3 million** to reflect adoption of a specific option from the K-14 mandate work group report on mandate reform created by Chapter 724, Statutes of 2010. The Administration intends to pursue additional long-term reform options in collaboration with the Legislative Analyst's Office to streamline future funding of K-14 mandates through a block grant approach. (Together with **$5.9 million** in reductions for community colleges, the May Revise K-14 mandate reduction proposal totals **$38.2 million** in 2011-12.)

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes the following changes to K-12 mandates in 2011-12: These proposals reflect the adoption of one specific option from the report of the K-14 mandate reform workgroup created by Chapter 724:

Suspended Mandates

- **Suspends Additional Mandates**. Suspends an additional **11 mandates** in the short term. In the long-term, the Administration proposals to eliminate these mandates.

Preserved Mandates

- **Reduces Mandate Costs**. Proposes changes for another approximately **11 mandates** that would preserve the underlying mandate but reduce unnecessary costs.

- **Continues Funding for Public Health, Safety and School Accountability Mandates.** Provides funding for an additional **11 mandates** involving pupil health, safety, and school accountability functions.

- **Updates Mandate Funding Estimates.** Adjusts funding levels for all funded mandates scheduled in the budget to reflect updated claims reports from the State Controller's Office.

All together, these changes would result in **$38.2 million** in savings in 2011-12, bringing total funding for K-12 mandates from **$80.4 million** in the March package to **$48.0 million** at May Revise.

The Governor's proposal achieves approximately **$57 million** in savings in 2011-12 compared to the actual costs of K-12 claims.

The Governor's proposal is intended to devolve mandates funding to the local level. In the short-term, the Governor proposes to suspend some mandates, reduce the costs of other mandates, and continue other mandates based upon annual claims.

In the longer run, the Governor is interested in eliminating suspended mandates and developing a block grant – similar to what has been proposed by the LAO in recent years - for funded mandates.

List of Mandates Proposed for Suspension by Governor's May Revise Proposal:

The May Revise Budget Letter proposes to suspend the following additional mandates in 2011-12:

1. Caregiver Affidavits (Ch. 98, Stats. 1994)
2. Notification of Truancy (Ch. 498, Stats. 1983)
3. Pupil Suspensions, Expulsions, Expulsion Appeals (Ch. 498, Stats. 1983, et al)]
4. Physical Performance Tests (Ch. 975, Stats. 1995)
5. Consolidation of Law Enforcement Agency Notifications (LEAN) and Missing Children Reports (MCR) (Ch. 1117, Stats. 1989)
6. Habitual Truants (Ch. 1184, Stats. 1975)
7. Consolidation of Notification to Teachers: Pupils Subject to Suspension or Expulsion I and II, and Pupil Discipline Records (Ch. 1306, Stats. 1989)
8. Financial and Compliance Audits
9. Agency Fee Arrangements (Ch. 893, Stats. 2000; Ch. 805, Stats. 2001)
10. The Stull Act (Ch. 498, Stats. 1983; Ch. 4, Stats. 1999) (98-TC-25)
11. Prevailing Wage (Ch. 1249, Stats. 1978)

LAO COMMENTS: According to the LAO, the mandate working group required by Chapter 724 was nearly unanimous in recognition of several major problems with the K-14 mandates system:

- System not responsive to changing needs.
- State costs can be higher than anticipated.
- Regulations can create mandates, increasing costs without legislative input.
- High percentage of audited claims disallowed.
- Districts face uncertainty over timing/amount of reimbursement.
- Reimbursement process ignores effectiveness.
- Reimbursement process can reward inefficiency.
- Reimbursement rates vary without justification.
- Claiming process creates administrative burden for districts.

LAO RECOMMENDATIONS: The LAO recommends that Legislature adopt the Governor's proposal to undertake mandates reforms. Per the LAO, the May Revise package:

- Provides clear framework for identifying which types of activities are worth requiring of all districts.
- Prioritizes activities related to health, public safety, oversight, and accountability that serve a fundamental statewide interest.
- Funds ongoing mandates while reducing costs by more than 50 percent.
- Sets the groundwork for a system that is more transparent and equitable as well as less cumbersome for school districts.
- Does not prevent policy committees from being involved in determining fate of suspended mandates.

STAFF COMMENTS:

Governor's Proposal Achieves $32 Million in Savings; But Costs Higher if Proposal Not Adopted. The Governor's proposal achieves **$32.3 million** in savings in 2011-12. However, if the Governor's proposal is not adopted, a total of **$57 million** would need to be added to the 2011-12 budget to reflect updated costs from the State Controller's Office for mandates funded in the March package.

Role for Policy Committees: As the LAO points out, the Governor's proposal does not prevent policy committees from being involved in mandate suspension. Similarly, the policy committees are not prevented from involvement in mandate reductions, as well as, the Administration's long term proposal to develop a block grant approach for funding K-12 mandates.

STAFF RECOMMENDATION: Approve the Governor's May Revise Proposal to achieve **$32.3 million** in K-12 annual mandate savings in 2011-12. Send the Administration's trailer bill language to suspend mandates and reduce mandate costs to the Senate Education Committee for review.

ISSUE 7: Federal Title I Carryover Funds (6110-134-0890)

DESCRIPTION: The Governor's May Revise proposes to allocate **$21.3 million** in 2011-12 from one-time, federal Title I Set-Aside carryover funds to all Title I local educational agencies using the state's Title I, Part A Basic program distribution methodology.

GOVERNOR'S MAY REVISE PROPOSAL:

1. **Item 6110-134-0890, Local Assistance, Federal Title I, Part A Basic Program (Issue 081).** Requests that Schedule (4) of this item be increased by **$21.3 million** federal Title I Set Aside carryover funds for allocation to all Title I local educational agencies (LEAs) and schools using the state's standard Title I, Part A Basic Program distribution methodology. Distributing the one-time carryover to all Title I schools and LEAs is consistent with federal law and guidance and would provide additional resources to schools and LEAs at a time of limited General Fund resources.

