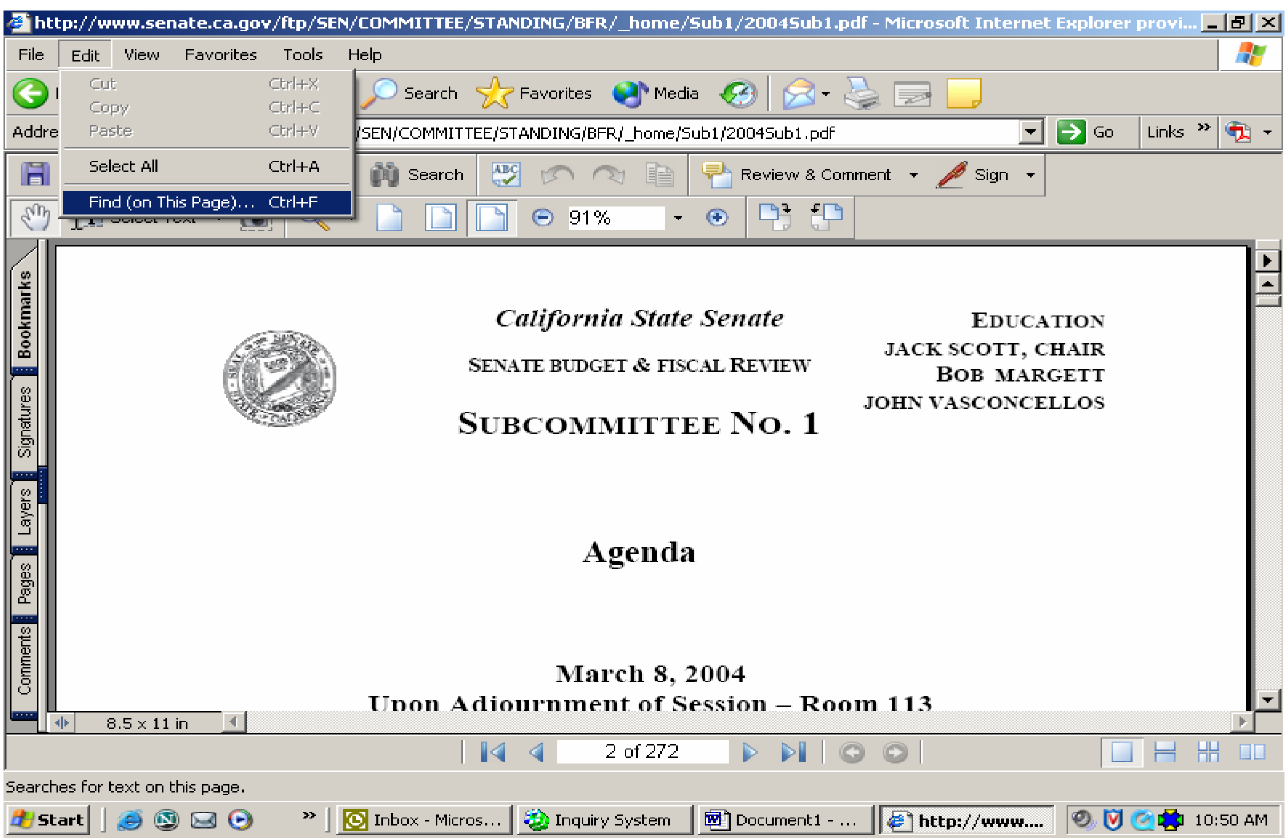
Senate Budget and Fiscal Review

Subcommittee No. 1 2014 Agendas

Complete year 2014 Subcommittee No. 1 agendas in PDF format. They are archived in Adobe to make them more accessible by subject. Please use “Edit” then “find” from the Menu to access information. Use “Bookmarks” from side menu To access agendas by date.



Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Marty Block
Member, Carol Liu
Member, Mark Wyland

Thursday, March 6, 2014
Upon Adjournment of Session
Room 3191, State Capitol

Governor's 2014-15 Budget:
Proposition 98 and K-12 Education Budget Overview

I. Highlights of the Governor's Proposition 98 and K-12 Education Budget

Lisa Mierczynski, Department of Finance

Edgar Cabral, Legislative Analyst's Office

Monique Ramos, Department of Education

II. Local Control Funding Formula—Implementation and Governor's Proposals

Chris Ferguson, Department of Finance

Carolyn Chu, Legislative Analyst's Office

Elisa Wynne, State Board of Education

Monique Ramos, Department of Education

Peter Birdsall, California County Superintendents Educational Services Association

III. Public Comment

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

I. Governor's Budget Proposals: K-12 Education

K THRU 12 EDUCATION

California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,000 charter schools provide instruction in English, mathematics, history, science, and other core competencies to provide students with the skills they will need upon graduation for either entry into the workforce or higher education.

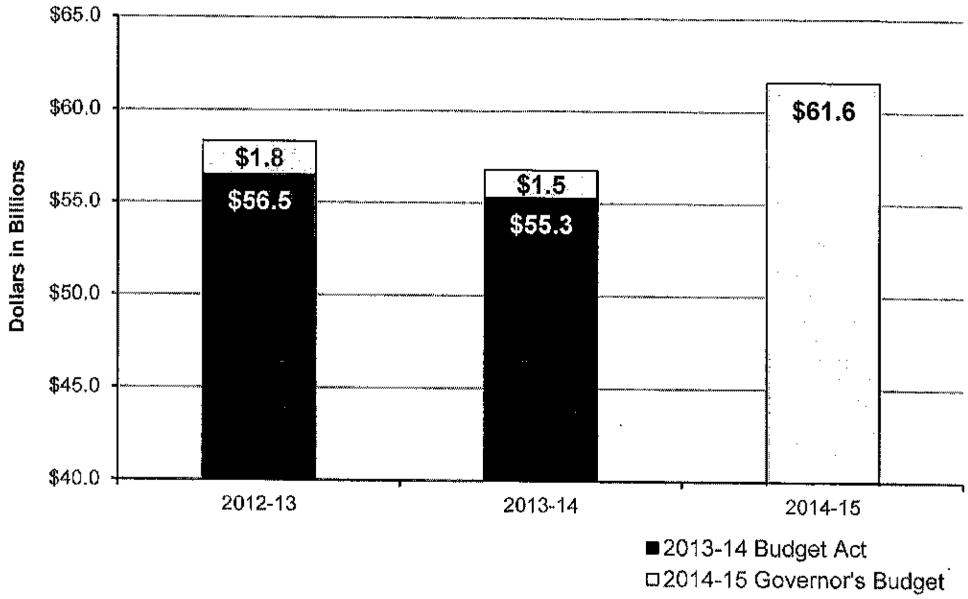
INVESTING IN EDUCATION

The Budget includes Proposition 98 funding of $61.6 billion for 2014-15, an increase of $6.3 billion over the 2013 Budget Act level. When combined with increases of $3.4 billion in 2012-13 and 2013-14, the Budget proposes a $9.7 billion investment in K-14 education. Building off the increases in funding provided in the Budget Acts of 2012 and 2013, the Budget proposes investments for 2014-15 that will significantly increase funding distributed under the Local Control Funding Formula, providing additional funding to school districts and students most in need of these resources. Investing significantly in the new formula will help the state reduce disparities, maximize student achievement, and strengthen the foundation for sustainable economic growth.

The Budget also eliminates all remaining budgetary deferrals, ensuring that schools receive all of their resources on time. During the height of the recession, the state deferred almost 20 percent of annual payments to schools, meaning that schools received a significant portion of their funds a year after they spent them. Some school districts were able to borrow to manage these deferrals, while others had to implement deferrals as cuts. Districts that were able to borrow incurred substantial interest costs, which led to dollars taken out of the classroom. The Budget proposes repayment of approximately $6.4 billion in remaining K-14 deferred payments, providing certainty of funding for expected levels of programs and services, and eliminating any additional borrowing costs to be borne by schools and colleges as a result of deferrals.

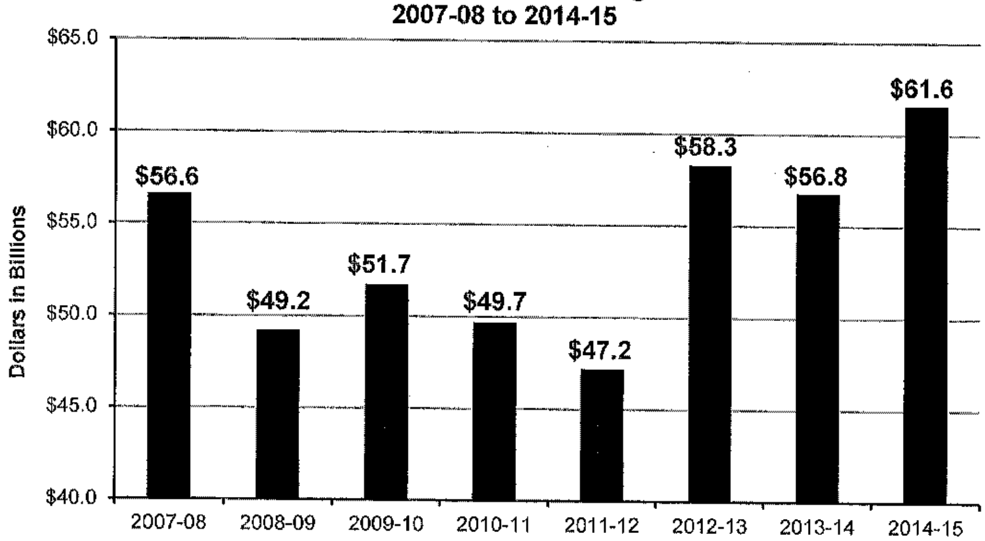
After reaching $56.6 billion in 2007-08, Proposition 98 funding for K-14 education slipped to $47.2 billion for 2011-12. Primarily as a result of increased General Fund revenues, the Proposition 98 Guarantee increases in 2012-13 and 2013-14, relative to the 2013 Budget Act levels—providing additional one-time resources in each of those years. These General Fund revenue increases also drive growth in the Proposition 98 Guarantee for 2014-15, as displayed in Figure K12-01. The cumulative impact of these one-time and ongoing funding increases of $9.7 billion will allow schools and colleges to further restore and expand base programs and services, including teachers, staffing support, and other targeted investments.

Figure K12-01
Major Changes to Proposition 98 Guarantee Levels



Although the current trajectory of Proposition 98 funding is positive, the Proposition 98 Guarantee has historically been subject to significant volatility, as demonstrated in Figure K12-02. While the Administration is committed to significant investments in education, the Administration recognizes the long-term need for general budget funding stability, and more specifically, education funding stability. The Administration proposes a constitutional amendment to create a mechanism to help smooth year-to-year school spending to prevent damage caused by cuts, as discussed in the Introduction section of this document. The amendment will not change the overall guaranteed level of funding for education.

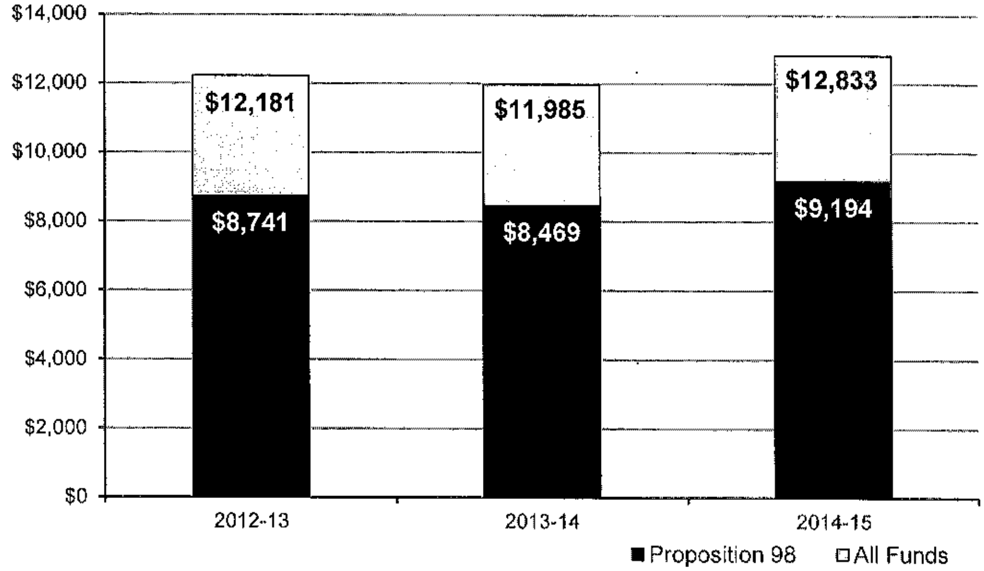
Figure K12-02
Proposition 98 Funding
2007-08 to 2014-15



K-12 Per-Pupil Spending

Reflecting the recent significant increases in Proposition 98 funding, total per-pupil expenditures from all sources are projected to be $11,985 in 2013-14 and $12,833 in 2014-15, including funds provided for prior year settle-up obligations. Ongoing K-12 Proposition 98 per-pupil expenditures in the Budget are $9,194 in 2014-15, up significantly from the $8,469 per-pupil provided in 2013-14, and the $7,006 provided in 2011-12. (See Figure K12-03).

Figure K12-03
K-12 Education Spending Per Pupil



IMPLEMENTING THE LOCAL CONTROL FUNDING FORMULA

Prior to the adoption of the Local Control Funding Formula, California's school finance system had become overly complex, administratively costly, and inequitable. There were many different funding streams, each with their own allocation formula and spending restrictions. The system was state-driven, interfering with the ability of local officials to decide how best to meet the needs of students. Further, scholarly research and practical experience both indicated that low-income students and English language learners come to school with unique challenges and often require supplemental instruction and other support services to be successful in school. Yet, the finance system did not address these issues.

In recognition of the challenges that characterized this system of school finance, the 2013 Budget Act established the Local Control Funding Formula. This new formula expands local control, reduces state bureaucracy, and ensures that student needs drive the allocation of resources. The new funding formula also promises increased transparency in school funding—empowering parents and local communities to access information in a more user-friendly manner and enhancing their ability to engage with their local governing board regarding school financial matters.

The Local Control Funding Formula includes the following major components:

- A base grant for each local education agency equivalent to $7,829 per unit of average daily attendance (ADA), inclusive of the application of 2013-14 and 2014-15 cost-of-living adjustments. This amount also includes an adjustment of 10.4 percent to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6 percent to reflect the cost of operating career technical education programs in high schools.
- A 20-percent supplemental grant for English learners, students from low-income families, and youth in foster care to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5 percent of a local education agency's base grant, based on the number of English learners, students from low-income families, and youth in foster care served by the local agency that comprise more than 55 percent of enrollment.
- An Economic Recovery Target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the Local Control Funding Formula.