   The 2010 Budget Act provided $56.5 million federal Title I Set Aside funds for the LEA Corrective Action Program. Only 58 LEAs in Cohort 3 will receive grants totaling $35.2 million in 2010-11, resulting in $21.3 million that could be carried over to 2011-12.

   Federal law and guidance authorizes the use of these funds for the LEA Corrective Action Program or the funds can be distributed to all Title I schools and LEAs for classroom and instructional support activities.

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

   > X. Of the funds appropriated in Schedule (4), $21,300,000 is provided in one-time carryover 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.

LAO COMMENTS/RECOMMENDATIONS: The LAO recommends adopting the Governor's May Revise proposal to distribute $21.3 million in carryover funds to all Title I school districts based on their low-income student counts. This approach is permissible under federal law and will provide some fiscal relief for all Title I districts. Data also suggest that anticipated 2011-12 funding will be sufficient to cover associated 2011-12 costs. (These funds are primarily used for a district Corrective Action program.)

STAFF RECOMMENDATION: <u>Approve Governor's May Revise proposal.</u>

ISSUE 8: Categorical Program Growth Adjustments

DESCRIPTION: The Governor's May Revise proposes additional adjustments in 2011-12 for several categorical programs selected to receive growth funding in the March budget package.

GOVERNOR'S MAY REVISE BUDGET PROPOSALS: The Governor proposes the following growth adjustments:

Charter Schools (Issue 806). Proposes an additional increase of **$19.5 million** to reflect revised attendance estimates for charter schools. Of this amount, **$2.7 million** is provided for the Charter Categorical Block Grant and **$16.7 million** is provided for Charter Economic Impact Aid. These funds provide charter schools with categorical funding in lieu of separate funding for specific categorical programs and funding for disadvantaged students.

New Charter Schools (Issue 807). Proposes an increase of **$8 million** in 2011-12 to provide charter schools that commenced operations between 2008-09 and 2011-12 with categorical funding. This funding provides new charter schools with a supplemental grant of $127 per pupil in lieu of categorical funding that charter schools were eligible for prior to categorical flexibility and in addition to what is included in the charter categorical block grant. Since these charter schools did not exist prior to categorical flexibility, they have no access to funding for these programs under current law. This supplemental fund source ensures that funding for new charter schools is commensurate with that of charter schools that existed prior to 2008-09.

The amount requested reflects updated charter school attendance estimates and growth funding consistent with other charter categorical fund sources. This amount also excludes all new conversion charter schools from receiving this funding. Instead, the school district within which the school is located would be required to pass through an amount equal to the supplemental grant ($127 per pupil) to new conversion charter schools.

Special Education (Issue 644). The May Revise proposes an additional **$399,000** for Special Education caseload growth in 2011-12 to reflect growth in average daily attendance estimates.

CDE REQUEST FOR NUTRITION GROWTH FUNDING:

CDE requests growth funding for the state Child Nutrition program in 2011-12. The department's request for $4.8 million in growth funding was not approved by DOF.

STAFF COMMENTS: According to the LAO, the methodology typically utilized by the DOF for child nutrition growth relies upon a two average of child nutrition caseload. Using this methodology, Child Nutrition growth is estimated at $3.7 million in 2011-12, somewhat lower than the $4.8 million proposed by CDE.

STAFF RECOMMENDATIONS:

(1) Approve Governor's May Revise growth proposals.

(2) Approve growth funds for the state Child Nutrition program in 2011-12 at **$3.7 million**, which is somewhat lower than the level requested by CDE, but reflects the traditional caseload growth methodology utilized by DOF.

ISSUE 9: Clean Technology Partnership Academies

DESCRIPTION: The Governor's May Revision proposes an increase of **$3.2 million** to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention program, which creates school-business partnerships that provide occupational training for at-risk high school students in areas such as conservation, renewable energy, and pollution reduction.

BACKGROUND:

Chapter 2, Statutes of 2011, First Extraordinary Session (SBX1 1/Steinberg) established the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program. More specifically, Chapter 2 directs the State Energy Resources Conservation and Development Commission to dedicate $8 million annually from the Renewable Resources Trust Fund (RRTF) – or related fund - to support 100 California Partnership Academies that focus on skills and knowledge needed for successful employment in the clean technology and renewable energy fields. The program sunsets in 2017.

To qualify for competitive grants, schools must partner with regional business or industry in the clean technology or renewable energy sectors. Schools and their business partners must each put up a dollar amount equal to the grant. Grants are reviewed and awarded by the California Department of Education in consultation with the Energy Commission, to ensure that programs are consistent with California energy policy and priorities.

Clean Technology Partnership Academies target at-risk students by ensuring that at least half of each academy's incoming class meets three of four criteria: having disadvantaged economic status, a history of irregular attendance, low motivation, or low achievement levels.

GOVERNOR'S MAY REVISE PROPOSAL:

Item 6110-166-0001, Local Assistance, Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program (Issue 500). Requests that this item be increased by $3,240,000 Proposition 98 General Fund to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program established pursuant to Chapter 2, Statutes of 2011, First Extraordinary Session (SBX1 1).

The new program creates school-business partnerships that provide occupational training for at-risk high school students. The training focuses on job skills in clean technology such as energy conservation, renewable energy, and pollution reduction.

> It is further requested that a new schedule for "Clean" Technology Partnership Academies be added in the amount of $3,240,000 and that provisional language be added as follows to conform to this action:

X. Notwithstanding Provisions 1 and 2, the funds appropriated in Schedule (2.5) shall be available consistent with Article 5.5 (commencing with Section 54698) of Chapter 9 of Part 29 of Division 4 of Title 2 of the Education Code.

LAO RECOMMENDATIONS: The LAO recommends rejecting the Governor's May proposal to provide $3.2 million in Proposition 98 General Fund for Clean Technology Partnership Academies in lieu of funding from the Renewable Resource Trust Fund (RRTF). Though the RRTF is scheduled to sunset in December, the fund will likely have a balance sufficient to support implementation costs for the CTPA program in 2011-12.