The Budget provides a second-year investment of $4.5 billion in the Local Control Funding Formula, enough to eliminate more than 28 percent of the remaining funding gap. To provide further funding certainty for school districts, the Administration proposes legislation to create a continuous appropriation for Local Control Funding Formula funding, ensuring that the formula continues to be implemented on schedule in future years.

ACCOUNTABILITY

In addition to fundamentally restructuring the distribution of funds to school districts, the Local Control Funding Formula substantially changed district accountability, moving away from a state-controlled system that emphasized inputs to a locally-controlled system focused on improving outcomes and accountability. Local school districts are now empowered to decide the best way to target funds. However, in exchange for that flexibility, districts are required to increase or improve services for English learner, low-income, and foster youth students in proportion to supplemental and concentration grant funding they receive through the Local Control Funding Formula. Guiding each school district, county office of education, and charter school through this new process will be locally developed and adopted local control and accountability plans, which will identify local goals in areas that are priorities for the state, including pupil achievement, parent engagement, and school climate.

As the state continues to invest significantly in the Local Control Funding Formula and new accountability model, the state will retain an important role in supporting school districts that struggle to meet state and local expectations. Through the Collaborative for Education Excellence, school districts, county offices of education, and charter schools will be able to access advice and assistance necessary to meet the goals laid out in their local accountability plans. The state will continue to measure student achievement through statewide assessments, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

INCREASING INSTRUCTIONAL FLEXIBILITY

The primary non-classroom based instructional method available to local educational agencies is through the use of non-classroom based independent study. Students work independently according to a written agreement and under the general supervision of a teacher. Funding for average daily attendance in these courses is calculated on a "time value of student work," which requires each teacher to individually calculate a classroom time equivalent value for every activity assigned to a student engaged in independent study. Collectively, the requirements that schools must meet to provide and receive funding for this type of instruction are administratively burdensome, requiring teachers to spend time on paperwork instead of providing instruction. In some cases, these requirements may provide a disincentive to schools contemplating the use of these types of courses.

To address the deficiencies in the existing independent study process and provide schools with additional instructional flexibility, the Budget proposes legislation to both streamline and expand the instructional opportunities available through this process. This mode of learning has the potential to solve problems that are not easily addressed in traditional classroom-based settings and may help fill instructional gaps, while stabilizing or increasing the attendance of students who may have otherwise dropped out or transferred to other private instructional providers to accelerate their educational progress.

Schools offering instruction through this new streamlined process shall provide every student with a high quality education, and must ensure that independent study courses meet the following requirements:

- Are of the same rigor and educational quality as their classroom-based equivalent courses.
- Maintain the same number of total educational minutes as their classroom-based equivalent courses.
- Provide adequate teacher and student interaction, including at least one meeting per week to verify the student is working toward successful course completion.
- Maintain classroom-based equivalent pupil-to-teacher ratios unless a new alternative ratio is collectively bargained.
- Do not result in the local educational agency claiming more than one total unit of ADA per year for each student enrolled in independent study.

K-12 School Facilities

Since 1998, voters have approved approximately $35 billion in statewide general obligation bonds to construct or renovate public school classrooms used by the state's roughly six million K-12 students. These bonds cost the General Fund approximately $2.4 billion in debt service annually. In addition to general obligation bonds, school districts may use developer fees, local bonds, certificates of participation, and Mello-Roos bonds to construct additional classrooms or renovate existing classrooms. There is currently no bond authority remaining in the core school facilities new construction and modernization programs.

As part of the 2014 Five-Year Infrastructure Plan, the Administration proposes to continue a dialogue on the future of school facilities funding, including consideration of what role, if any, the state should play in the future of school facilities funding. This infrastructure discussion should also include the growing debt service costs associated with the state's increased reliance on debt financing.

The Administration proposes that any future program be easy to understand and provide school districts appropriate local control and fiscal incentives. The following problems are inherent in the current program and must be addressed:

- The current program is overly complex and reflects an evolution of assigning over ten different specialized state agencies fragmented oversight responsibility. The result is a structure that is cumbersome and costly for the state and local school districts.
- The current program does not compel districts to consider facilities funding within the context of other educational costs and priorities. For example, districts can generate and retain state facility program eligibility based on outdated or inconsistent enrollment projections. This often results in financial incentives for districts to build new schools to accommodate what is actually modest and absorbable enrollment growth. These incentives are exacerbated by the fact that general obligation bond debt is funded outside of Proposition 98.
- The current program allocates funding on a first-come, first-served basis resulting in a substantial competitive advantage for large school districts with dedicated personnel to manage facilities programs.
- The current program does not provide adequate local control for districts designing school facilities plans. Program eligibility is largely based on standardized facility definitions and classroom loading standards. As a result, districts are discouraged from utilizing modern educational delivery methods.

Any future program should be designed to provide districts with the tools and resources to address their core facility gaps, but should also avoid an unsustainable reliance on state debt issuance that characterizes the current school facilities program.

While the state examines the future of its role in school facilities, the Budget also includes the following proposals totaling an investment in school facilities of nearly $400 million:

- Transfer $211 million of remaining School Facility Program bond authority from the specialized programs to the core new construction ($105.5 million) and modernization ($105.5 million) programs to continue construction of new classrooms and modernization of existing classrooms for districts that have been awaiting funding. Approximately $163 million, $3 million, $35 million, and $10 million of general obligation bond authority currently remains in the Seismic Mitigation, Career Technical Education, High-Performance Incentive Grant, and Overcrowding Relief Grant programs, respectively.

- Dedicate $188.1 million of one-time Proposition 98 General Fund to the Emergency Repair Program to provide grants or reimbursement to local educational agencies for the cost of repairing or replacing building systems that pose a health and safety threat to students and staff at eligible school sites. Schools previously identified by the California Department of Education as ranked in deciles one, two, or three based on the 2006 Academic Performance Index are eligible for funding.

Other Reforms and Investments

In addition to reforming school finance, facilities, and instructional delivery methods, the Administration remains committed to additional reforms and investments in the areas of adult education, Common Core implementation, and energy efficiency.

Adult Education

The 2013 Budget Act provided $25 million Proposition 98 General Fund for two-year planning and implementation grants to regional consortia of community college districts and K-12 districts, $15.1 million Proposition 98 General Fund Reversion for the Adults in Correctional Facilities program, and required K-12 districts to maintain the 2012-13 level of adult education and career technical education programs in 2013-14 and 2014-15.

Adult education consortia plans will be completed by early 2015, and the Administration intends to make an investment in the 2015-16 budget for adult education, including adult education provided in county jails, through a single restricted categorical program. The Administration will continue to work jointly with the State Department of Education and the California Community Colleges Chancellor's Office to complete the adult education consortia plans, while working with the Legislature to ensure that any legislation pertaining to adult education aligns with and supports the planning process currently underway, and provides consistent guidance to the K-12 and community college districts.

Common Core Implementation

The 2013 Budget Act provided $1.25 billion in one-time Proposition 98 General Fund to support the implementation of the Common Core state standards—new standards for evaluating student achievement in English-language arts and mathematics. Funding is provided to support necessary investments in professional development, instructional materials, and technology.