STAFF COMMENT: Chapter 2 makes funding for the new program created by Chapter 2 subject to annual Legislative appropriations from the Renewable Resources Trust Fund (RRTF), or the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF). If funds from the RRTF are insufficient, Chapter 2 requires the State Controller to allocate funds from the ARFVTF. Both of these two special funds identified in Chapter 2 – the RRTF and ARFVTF -- are currently in structural imbalance.

ISSUE 10: K-3 Class Size Reduction Program Deficiency

DESCRIPTION: The Governor's May Revise does not fully score all of the savings associated with the basic aid "fair share" reductions enacted in the March budget package for the 2010-11 and 2011-12 fiscal years. At the same time, statutory appropriations for the K-3 Class Size Reduction program (CSR) exceed budgeted levels. While statutory appropriations for K-3 CSR are automatic, unless unbudgeted costs are addressed, there will be shortfalls for other K-12 programs.

GOVERNOR'S MAY REVISE BUDGET:

In 2010-11, payments for the K-3 CSR program were **$43.3 million** more than budgeted. At the same time, the Governor's May Revise budget does not propose to score the additional $65 million in savings from basic aid "fair share" reductions enacted in the March budget package.

The final CSR payment for the 2010-11 program is scheduled for the end of July (this is the deferred payment). Based on CDE's current estimates, the July payment will be **$42.3 million** higher than budgeted. These additional $42 million in costs are also not accounted for in the May revision. In addition, the March budget package reduced budgeted levels for the K-3 CSR program by an additional **$20 million** in 2011-12. This results in a budget shortfall of **$62.3 million** in 2011-12.

Expenditure Changes Not Reflected in Governor's May Revision		
(In Millions)		
	2010-11	**2011-12**
Basic aid "fair share" reductions	-65.0	-65.0
K-3 Class Size Reduction costs	43.3	62.3
Totals	**-21.7**	**-2.7**

STAFF COMMENTS:

While statutory appropriations for K-3 CSR are automatic, unless unbudgeted costs are addressed, there will be shortfalls for other K-12 programs. Basic Aid savings can be directed to offset existing budget costs in 2010-11 and 2011-12.

STAFF RECOMMENDATIONS: <u>Score $65 million in 2010-11 and 2011-12 basic aid savings to offset the estimated costs of the K-3 CSR program statutory appropriation that currently exceed budgeted levels for each of these years</u>. This action will align budget planning amounts with estimated statutory appropriations to avoid budget shortfalls for K-12 programs. Remaining savings are directed as a "balancer" to cover other Subcommittee actions.

ISSUE 11: Quality Education Investment Act (QEIA) Language

DESCRIPTION: The Governor's May Revise proposes trailer bill language to set-aside savings from the Quality Education Investment Act (QEIA) program and to reappropriate these savings to participating schools in 2014-15.

GOVERNOR'S MAY REVISE PROPOSAL:

Quality Education Investment Act, Proposition 98 Settle-Up. The Administration proposes separate trailer bill legislation to reappropriate QEIA program savings to participating schools in 2014-15, the final year of the program.

The QEIA program is a result of the *CTA v. Schwarzenegger* lawsuit settlement agreement and provides participating districts and community colleges with $450.0 million in Proposition 98 General Fund settlement funding annually through 2014-15. School districts have discretion over the expenditure of these funds but must meet program requirements for class size reduction, high-quality teachers, and student-counselor ratios. Current statute requires savings from the program to be reappropriated only for purposes of the QEIA, with first priority given to cost-of-living adjustments for participating schools.

LAO COMMENTS/RECOMMENDATIONS:

The LAO recommends rejecting the Governor's May proposal to set aside about $40 million in unused 2010-11 QEIA funding for use by QEIA schools in 2014-15, the final year of the program.

Instead, the LAO recommends recognizing the savings now and reappropriating the funds in 2011-12 for other Proposition 98 purposes. The state used this latter approach in 2010-11 (recognizing QEIA savings from 2008-09 and reappropriating the funds for other Proposition 98 purposes).

STAFF COMMENTS:

Estimated Savings: Due to declining participation and workload in the QEIA program, the Department of Finance estimates annual savings of approximately **$40 million** for the QEIA program beginning in 2010-11. Per DOF, savings of approximately **$120 million** would be set-aside is a separate savings account for several years and reappropriated in 2014-15 for support of the QEIA program during the final year of the program.

Federal Bonus Payment: In 2009-10, school districts participating in QEIA received $153 million in federal school improvement funds on behalf of their schools beyond funding contemplated by authorizing statute for the program.

STAFF RECOMMENDATIONS: <u>Adopt LAO recommendation</u>.

Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair

SUBCOMMITTEE NO.1 on Education

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

Friday, May 27, 2011

Members Present: Liu, Wright
Members Absent: Huff
OUTCOMES

ISSUE 1: CCC Deferrals and Apportionment Funding

Speakers:

- Dan Troy, California Community Colleges
- Paul Steenhausen, Legislative Analyst's Office
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is trailer bill language to undo $350 million of the California Community College (CCC) deferrals, and increase CCC apportionments by a like amount.

May Revise Request. The Governor's May Revise requests that the CCC local assistance apportionment funding be **increased by $350.0 million** Proposition 98 General Fund to restore apportionment funding that has been deferred. This augmentation would reduce the amount deferred from $961.0 million to $611.0 million.

Staff Recommendation. Staff recommends that the Subcommittee approve reducing the CCC deferral by $347 million, and move $3 million to the Health Fee mandate in order to meet the funding obligation for that mandate.

ACTION: Approved reduction to the deferral; approved increasing the apportionment by the amount of the deferral reduction; and approved funding for the Health Fee mandate.

VOTE: 2-0

ISSUE 2: CCC Basic Aid Funding

Speakers:

- Paul Steenhausen, Legislative Analyst's Office
- Dan Troy, California Community Colleges
- Ed Hanson, Department of Finance

Issue. The issue before the Subcommittee is shifting basic aid funding from three CCC districts to pay for community college mandates.

Basic Aid Districts. An "entitlement", or apportionment obligation, amount is calculated for all districts based on the number of students they serve. For all districts, the local property taxes and student fee revenue is counted toward the entitlement first. If the local property taxes and student fee revenue fall short of the entitlement amount, the district gets general fund to make up the difference. There are only three districts in the state that have their local property taxes and student fee revenues amount to more than their entitlement. These districts, commonly referred to as "basic aid" districts, can keep the excess local revenue and use it for educational programs and services at their discretion. There are three basic aid community college districts: Marin, MiraCosta, and South Orange.

Excess Funding. Between 1998-99 and 2003-04, the Legislature funded a categorical program known as Partnership for Excellence (PFE). This program had been established in statute. In general, the PFE provided supplementary funding to each district in exchange for its commitment to improve student outcomes in specified areas (such as transfers to four-year institutions). The PFE was allowed to sunset in January 2005. Anticipating this sunset, the Legislature and Governor redesignated PFE monies as apportionment funding in the 2004-05 Budget Act. Since basic aid districts do not receive apportionment funds, the budget included provisional language that allowed three basic aid districts to receive about $6 million for that year. This language was eliminated the following year. Despite the fact that the provisional language was taken out of the budget, CCC has continued to provide those funds to basic aid districts.

LAO Recommendation. The LAO recommends the Legislature prohibit the Chancellor's Office from making any such future payments to basic aid districts. Depending on the state's fiscal condition, the Legislature may wish to either reallocate the freed-up monies to non-basic aid districts, or use the funds for General Fund savings (a total of $5.9 million).

Staff Recommendation. Staff recommends the Subcommittee prohibit the Chancellor's Office from using the $5.9 million for basic aid districts. Staff recommends the Subcommittee shift $3 million of the basic aid funds to the Financial Aid categorical to pay for two mandates, and utilize the other $2.9 million to pay for mandates.

ACTION: Issue not heard

ISSUE 3: CalWORKs Child Care Caseload Adjustment

Speakers:

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

Issue. The issue before the Subcommittee is revised caseload estimates for Stage 2 and Stage 3, and adjustments in funding accordingly.

Stage 3 Funding Background. In October 2010, Governor Schwarzenegger vetoed funding for the CalWORKs Stage 3 child care program. Pursuant to a court order, the termination of Stage 3 services were delayed until December 31, 2010, to allow for eligibility screening and possible placement of Stage 3 families in other programs. Families were given the opportunity to participate in a lottery for available openings in other child care programs, provided that they were not already determined eligible for either Stage 1 or Stage 2.

Stage 3 Caseload Decline. While funding for Stage 3 was restored in the current year, the estimated costs reflect a significant decline in caseload. Based upon reported caseload for the months of January through March, average monthly caseload has declined by approximately 70 percent from the level prior to the veto. The transfer of families to Stage 2 and other child care programs funded through the Department of Education (CDE) accounts for a portion of this decline.

May Revise Request. The Governor's May Revise requests that child care programs be **decreased by $123,474,000** to reflect revised estimates of caseload costs for CalWORKs Stage 2 and Stage 3 child care. These adjustments reflect:

1. Increase of $64,350,000 to Stage 2, and
2. Decrease of $187,824,000 to Stage 3.

The decrease to Stage 3 is due mainly to the implementation of the Stage 3 veto reflected in the 2010 Budget Act which terminated funding for the program on November 1, 2010.

Due to uncertainty in the Stage 3 caseload number, the Administration is proposing to retain approximately $56.0 million in the current-year appropriation for Stage 3, after accounting for increased current-year costs in Stage 2, and to set aside $33.645 million in one-time funds to be appropriated for Stage 3 pending receipt of updated caseload data from the CDE.

New Caseload Information. CDE testified on May 25, 2011, that the CalWORKs Stage 3 caseload is underfunded by approximately $25 million in the budget year. The reserve is sufficient to cover this shortfall.

ACTION: Approved the Governor's May Revise proposal.
VOTE: 2-0

6110 Department of Education
6360 Commission on Teacher Credentialing

ISSUE 4: Statewide Student Data & Teacher Data Systems

DESCRIPTION: The Governor's May Revise proposes to eliminate **$3.5 million** in remaining federal funding from the March budget package in order to suspend support and development activities for two statewide data systems – the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Teacher Information Data System (CALTIDES) in 2011-12. The Governor proposes to maintain **$5.2 million** in one-time funding for the California School Information System to provide data support to school districts in 2011-12.

GOVERNOR'S MAY REVISE PROPOSAL:

- **Eliminate Funding to Suspend Student Data System Development. (Issue 315).** Proposes to reduce **$2.9 million** in federal Title VI funds and **5.3 positions** to the Department of Education state operations in 2011-12 to reflect suspension of funding for all development and implementation activities for California Longitudinal Pupil Achievement Data System (CALPADS), pending continued review of the system.

- **Eliminate Funding for Teacher Data System (Issue 573).** Reduces **$560,000** in Federal Trust Funds and **3.0 positions** to the Department of Education state operations in 2011-12 for California Teacher Information Data System (CALTIDES) development amended to reflect the SDE's termination of the California Longitudinal Teacher Integrated Data Education System **(**CALTIDES) project as previously proposed and to conform with the termination of the CALPADS project.

- **Eliminate Funding for Teacher Data System (Issue 101).** Reduces **$84,000** in special funds and **1.0 position** to the Commission on Teacher Credentialing state operations in 2011-12 for CALTIDES development to reflect the SDE's termination of the California Longitudinal Teacher Integrated Data Education System **(**CALTIDES) project as previously proposed and to conform to the termination of the CALPADS project.

- **Shift CALPADS Funding to Student Assessments (Issue 086).** Requests that **$5.4 million** in federal Title VI funds be used for state student assessment development, administration, and reporting activities instead of CALPADS.