The Budget proposes an increase of $46.5 million in Proposition 98 General Fund to implement Chapter 489, Statutes of 2013 (AB 484), which established a revised student assessment system aligned to the new state standards. Beginning with the administration of English-language arts and mathematics assessments developed by the Smarter Balanced Assessment Consortium, additional assessments will be included and developed using computer-based testing, whenever feasible, to assess the full breadth and depth of the curriculum.

Energy Efficiency Investments

Proposition 39, The California Clean Energy Jobs Act, was approved in 2012 and increases state corporate tax revenues. For 2013-14 through 2017-18, the measure requires half of the increased revenues, up to $550 million per year, to be used to support energy efficiency.

The Budget proposes to allocate the $363 million of energy efficiency funds available in 2014-15 as follows:

- $316 million and $39 million to K-12 school and community college districts, respectively, for energy efficiency project grants.
- $5 million to the California Conservation Corps for continued technical assistance to K-12 school districts.
- $3 million to the Workforce Investment Board for continued implementation of the job-training program.

While the Budget does not propose funding for additional revolving loans under the Energy Conservation Assistance Act (which was provided $28 million in 2013-14), this program will continue to be considered for future funding.

K-12 Budget Adjustments

Significant Adjustments:

- K-12 Deferrals—An increase of more than $2.2 billion Proposition 98 General Fund in 2014-15, when combined with the $3.3 billion Proposition 98 General Fund provided from 2012-13 and 2013-14 funds, to eliminate all remaining outstanding deferral debt for K-12. Inter-year deferrals for K-12 had reached a high of $9.5 billion in the 2011-12 fiscal year.

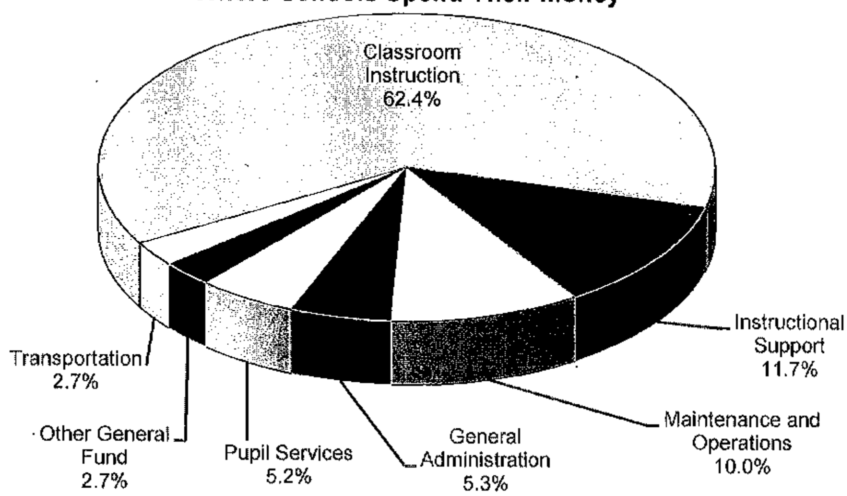
- School District Local Control Funding Formula—Additional growth of approximately $4.5 billion in Proposition 98 General Fund for school districts and charter schools in 2014-15, an increase of 10.9 percent.
- County Office of Education Local Control Funding Formula—An increase of $25.9 million Proposition 98 General Fund for county offices of education in 2014-15.
- Charter Schools—An increase of $74.3 million Proposition 98 General Fund to support projected charter school ADA growth.
- Special Education—A decrease of $16.2 million Proposition 98 General Fund to reflect a decline in Special Education ADA.
- Cost-of-Living Adjustment Increases—The Budget provides $33.3 million to support a 0.86 percent cost-of-living adjustment for categorical programs that remain outside of the new student funding formula, including Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program. Cost-of-living adjustments for school districts and county offices of education are provided within the increases for school district and county office of education Local Control Funding Formula implementation noted above.
- Emergency Repair Program—An increase of $188.1 million in one-time Proposition 98 General Fund resources for the Emergency Repair Program.
- Local Property Tax Adjustments—An increase of $287.1 million Proposition 98 General Fund for the school district and county office of education local control funding formulas in 2013-14 as a result of lower offsetting property tax revenues. A decrease of $529.7 million in Proposition 98 General Fund for school districts and county offices of education in 2014-15 as a result of increased offsetting local property tax revenues.
- Average Daily Attendance—A decrease of $214.5 million in 2013-14 for the school district and county office of education local control funding formulas as a result of a decrease in projected ADA from the 2013 Budget Act. A decrease of $42.9 million in 2014-15 for school districts and county offices of education as a result of projected decline in ADA for 2014-15.

K-12 School Spending and Attendance

How Schools Spend Their Money

Figure K12-04 displays 2011-12 expenditures reported by school districts from their general funds, the various categories of expenditure and the share of total funding for each category. Figure K12-05 displays the revenue sources for school districts.

Figure K12-04
Where Schools Spend Their Money[1]



Classroom Instruction includes general education, special education, teacher compensation, and special projects.
General Administration includes superintendent and board, district and other administration and centralized electronic data processing.
Instructional Support includes research, curriculum development and staff development that benefits and supports student instruction.
Maintenance and Operations includes utilities, janitorial and groundskeeping staff, and routine repair and maintenance.
Pupil Services includes counselors, school psychologists, nurses, child welfare, and attendance staff.
Other General Fund includes spending for ancillary services, contracts with other agencies, and transfers to and from other district funds.

[1] Based on 2011-12 expenditure data reported by schools for their general purpose funding.

Attendance

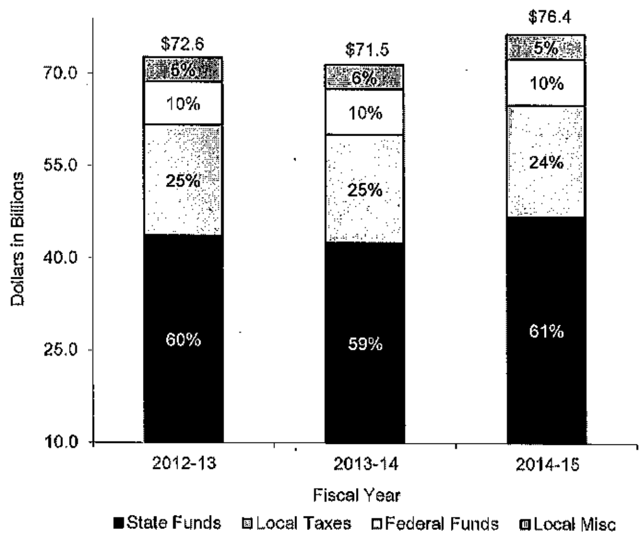
After a two-year period of increasing attendance, attendance in public schools began to decline in 2012-13. Public school attendance is projected to remain relatively stable during 2013-14 and decline slightly during 2014-15. For 2013-14, K-12 ADA is estimated to be 5,963,132, an increase of 702 from 2012-13. For 2014-15, the Budget estimates that K-12

ADA will drop by 7,002 from the 2013-14 level, to 5,956,130.

PROPOSITION 98 GUARANTEE

A voter-approved constitutional amendment, Proposition 98 guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Figure K12-05
Sources of Revenue for California's K-12 Schools
(As a Percent of Total)



Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA 1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year.