- **Create Proposition 98 Savings in Student Assessment Program (Issue 087).** Reduces Proposition 98 General Fund spending for the student assessment program by **$5.4 million** to reflect the shift of federal funds redirected from CALPADS for this program.

- **Continue One-Time Proposition 98 Funds for CSIS (Issue 306).** Reappropriates **$5.2 million** in one-time Proposition 98 General Fund savings for California School Information Services (CSIS) activities. These funds will allow CSIS to provide technical support to local districts with meeting federal and state student data collection and reporting after the potential termination of CALPADS.

LAO COMMENTS/RECOMMENDATIONS: The LAO recommends that the Legislature reject the Governor's May Revision proposal to eliminate funding for CALPADS and CALTIDES in 2011-12.

More specifically, the LAO recommends funding CALPADS at **$6.135 million** -- slightly less than CDE-requested level and funding – and funding CALTIDES at the CDE requested level of **$2.124 million.**

Education Data Systems: Expenditure Options

2011-12 (In Thousands)

	CDE Request	LAO Recommendation
CALPADS		
System technical maintenance	$2,753	$2,753
System improvements	1,491	1,491
CDE non-CALPADS staff[a]	974	687
CDE CALPADS staff[b]	879	665
Other agency charges (indirect)	405	405
Oversight	134	134
Totals	**$6,636**	**$6,135**
CALTIDES		
Contracts for CALTIDES development	$600	$600
CDE CALTIDES staff	560	560
Technical systems improvement contract	500	500
Other[c]	314	314
CTC staff	150	150
Totals	**$2,124**	**$2,124**

[a] Reflects several non-CALPADS staff positions responsible for federal reporting.

[b] Includes operating expenses and equipment ($89,000). Also includes one-time funding for CDE Technical Lead ($183,000).

[c] Includes indirect costs ($260,000), training ($50,000), and other operating expenses.

CDE = California Department of Education; CALPADS = California Longitudinal Pupil Achievement Data System; CALTIDES = California Longitudinal Teacher Integrated Data Education System; and CTC = Commission on Teacher Credentialing.

CDE REQUEST TO ADDRESS CSIS SHORTFALL:

CDE requests a one-time appropriation of **$679,000** for the California School Information Services (CSIS) program in 2011-12 from the Proposition 98 Reversion Account to cover a shortfall in the Education Telecommunications Fund.

The 2010-11 budget appropriates $2.5 million from the Education Telecommunication Fund. These funds are allocated to the Fiscal Crisis and Management Assistance Team for the purpose of administering the CSIS program and non-CSIS participating school districts for support of maintenance of individual student identifiers.

The budget assumed that the fund would recover $2.5 million from LEAs based on audit recoveries/settlements; however, the recoveries have fallen short this fiscal year and CDE is projecting a $679,000 shortfall in 2011-12.

STAFF RECOMMENDATIONS: Adopt LAO recommendation to continue funding for both CALPADS and CALTIDES in 2011-12, as follows:

1. Approve Governor's May Revise proposal (Issue 306) to extend **$5.4 million** in one-time Proposition 98 funds for CSIS in 2011-12.

2. Approve CDE request to backfill the CSIS shortfall from the Education Telecommunications Fund with **$679,000** in one-time Proposition 98 funds in 2011-12.

3. Reject Governor's May Revise proposals (Issues 86, 87, and 315) to eliminate CDE funding for CALPADS. Continue federal funding for CALPADS in 2011-12 at **$6.135 million,** which is slightly below the CDE requested level.

4. Reject Governor's May Revise proposals (Issues 573 and 101) to eliminate CDE and CTC funding for CALTIDES. Continue **$2.124 million** in federal funds for CALTIDES in 2011-12, which is the level requested by CDE.

OUTCOME: Approve staff recommendation. (Vote: 2-0)

ISSUE 5: FEDERAL FUNDS ADJUSTMENTS (Vote Only)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to federal programs in the 2011-12 budget to reflect federal grant updates released very recently due to delays in federal appropriations bills.

Budget Item	Program	Adjustment to Tie to Latest Base Grant	Proposed Final Budget Authority
102-0890	Learn and Serve America	-2,219,000	200,000
103-0890	Byrd Scholarship	-5,181,000	0
112-0890	Charter Schools	0	57,799,000
113-0890	State Assessments	-2,974,000	29,223,000
119-0890	Neglected and Delinquent	-8,000	1,761,000
125-0890 (1)	Migrant Education	-278,000	135,457,000
125-0890 (2)	Education of LEP	-7,471,000	170,669,000
125-0890	***Item Total***	-7,749,000	306,126,000
134-0890 (1,2)	Title I Program Improvement	-15,609,000	56,558,000
134-0890 (3)	School Improvement	-6,024,000	62,920,000
134-0890 (4)	Title I -Basic	-83,076,000	1,584,780,000
134-0890	***Item Total***	-104,709,000	1,704,258,000
136-0890 (1)	Homeless Education	-772,000	7,368,000
136-0890 (2)	Even Start	240,000	1,210,000
136-0890	***Item Total***	-532,000	8,578,000
137-0890	Rural/Low-Income School Program	-2,000	1,291,000
156-0890	Adult Education	-2,205,000	87,659,000
161-0890 (1-3)	Special Education-Entitlements	534,000	1,111,114,000
161-0890 (4 & 7)	Special Education -OSLA	1,000	77,408,000
161-0890 (5)	Special Education-Preschool (619)	-94,000	37,747,000
161-0890 (6)	Special Education-Program Improvement	0	2,716,000
161-0890 (8)	Special Education-Newborn Hearing	0	100,000
161-0890	***Item Total***	441,000	1,229,085,000
166-0890	Vocational Education	-8,414,000	116,218,000
180-0890 (1)	Education Technology-Formula Grants	-1,000	258,000
180-0890 (2)	Education Technology-Competitive Grants	-1,000	5,000
180-0890 (3)	California Technical Assistance Project	-1,000	230,000
180-0890	***Item Total***	-3,000	493,000
193-0890	Math and Science Partnerships	-1,140,000	23,501,000
195-0890	Teacher Quality - Local Grants	-56,510,000	255,309,000
195-0890	Teacher Quality- State Activities	-1,062,000	7,357,000
	Item Total	-57,572,000	262,666,000
197-0890	21st Century Community Learning	6,679,000	157,605,000
240-0890	Advanced Placement	1,000	7,232,000

STAFF RECOMMENDATION: Staff recommends approval of all federal grant adjustments proposed by DOF, as displayed on the previous page. These are technical adjustments only. No issues have been raised for any of these adjustments.