For the 2012-13 through 2014-15 fiscal years, the operative Proposition 98 tests are 1, 3, and 1, respectively.

CHILD CARE

Subsidized Child Care includes a variety of programs designed to support the gainful employment of low-income families. These programs are primarily administered by the Department of Education through non-Proposition 98 funding and the annual federal Child Care and Development Fund grant. All programs are means-tested and require that families receiving subsidies have a need for child care, which means all adults in the family must be working, seeking employment, or in training that leads to employment. Most programs are capped, drawing eligible families from waiting lists, while those specifically limited to CalWORKs families or former CalWORKs families have been funded for all eligible recipients.

The major capped programs include General Child Care, Alternative Payment Program, and Migrant Child Care. CalWORKs programs include: Stage 1, administered by the Department of Social Services, for families on cash assistance whose work activities have not stabilized; Stage 2, administered by the Department of Education, for those CalWORKs families with stable work activities and for families who are transitioning off aid, for up to two years; and Stage 3, also administered by the Department of Education, reserved for families who have successfully transitioned off aid for more than two years and still have a child care need.

As discussed in the Health and Human Services Chapter, the Budget includes a six-county, three-year engagement demonstration pilot to improve the outcome for 2,000 of the most vulnerable, low-income CalWORKs families by providing licensed subsidized child care and other services.

Significant Adjustments:

- Stage 2—An increase of $6.3 million non-Proposition 98 General Fund in 2014-15 to reflect an increase in the cost-per-case of eligible CalWORKs Stage 2 beneficiaries and a slight decrease in the number of cases. Total base cost for Stage 2 is $364.1 million.
- Stage 3—An increase of $2.8 million non-Proposition 98 General Fund in 2014-15 to reflect an increase in the cost-per-case of eligible CalWORKs Stage 3 beneficiaries and a decrease in the number of cases. Total base cost for Stage 3 is $185.8 million.
- Child Care and Development Funds—A net decrease of $9.1 million federal funds in 2014-15 to reflect a reduction of available carryover funds ($3.2 million), and a decrease of $5.9 million to the base grant. Total federal funding is $555.6 million.

II. Senate Budget and Fiscal Review Committee:

Overview of K-12 Proposals

K-14 Education: Proposed Expenditures of Increased Proposition 98 Resources

BACKGROUND:

California provides academic instruction and support services to approximately six million public school students in kindergarten through twelfth grade (K-12) and 2.3 million students in community colleges. There are 58 county offices of education, approximately 1,000 local K-12 school districts, more than 10,000 K-12 schools, and roughly 1,100 charter schools throughout the state, as well as 72 community college districts, 112 community college campuses, and 70 educational centers. Proposition 98, which was passed by voters as an amendment to the state Constitution in 1988, and revised in 1990 by Proposition 111, was designed to guarantee a minimum level of funding for public schools and community colleges.

The budget includes a revision to the Proposition 98 minimum guarantee for 2013-14, increasing it to $56.8 billion. This represents an increase of $1.5 billion since the estimate at the time of enactment of the 2013-14 budget. The prior year (2012-13) guarantee will also rise, from $56.5 billion to $58.3 billion, for an increase of $1.9 billion. Consistent with this trend, the 2014-15 Proposition 98 guarantee is projected to be $61.6 billion—representing an increase of $4.7 billion over the revised current year guarantee and $6.3 billion higher than projected at the time of the 2013 Budget Act. Thus, compared with the funding levels in the 2013 Budget Act, additional Proposition 98 funding over the three years will total $9.7 billion.

The Governor proposes to allocate anticipated year-over-year increases in Proposition 98 expenditures through a combination of initiatives more fully described below. Most of the additional funding will be used to eliminate past funding deferrals and to increase school funding allocated through the new Local Control Funding Formula (LCFF). The Governor also proposes a Proposition 98 Reserve, which would be established in order to mitigate sharp swings in school funding caused by volatile revenues, and a new continuous appropriation for the LCFF tied to annual Proposition 98 funding.

Proposition 98 Funding
State funding for K-14 education—primarily K-12 local educational agencies and community colleges—is governed largely by Proposition 98, passed by voters in 1988. The measure, modified by Proposition 111 in 1990, establishes minimum funding requirements (referred to as the “minimum guarantee”) for K-14 education. General Fund resources, consisting largely of personal income, sales and use, and corporation taxes, are combined with the schools’ share of local property tax revenues to fund the Proposition 98 minimum guarantee. These funds typically represent about 80 percent of statewide funds that K-12 schools receive. The largest contributors to non-Proposition 98 education funds consist of revenues from local parcel taxes, other local taxes and fees, federal funds and proceeds from the state lottery.

The table below summarizes overall Proposition 98 funding for K-12 schools and community colleges since 2007-08, or just prior to the beginning of the steep recent recession. As shown in the table, the state continues to emerge from the period when sharp cuts were necessitated by the severe economic downturn. The economic recession most dramatically affected the General Fund, but also property taxes. The impact of the decline in property taxes was somewhat lessened in the last two years by the shift to schools of property taxes that were formerly diverted to redevelopment agencies (RDAs), as well as the recapture of certain financial assets of the former RDAs.

Proposition 98 Funding
Sources and Distributions
(Dollars in Millions)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Sources								
General Fund	$42,015	$34,212	$35,533	$35,499	$33,047	$42,207	$40,948	$45,062
Property Taxes	14,563	15,001	14,624	14,157	14,102	16,135	15,865	16,497
Total	**$56,577**	**$49,213**	**$50,157**	**$49,656**	**$47,149**	**$58,342**	**$56,813**	**$61,559**
Distributions								
K-12	$50,344	$43,162	$44,350	$43,719	$41810	$52,115	$50,502	$54,759
CCC	6,112	5,947	5,714	5,850	5,256	6,149	6,233	6,723
Other	121	105	93	87	83	78	78	77

Source: Legislative Analysts' Office

Calculating the Minimum Guarantee

The Proposition 98 minimum guarantee is determined by comparing the results of three "tests" or formulas that are based on specific economic and fiscal data. The factors considered in these tests include growth in personal income of state residents, growth in General Fund revenues, changes in student enrollment, and a calculated share of the General Fund. The formula for each test, the circumstances in which the test is operative, and how often each test has been applied since the passage of Proposition 98, is displayed in the following table.

Proposition 98 Tests
Calculating the Level of Education Funding

Test	Calculated Level	Operative Year	Times Used
Test 1	Based on a calculated percent of General Fund revenues (currently around 39%).	If it would provide more funding than either Test 2 or 3.	3
Test 2	Based on prior year funding, adjusted for changes in per capita personal income and attendance.	If growth in personal income is ≤ growth in General Fund revenues plus 0.5%.	13
Test 3	Based on prior year funding, adjusted for changes in General Fund revenues plus 0.5% and attendance.	If statewide personal income growth > growth in General Fund revenues plus 0.5%.	7

Generally, Test 2 is typically operative during years when General Fund revenue growth is normal or higher than normal. Test 3 is generally operative when General Fund revenues fall or grow slowly. The Test 1 percentage is linked to property allocations when Proposition 98 was approved, and is recalibrated or "rebenched" based on subsequent policy changes such as the allocation of property taxes among local governments and school districts, or the dissolution of RDAs. In the near future, there will be a rebenching as a result of the retirement of the Economic Recovery Bonds (ERBs) and the reversion of the "Triple Flip." The operable test for a particular year can theoretically change over time, based on additional information; however, for the last few years, additional information for prior years has not resulted in a change in the operable test. At a certain point, prior year adjustments are no longer adjusted and the operable test and the Proposition 98 minimum guarantee is "locked down."