OUTCOME: Approve staff recommendation. (Vote: 2-0)

ISSUE 6: K-12 Mandate Funding

DESCRIPTION: The Governor's May Revise proposal reduces K-12 mandates by **$32.3 million** to reflect adoption of a specific option from the K-14 mandate work group report on mandate reform created by Chapter 724, Statutes of 2010. The Administration intends to pursue additional long-term reform options in collaboration with the Legislative Analyst's Office to streamline future funding of K-14 mandates through a block grant approach. (Together with **$5.9 million** in reductions for community colleges, the May Revise K-14 mandate reduction proposal totals **$38.2 million** in 2011-12.)

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes the following changes to K-12 mandates in 2011-12: These proposals reflect the adoption of one specific option from the report of the K-14 mandate reform workgroup created by Chapter 724:

<u>Suspended Mandates</u>

- **Suspends Additional Mandates**. Suspends an additional **11 mandates** in the short term. In the long-term, the Administration proposals to eliminate these mandates.

<u>Preserved Mandates</u>

- **Reduces Mandate Costs**. Proposes changes for another approximately **11 mandates** that would preserve the underlying mandate but reduce unnecessary costs.

- **Continues Funding for Public Health, Safety and School Accountability Mandates.** Provides funding for an additional **11 mandates** involving pupil health, safety, and school accountability functions.

- **Updates Mandate Funding Estimates.** Adjusts funding levels for all funded mandates scheduled in the budget to reflect updated claims reports from the State Controller's Office.

All together, these changes would result in **$38.2 million** in savings in 2011-12, bringing total funding for K-12 mandates from **$80.4 million** in the March package to **$48.0 million** at May Revise.

The Governor's proposal achieves approximately **$57 million** in savings in 2011-12 compared to the actual costs of K-12 claims.

The Governor's proposal is intended to devolve mandates funding to the local level. In the short-term, the Governor proposes to suspend some mandates, reduce the costs of other mandates, and continue other mandates based upon annual claims.

In the longer run, the Governor is interested in eliminating suspended mandates and developing a block grant – similar to what has been proposed by the LAO in recent years - for funded mandates.

List of Mandates Proposed for Suspension by Governor's May Revise Proposal:

The May Revise Budget Letter proposes to suspend the following additional mandates in 2011-12:

1. Caregiver Affidavits (Ch. 98, Stats. 1994)
2. Notification of Truancy (Ch. 498, Stats. 1983)
3. Pupil Suspensions, Expulsions, Expulsion Appeals (Ch. 498, Stats. 1983, et al)]
4. Physical Performance Tests (Ch. 975, Stats. 1995)
5. Consolidation of Law Enforcement Agency Notifications (LEAN) and Missing Children Reports (MCR) (Ch. 1117, Stats. 1989)
6. Habitual Truants (Ch. 1184, Stats. 1975)
7. Consolidation of Notification to Teachers: Pupils Subject to Suspension or Expulsion I and II, and Pupil Discipline Records (Ch. 1306, Stats. 1989)
8. Financial and Compliance Audits
9. Agency Fee Arrangements (Ch. 893, Stats. 2000; Ch. 805, Stats. 2001)
10. The Stull Act (Ch. 498, Stats. 1983; Ch. 4, Stats. 1999) (98-TC-25)
11. Prevailing Wage (Ch. 1249, Stats. 1978)

LAO COMMENTS: According to the LAO, the mandate working group required by Chapter 724 was nearly unanimous in recognition of several major problems with the K-14 mandates system:

- System not responsive to changing needs.
- State costs can be higher than anticipated.
- Regulations can create mandates, increasing costs without legislative input.
- High percentage of audited claims disallowed.
- Districts face uncertainty over timing/amount of reimbursement.
- Reimbursement process ignores effectiveness.
- Reimbursement process can reward inefficiency.
- Reimbursement rates vary without justification.
- Claiming process creates administrative burden for districts.

LAO RECOMMENDATIONS: The LAO recommends that Legislature adopt the Governor's proposal to undertake mandates reforms. Per the LAO, the May Revise package:

- Provides clear framework for identifying which types of activities are worth requiring of all districts.
- Prioritizes activities related to health, public safety, oversight, and accountability that serve a fundamental statewide interest.
- Funds ongoing mandates while reducing costs by more than 50 percent.
- Sets the groundwork for a system that is more transparent and equitable as well as less cumbersome for school districts.
- Does not prevent policy committees from being involved in determining fate of suspended mandates.

STAFF COMMENTS:

Governor's Proposal Achieves $32 Million in Savings; But Costs Higher if Proposal Not Adopted. The Governor's proposal achieves **$32.3 million** in savings in 2011-12. However, if the Governor's proposal is not adopted, a total of **$57 million** would need to be added to the 2011-12 budget to reflect updated costs from the State Controller's Office for mandates funded in the March package.

Role for Policy Committees: As the LAO points out, the Governor's proposal does not prevent policy committees from being involved in mandate suspension. Similarly, the policy committees are not prevented from involvement in mandate reductions, as well as, the Administration's long term proposal to develop a block grant approach for funding K-12 mandates.

STAFF RECOMMENDATION: <u>Approve the Governor's May Revise Proposal to achieve **$32.3 million** in K-12 annual mandate savings in 2011-12. Send the Administration's trailer bill language to suspend mandates and reduce mandate costs to the Senate Education Committee for review</u>.