The budget assumes that 2012-13 is a Test 1 year and that the current year is a Test 3 year. In addition, the current assumption is that 2014-15 will be a Test 1 year. Thus, in the budget year it is expected that the calculated share of the General Fund will result in greater revenues under Proposition 98 than either of the growth calculations under Test 2 or Test 3. Generally, the Proposition 98 minimum guarantee calculation was designed in order to provide growth in education funding equivalent to growth in the overall economy, as reflected in changes in personal income (incorporated in Test 2). As noted in the table above, in most years the Proposition 98 minimum guarantee has been determined by the application of Test 2.

Suspension of Minimum Guarantee

Proposition 98 includes a provision that allows the Legislature and Governor to suspend the minimum funding requirements and instead provide an alternative level of funding. Such a suspension requires a two-thirds vote of the Legislature and the concurrence of the Governor. To date, the Legislature and Governor have suspended the Proposition 98 minimum guarantee twice—in 2004-05 and 2010-11. While the suspension of Proposition 98 can create General Fund savings during the year in which it is invoked, it also creates obligations in the out-years, as explained below.

Maintenance Factor

In years following suspension of the Proposition 98 minimum guarantee or the operation of Test 3 (that is, when the Proposition 98 guarantee grows more slowly due to declining or low General Fund growth), the state creates an out-year obligation referred to as the "maintenance factor." When growth in state General Fund revenues is stronger (as determined by a specific formula also set forth in the Constitution), the state is required to make maintenance factor payments, which accelerate growth in K-14 funding, until the determined maintenance factor obligation is fully restored.

The maintenance factor is added on to the minimum guarantee calculation using either Test 1 or Test 2.

- In a Test 2 year, the rule of thumb is that roughly 55 percent of additional revenues would be devoted to Proposition 98 to pay off the maintenance factor.

- In a Test 1 year, the amount of additional revenues going to Proposition 98 could approach 100 percent or more. This can occur because the required payment would be a combination of the 55 percent of new revenues plus the established percentage of the General fund—roughly 39 percent—that is used to determine the minimum guarantee.

Settle-Up

Every year, the Legislature and Governor estimate the Proposition 98 guarantee before the final economic, fiscal, and attendance factors for the budget year are known. If the estimate included in the budget for a given year is ultimately lower than the final calculation of the minimum guarantee once those factors are known, Proposition 98 requires the state to make a "settle-up" payment, or series of payments, in order to meet the final guarantee for that year. The Governor's budget assumes General Fund settle-up payments of $2.0 billion for 2012-13 (due to an increase in the minimum guarantee) and $1.7 billion for 2013-14 (also due to an increase in the minimum guarantee).

Outstanding Obligations

There exist a number of obligations owed to school districts by the state, most of which are included in the Wall of Debt. The state currently has over $11.0 billion in such outstanding school and community college obligations—$6.24 billion in deferrals (late payments), $4.5 billion in unpaid mandate claims, $462 million for the Emergency Repair Program (ERP), and $410 million for the Quality Education Investment Act (QEIA). The state also has a $1.5 billion outstanding Proposition 98 settle-up obligation, which can be used to pay off these aforementioned obligations.

GOVERNOR'S PROPOSAL:

K-14 Proposition 98 Education Overall

The budget estimates that the total K-14 Proposition 98 guarantee for 2012-13 increased by $1.8 billion, compared to the level estimated in the 2013 Budget Act. Similarly, for 2013-14, the Governor estimates an increase in the total guarantee of $1.5 billion. Both of these adjustments lead to Proposition 98 "settle-up" obligations, which result in additional one-time resources for schools. The Governor proposes to use these additional one-time resources to pay off deferrals, as described below. The Governor's budget estimates a total Proposition 98 funding level of $61.6 billion (K-14). This is a $6.3 billion increase over the 2013-14 Proposition 98 level provided in the 2013 Budget Act.

One of the largest components of the Governor's budget plan is his proposal to retire all Wall of Debt obligations, including school and community college obligations, by the end of 2017-18, with many obligations to be paid off in the budget year. The Governor's budget proposes to repay all K-14 deferrals in 2014-15, as cited in the Governor's budget summary, at a total cost of $6.2 billion. This proposal would reverse the practice used in prior budgets, in which school districts and community colleges received a significant portion of their funds a year after they had spent them. This policy resulted in hardships for school districts and community colleges, which would, in some cases, have to either borrow money to accommodate the deferral or cut programs and services. In addition, the budget includes $316 million to pay the estimated costs of the QEIA program in 2014-15, with the expectation that such payment would settle the funding obligation for that program. The budget directs the remaining $94 million in unobligated QEIA funds to cover a portion of the $188.1 million payment for ERP in 2014-15 (the other $94 million for ERP is from unspent prior year Proposition 98 funding). The Governor proposes to retire all remaining Wall of Debt obligations in the following three years (including the remaining obligation for ERP), clearing all debts by 2017-18.

K-12 Proposition 98 Major Spending Proposals

The Governor's budget includes a proposed Proposition 98 funding level of $54.3 billion for K-12 programs. This includes a year-over-year increase of nearly $4.3 billion in Proposition 98 funding for K-12 education, as compared to the revised Proposition 98 K-12 funding level for 2013-14. Under the Governor's proposal, ongoing K-12 Proposition 98 per pupil expenditures would increase from $8,469 in 2013-14 to $9,194 in 2014-15. This 2014-15 proposed funding level in Proposition 98 funds for K-12 reflects a per-pupil increase of 8.6 percent, as compared to the per-pupil funding level provided in the 2013 Budget Act. The Governor's major K-12 spending proposals are identified below.

- **Paying Off Deferrals.** As noted above, the Governor's budget proposes to pay off outstanding payment deferrals—a practice used in previous budgets whereby the state would delay the issuance of money to school districts for months after school districts had planned to spend it. The Governor's budget proposes to end this practice by paying off all payment deferrals, estimated at a cost of $6.2 billion for K-12 programs ($5.6 billion) and community colleges ($600 million). This payment is essentially one-time money for school districts that they can use for any allowable educational expenditure.

- **Local Control Funding Formula.** The 2013 Budget Act adopted a new way for the state to provide funding to school districts, charter schools, and county offices of education: the Local Control Funding Formula (LCFF). The Governor's budget proposes an increase of $4.5 billion to implement the LCFF. This is the largest programmatic increase for K-12 schools included in the Governor's budget. This investment would eliminate about 28 percent of the funding gap between the formula's 2013-14 funding level and its target at full implementation. The budget proposes to fund the formula's base grants at a rate of $7,829 per pupil, as measured by pupil average daily attendance (ADA), inclusive of cost-of-living and grade span adjustments. The 2013-14 budget funded the base grants at $7,643 per pupil ADA. Proposals to change LCFF from current law include transferring funding into the formula for two additional categorical programs (specialized secondary programs and agricultural vocational education), and creating a new continuous appropriation of LCFF funding that would bypass the annual budget process. These issues are discussed more fully in a separate accompanying section.