OUTCOME: No action taken on Governor's May Revise proposal.

ISSUE 7: Federal Title I Carryover Funds (6110-134-0890)

DESCRIPTION: The Governor's May Revise proposes to allocate **$21.3 million** in 2011-12 from one-time, federal Title I Set-Aside carryover funds to all Title I local educational agencies using the state's Title I, Part A Basic program distribution methodology.

GOVERNOR'S MAY REVISE PROPOSAL:

1. **Item 6110-134-0890, Local Assistance, Federal Title I, Part A Basic Program (Issue 081).** Requests that Schedule (4) of this item be increased by **$21.3 million** federal Title I Set Aside carryover funds for allocation to all Title I local educational agencies (LEAs) and schools using the state's standard Title I, Part A Basic Program distribution methodology. Distributing the one-time carryover to all Title I schools and LEAs is consistent with federal law and guidance and would provide additional resources to schools and LEAs at a time of limited General Fund resources.

The 2010 Budget Act provided $56.5 million federal Title I Set Aside funds for the LEA Corrective Action Program. Only 58 LEAs in Cohort 3 will receive grants totaling $35.2 million in 2010-11, resulting in $21.3 million that could be carried over to 2011-12.

Federal law and guidance authorizes the use of these funds for the LEA Corrective Action Program or the funds can be distributed to all Title I schools and LEAs for classroom and instructional support activities.

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

X. Of the funds appropriated in Schedule (4), $21,300,000 is provided in one-time carryover 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.

LAO COMMENTS/RECOMMENDATIONS: The LAO recommends adopting the Governor's May Revise proposal to distribute $21.3 million in carryover funds to all Title I school districts based on their low-income student counts. This approach is permissible under federal law and will provide some fiscal relief for all Title I districts. Data also suggest that anticipated 2011-12 funding will be sufficient to cover associated 2011-12 costs. (These funds are primarily used for a district Corrective Action program.)

STAFF RECOMMENDATION: Approve Governor's May Revise proposal.

OUTCOME: Approve staff recommendation. (Vote: 2-0)

ISSUE 8: Categorical Program Growth Adjustments

DESCRIPTION: The Governor's May Revise proposes additional adjustments in 2011-12 for several categorical programs selected to receive growth funding in the March budget package.

GOVERNOR'S MAY REVISE BUDGET PROPOSALS: The Governor proposes the following growth adjustments:

Charter Schools (Issue 806). Proposes an additional increase of **$19.5 million** to reflect revised attendance estimates for charter schools. Of this amount, **$2.7 million** is provided for the Charter Categorical Block Grant and **$16.7 million** is provided for Charter Economic Impact Aid. These funds provide charter schools with categorical funding in lieu of separate funding for specific categorical programs and funding for disadvantaged students.

New Charter Schools (Issue 807). Proposes an increase of **$8 million** in 2011-12 to provide charter schools that commenced operations between 2008-09 and 2011-12 with categorical funding. This funding provides new charter schools with a supplemental grant of $127 per pupil in lieu of categorical funding that charter schools were eligible for prior to categorical flexibility and in addition to what is included in the charter categorical block grant. Since these charter schools did not exist prior to categorical flexibility, they have no access to funding for these programs under current law. This supplemental fund source ensures that funding for new charter schools is commensurate with that of charter schools that existed prior to 2008-09.

The amount requested reflects updated charter school attendance estimates and growth funding consistent with other charter categorical fund sources. This amount also excludes all new conversion charter schools from receiving this funding. Instead, the school district within which the school is located would be required to pass through an amount equal to the supplemental grant ($127 per pupil) to new conversion charter schools.

Special Education (Issue 644). The May Revise proposes an additional **$399,000** for Special Education caseload growth in 2011-12 to reflect growth in average daily attendance estimates.

CDE REQUEST FOR NUTRITION GROWTH FUNDING:

CDE requests growth funding for the state Child Nutrition program in 2011-12. The department's request for $4.8 million in growth funding was not approved by DOF.

STAFF COMMENTS: According to the LAO, the methodology typically utilized by the DOF for child nutrition growth relies upon a two average of child nutrition caseload. Using this methodology, Child Nutrition growth is estimated at $3.7 million in 2011-12, somewhat lower than the $4.8 million proposed by CDE.

STAFF RECOMMENDATIONS:

(1) Approve Governor's May Revise growth proposals.

(2) Approve growth funds for the state Child Nutrition program in 2011-12 at **$3.7 million**, which is somewhat lower than the level requested by CDE, but reflects the traditional caseload growth methodology utilized by DOF.

OUTCOME: Approve staff recommendations. (Vote: 2-0)

ISSUE 9: Clean Technology Partnership Academies

DESCRIPTION: The Governor's May Revision proposes an increase of **$3.2 million** to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention program, which creates school-business partnerships that provide occupational training for at-risk high school students in areas such as conservation, renewable energy, and pollution reduction.

BACKGROUND:

Chapter 2, Statutes of 2011, First Extraordinary Session (SBX1 1/Steinberg) established the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program. More specifically, Chapter 2 directs the State Energy Resources Conservation and Development Commission to dedicate $8 million annually from the Renewable Resources Trust Fund (RRTF) – or related fund - to support 100 California Partnership Academies that focus on skills and knowledge needed for successful employment in the clean technology and renewable energy fields. The program sunsets in 2017.

To qualify for competitive grants, schools must partner with regional business or industry in the clean technology or renewable energy sectors. Schools and their business partners must each put up a dollar amount equal to the grant. Grants are reviewed and awarded by the California Department of Education in consultation with the Energy Commission, to ensure that programs are consistent with California energy policy and priorities.

Clean Technology Partnership Academies target at-risk students by ensuring that at least half of each academy's incoming class meets three of four criteria: having disadvantaged economic status, a history of irregular attendance, low motivation, or low achievement levels.