- **Enrollment and Cost-of-Living Adjustments.** The Governor's budget reflects an estimated decrease in student enrollment in the K-12 system. Specifically, it reflects a decrease of $214.5 million in 2013-14, as a result of a decrease in the projected ADA, as compared to the 2013 Budget Act. For 2014-15, the Governor's proposed budget reflects a decrease of $42.9 million to incorporate a projected decline in ADA for the budget year. For charter schools, the Governor's proposed budget funds an estimated increase in charter school ADA, discussed below. The proposed budget also provides $33.3 million to support a 0.86 percent cost-of-living adjustment for categorical programs that are not included in the new LCFF. These programs include special education and child nutrition, among others. The proposed funding level for the LCFF includes cost-of-living adjustments for school districts, charter schools, and county offices of education.

- **Proposition 98 Reserve Constitutional Amendment.** The Governor's budget proposes a constitutional amendment intended to increase year-to-year stability in education funding. The amendment is designed to create a mechanism to smooth out year-to-year changes in education funding, in order to prevent the damage caused by significant cuts to education. The budget summary states, "The amendment will not change the overall guaranteed level of funding for education." This proposal is further discussed in the section that addresses the Governor's proposal for the overall budget reserve.

- **Non-classroom-based Independent Study.** The Administration plans a legislative proposal regarding the use of non-classroom-based independent study, also commonly known as on-line independent study for grades 9-12. The summary describes the legislative proposal as having the objective "to both streamline and expand the instructional opportunities available through this process." The proposal would require that independent study courses meet the following requirements: 1) be equivalent in rigor and quality to classroom-based courses; 2) contain the same number of educational minutes as classroom-based courses; 3) provide at least one meeting per week between the teacher and students; 4) maintain student-teacher ratios equivalent to that in classroom-based courses (unless a new ratio is collectively bargained); and, 5) may not result in the school district or county office claiming more than one unit of ADA for each student enrolled in independent study.

Other K-12 Education Budget Proposals

Additional proposals contained within the Governor's budget related to K-12 education include the following:

- **K-12 School Facilities.** The budget proposes $188.1 million in one-time Proposition 98 funds for the Emergency Repair Program, which settled the *Williams* lawsuit. In addition, the Administration proposes to continue a dialogue with the Legislature and stakeholders about the best way to fund school facilities, "including consideration of what role, if any, the state should play in the future of school facilities funding." The Administration proposes to transfer $211 million in remaining School Facility Program bond authority from specialized programs to new construction ($105.5 million) and modernization ($105.5 million) programs. The budget summary notes that approximately $163 million remains in the Seismic Mitigation program.

- **Proposition 39 Energy Efficiency Investments.** The Governor's budget proposes to allocate $363 million in Proposition 39 energy funds available in 2014-15, as follows:

  - $316 million to K-12 school districts, for energy efficiency project grants.

  - $39 million to community college districts, for energy efficiency project grants.

  - $5 million to the California Conservation Corps, to provide technical assistance to school districts.

  - $3 million to the Workforce Investment Board, for continued implementation of job-training programs.

- **Assessments for New Common Core Standards.** The Governor proposes an increase of $46.5 million in Proposition 98 funds to implement AB 484 (Bonilla), Chapter 489, Statues of 2013. This bill authorized a new assessment system aligned to the new Common Core Standards (academic content standards), which have been embraced by California and most other states.

- **Adult Education**. While the Governor's budget does not include any new proposals for adult education, the budget summary cites the reforms initiated in the 2013 Budget Act, and notes that adult education consortia plans will be completed in early 2015. The summary also cites the Administration's intent to invest in adult education in 2015-16, via a single adult education categorical program. The summary also signals the Administration's intent to continue working with the Legislature, the California Department of Education and the California Community Colleges Chancellor's Office on the work initiated in the 2013 Budget Act.

- **Child Care and Development.** The Governor's budget includes funding for a demonstration pilot project to try to improve the outcomes for 2,000 CalWORKs families, to involve six counties over three years, providing licensed subsidized childcare and other services. The budget does not include any other major changes or proposals to preschool or childcare funding.

ISSUES TO CONSIDER:

Legislative Education Priorities. According to the Legislative Analyst's Office (LAO), it is possible the state will experience additional revenue growth, beyond the level in the Governor's budget, at the time of the May Revision. It is always prudent for the Legislature to examine expenditure alternatives for meaningful one-time and on-going Proposition 98 funding. For example, both houses of the Legislature have expressed strong interest in the accelerated implementation of transitional kindergarten; however, such an endeavor will require additional fiscal resources, while still providing critical debt payments, providing school districts positive cash flow by reducing deferred funding, and investing in the LCFF. Even absent additional revenues above current projection, the Legislature could choose to make a partial pay-down of the deferral, freeing up resources for additional investment.

Proposed Proposition 98 Reserve. The budget proposes changes to Assembly Constitutional Amendment 4 (ACA 4), specifically the creation of a Proposition 98 reserve (in tandem with a general reserve, discussed elsewhere in this document), presumably from revenues that can be identified as capital gains above 6.5 percent of General Fund revenues. At present, the Administration is drafting this language; however, as the LAO has pointed out, changes to the State Constitution as it relates to "re-doing" any funding formulas "probably would produce unforeseen or unintended consequences for the state in the future." Is it prudent to withhold Proposition 98 funds for purposes of creating a reserve? If so, what magic is there in the identified threshold of any capital gains revenue above 6.5 percent being put in the reserve? How would such a reserve diminish legislative prerogative over appropriations in future years?

Common Core State Standards Implementation and Professional Development. In 2013, the Legislature appropriated $1.25 billion in one-time Proposition 98 funding to school districts for: (a) professional development for teachers and administrators to assist in the implementation of common core math and English-language arts academic content standards; (b) instructional materials aligned to the academic content standards; and (c) instructional technology. However, prior to this recent one-time investment, the state did not provide any supporting appropriations for these items for well over five years. Additional one-time or on-going funding beyond the LCFF will still be warranted. Providing ongoing funding for varied approaches to professional development to support the continued implementation of the Common Core State Standards will build on the one-time investment of $1.25 billion and help teachers better prepare for the dramatic changes in mathematics and English-language arts for which student achievement will be evaluated.

K-12 Finance & Accountability: Local Control Funding Formula

BACKGROUND:

K-12 School Finance Reform
As of the 2013 Budget Act, the state appropriates more than $48 billion in Proposition 98 funding (General Fund and local property taxes) annually for K-12 public schools. As part of the 2013-14 budget, the state significantly reformed the system for allocating most of these resources to school districts, charter schools, and county offices of education, beginning in 2013-14. Specifically, the new Local Control Funding Formula (LCFF) replaced the state's prior system of distributing funds to local education agencies (LEAs) through revenue limit apportionments (per student average daily attendance) and approximately 50 state categorical education programs.

Under the old system, revenue limits provided LEAs with discretionary (unrestricted) funding for general education purposes, and categorical program (restricted) funding was provided for specialized purposes, with each program having unique allocation and spending requirements. Revenue limits made up about two-thirds of state funding for schools, while categorical program funding made up the remaining one-third portion. For some time, that system was criticized as being too state-driven, bureaucratic, complex, inequitable, and based on outdated allocation methods that did not reflect current student needs.