GOVERNOR'S MAY REVISE PROPOSAL:

Item 6110-166-0001, Local Assistance, Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program (Issue 500). Requests that this item be increased by $3,240,000 Proposition 98 General Fund to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program established pursuant to Chapter 2, Statutes of 2011, First Extraordinary Session (SBX1 1).

The new program creates school-business partnerships that provide occupational training for at-risk high school students. The training focuses on job skills in clean technology such as energy conservation, renewable energy, and pollution reduction.

It is further requested that a new schedule for "Clean" Technology Partnership Academies be added in the amount of $3,240,000 and that provisional language be added as follows to conform to this action:

X. Notwithstanding Provisions 1 and 2, the funds appropriated in Schedule (2.5) shall be available consistent with Article 5.5 (commencing with Section 54698) of Chapter 9 of Part 29 of Division 4 of Title 2 of the Education Code.

LAO RECOMMENDATIONS: The LAO recommends rejecting the Governor's May proposal to provide $3.2 million in Proposition 98 General Fund for Clean Technology Partnership Academies in lieu of funding from the Renewable Resource Trust Fund (RRTF). Though the RRTF is scheduled to sunset in December, the fund will likely have a balance sufficient to support implementation costs for the CTPA program in 2011-12.

STAFF COMMENT: Chapter 2 makes funding for the new program created by Chapter 2 subject to annual Legislative appropriations from the Renewable Resources Trust Fund (RRTF), or the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF). If funds from the RRTF are insufficient, Chapter 2 requires the State Controller to allocate funds from the ARFVTF. Both of these two special funds identified in Chapter 2 – the RRTF and ARFVTF -- are currently in structural imbalance.

OUTCOME: Approve Governor's May Revise proposal. (Vote: 2-0)

ISSUE 10: K-3 Class Size Reduction Program Deficiency

DESCRIPTION: The Governor's May Revise does not fully score all of the savings associated with the basic aid "fair share" reductions enacted in the March budget package for the 2010-11 and 2011-12 fiscal years. At the same time, statutory appropriations for the K-3 Class Size Reduction program (CSR) exceed budgeted levels. While statutory appropriations for K-3 CSR are automatic, unless unbudgeted costs are addressed, there will be shortfalls for other K-12 programs.

GOVERNOR'S MAY REVISE BUDGET:

In 2010-11, payments for the K-3 CSR program were **$43.3 million** more than budgeted. At the same time, the Governor's May Revise budget does not propose to score the additional $65 million in savings from basic aid "fair share" reductions enacted in the March budget package.

The final CSR payment for the 2010-11 program is scheduled for the end of July (this is the deferred payment). Based on CDE's current estimates, the July payment will be **$42.3 million** higher than budgeted. These additional $42 million in costs are also not accounted for in the May revision. In addition, the March budget package reduced budgeted levels for the K-3 CSR program by an additional **$20 million** in 2011-12. This results in a budget shortfall of **$62.3 million** in 2011-12.

Expenditure Changes Not Reflected in Governor's May Revision		
(In Millions)		
	2010-11	**2011-12**
Basic aid "fair share" reductions	-65.0	-65.0
K-3 Class Size Reduction costs	43.3	62.3
Totals	**-21.7**	**-2.7**

STAFF COMMENTS:

While statutory appropriations for K-3 CSR are automatic, unless unbudgeted costs are addressed, there will be shortfalls for other K-12 programs. Basic Aid savings can be directed to offset existing budget costs in 2010-11 and 2011-12.

STAFF RECOMMENDATIONS: <u>Score $65 million in 2010-11 and 2011-12 basic aid savings to offset the estimated costs of the K-3 CSR program statutory appropriation that currently exceed budgeted levels for each of these years</u>. This action will align budget planning amounts with estimated statutory appropriations to avoid budget shortfalls for K-12 programs. Remaining savings are directed as a "balancer" to cover other Subcommittee actions.

OUTCOME: Approve staff recommendation. (Vote: 2-0)

ISSUE 11: Quality Education Investment Act (QEIA) Language

DESCRIPTION: The Governor's May Revise proposes trailer bill language to set-aside savings from the Quality Education Investment Act (QEIA) program and to reappropriate these savings to participating schools in 2014-15.

GOVERNOR'S MAY REVISE PROPOSAL:

Quality Education Investment Act, Proposition 98 Settle-Up. The Administration proposes separate trailer bill legislation to reappropriate QEIA program savings to participating schools in 2014-15, the final year of the program.

The QEIA program is a result of the *CTA v. Schwarzenegger* lawsuit settlement agreement and provides participating districts and community colleges with $450.0 million in Proposition 98 General Fund settlement funding annually through 2014-15. School districts have discretion over the expenditure of these funds but must meet program requirements for class size reduction, high-quality teachers, and student-counselor ratios. Current statute requires savings from the program to be reappropriated only for purposes of the QEIA, with first priority given to cost-of-living adjustments for participating schools.

LAO COMMENTS/RECOMMENDATIONS:

The LAO recommends rejecting the Governor's May proposal to set aside about $40 million in unused 2010-11 QEIA funding for use by QEIA schools in 2014-15, the final year of the program.

Instead, the LAO recommends recognizing the savings now and reappropriating the funds in 2011-12 for other Proposition 98 purposes. The state used this latter approach in 2010-11 (recognizing QEIA savings from 2008-09 and reappropriating the funds for other Proposition 98 purposes).

STAFF COMMENTS:

Estimated Savings: Due to declining participation and workload in the QEIA program, the Department of Finance estimates annual savings of approximately **$40 million** for the QEIA program beginning in 2010-11. Per DOF, savings of approximately **$120 million** would be set-aside is a separate savings account for several years and reappropriated in 2014-15 for support of the QEIA program during the final year of the program.

Federal Bonus Payment: In 2009-10, school districts participating in QEIA received $153 million in federal school improvement funds on behalf of their schools beyond funding contemplated by authorizing statute for the program.

STAFF RECOMMENDATIONS: Adopt LAO recommendation.

OUTCOME: Approve staff recommendation. (Vote: 2-0)