In his budgets for 2012-13 and 2013-14, Governor Brown proposed a new school finance formula. His proposal in 2012-13 for a Weighted Pupil Formula was not adopted by the Legislature. In 2013-14, the Governor proposed the LCFF with the goals to:

- Increase local control and reduce state bureaucracy.
- Ensure that student needs drive the allocation of resources.
- Increase transparency in school funding, empowering parents and local communities to access information in a more user-friendly manner and enhance their ability to engage in local school matters.
- Ensure sufficient flexibility and accountability at the local level so those closest to the students can make the decisions.

The specifics of the Governor's proposal evolved over those two years while the Legislature considered important aspects of such a major finance reform, including a new accountability structure for the funding. In adopting the LCFF, the Legislature embraced the principal tenets and elements of the Governor's proposal but also refined the funding formula and the accountability framework.

Local Control Funding Formula

The LCFF combines the prior funding from revenue limits and more than 30 categorical programs that were eliminated, and uses new methods to allocate these resources and future allocations to school districts, charter schools, and county offices of education, allowing LEAs much greater flexibility to spend the funds than under the prior system. (There is a single funding formula for school districts and charter schools, and a separate funding formula for county offices of education that has some similarities to the district formula, but also some key differences.)

The LCFF includes new requirements for local planning and accountability that focus on improving student outcomes in state educational priorities and ensuring engagement of parents, students, teachers, school employees, and the public in the local process. In addition, the LCFF features a new system of support and intervention for underperforming school districts that do not meet their goals for improving student outcomes.

Fiscal Impact. The LCFF establishes new “target” LCFF funding amounts for each LEA and these amounts will be adjusted annually for COLAs and pupil counts. Funding all school districts and charter schools at their target levels is currently expected to take seven more years, with completion by 2020-21. County offices of education are projected to reach their target funding levels in the budget year. Funding all LEAs at their target levels is estimated to result in an additional $25 billion (over 2012-13 levels) in new Proposition 98 funding for K-12 schools by 2020-21 (inclusive of future annual COLAs).

The 2013-14 budget provided an increase of $2.1 billion in Proposition 98 funding for schools to begin LCFF implementation in 2013-14. This amount includes $2.1 billion for school districts and charter schools and $32 million for county offices of education. This funding level closed “the gap” to full funding of the LCFF target levels as of 2013-14 by 11.8 percent. (This gap calculation changes annually not only due to funding provided but also due to annual adjustments to the LCFF funding targets.)

School Districts and Charter Schools Formula. This formula is designed to provide districts and charter schools with the bulk of their resources in unrestricted funding to support the basic educational program for all students, plus supplemental funding, based on the enrollment of educationally disadvantaged students (low-income students, English learners, and foster youth), provided for increasing or improving services to these high-needs students. Major components of the formula are briefly described below. (The committee’s Final Action Report on the 2013-14 budget contains detailed descriptions of the formula for districts and charter schools and the formula for county offices of education.)

- **Base Grants** are calculated on a per-pupil basis (measured by student average daily attendance) according to grade span (K-3, 4-6, 7-8, and 9-12) with adjustments that increase the base rates for grades K-3 (10.4 percent of base rate) and grades 9-12 (2.6 percent of base rate). The adjustment for grades K-3 is associated with a requirement to reduce class sizes in those grades to no more than 24 students by 2020-21, unless other agreements are collectively bargained at the local level. The adjustment for grades 9-12 recognizes the additional cost of providing career technical education in high schools.

- **Supplemental Grants** provide an additional 20 percent in base grant funding for low-income students, English learners, and foster youth (unduplicated pupil count).

- **Concentration Grants** provide an additional 50 percent above base grant funding for low-income students, English learners, and foster youth that exceed 55 percent of total enrollment.

- **Categorical program** add-ons for Targeted Instructional Improvement Block Grant and Home-to-School Transportation provide districts the same amount of funding they received for these two programs in 2012-13. The transportation funds must be used for transportation purposes. Charter schools are not eligible for these add-ons.

- **LCFF Economic Recovery Target** add-on ensures that districts receive, in 2020-21, at least the amount of funding they would have received under the old finance system to restore funding to their 2007-08 level adjusted for inflation. Districts are not eligible for this add-on if their LCFF funding exceeds the 90th percentile of per-pupil funding rates estimated under the old system.

- **Hold Harmless Provision** ensures that no school district or charter school will receive less funding under the LCFF than its 2012-13 funding level.

Restrictions on Supplemental Funding

Statute that governs the expenditure of the supplemental funding (supplemental and concentration grant funds) requires LEAs to increase or improve services for educationally disadvantaged students (low-income students, English learners, and foster youth) in proportion to the supplemental funding LEAs receive for the enrollment of these students. The statute also allows the supplemental funding to be used for school-wide, district-wide, county-wide, and charter-wide purposes, for the benefit of a broader student population rather than restricted only for educationally disadvantaged students, in a manner that is no more restrictive than the provisions for spending federal funds under Title I of the No Child Left Behind Act of 2001 (NCLB). For instance, Title I funds are primarily used to support targeted programs for low-income students; however, Title I funds may be spent on school-wide programs at schools where low-income students make up at least 40 percent of the total student enrollment.

The State Board of Education (SBE) is responsible for adopting regulations, by January 31, 2014, to govern LEA expenditure of the supplemental funding consistent with these statutory provisions. Because some elements of the statute are somewhat undefined, such as the specific manner in which the funds can be used for school-wide purposes, there is some discretion for the board to define the spending requirements. On January 16, 2014, after receiving significant stakeholder input and public comment on its proposed regulations, the SBE adopted LCFF emergency regulations that include the spending regulations and a template for the new mandated local control and accountability plan (described below). The emergency regulations became effective on February 6, 2014 when they were approved by the Office of Administration Law. The board also initiated the process for adopting permanent regulations, which is expected to be completed by the fall 2014.

The emergency regulations require LEAs to describe in their local control and accountability plan the increased or improved services provided to disadvantaged students beyond the services provided to all students, in proportion to the LEA's increase in supplemental funding. The regulations include a specified standard methodology for LEAs to calculate their annual LCFF funding attributed to the supplemental funds versus base grant funds and also to calculate the "proportionality percentage" (i.e., amount of supplemental funds divided by amount of base funds) by which services to disadvantaged students must be increased or improved beyond services provided to all pupils.

At the same time, the regulations give LEAs broad flexibility to spend the supplemental funding for school-wide, district-wide, county-wide, and charter-wide purposes (hereafter referred to as district-wide or school-wide) and require that such services be described in the local control and accountability plan. Unlike the Title I rules that allow school-wide programs only at schools with a certain minimum concentration of low-income students, the LCFF regulations allow the supplemental funding to be used for district-wide or school-wide purposes even when disadvantaged students make up a small percentage of the student enrollment. However, the regulations include certain thresholds to distinguish the level of justification for district-wide or school-wide services that must be in a local control and accountability plan.

At a minimum, a local plan must describe any district-wide or school-wide services and how those services meet the LEA's goals for disadvantaged students in the state educational priorities specified in statute (described below). In addition, where disadvantaged students make up less than 55 percent of a district's enrollment or less than 40 percent of a school's enrollment, the LEA plan must also explain how the district-wide or school-wide services are the *most effective use* of the supplemental funds to meet the LEA's goals for disadvantaged students.
Several legislators and a coalition of civil rights and other organizations had previously urged the board to adopt a policy on school-wide services that is more consistent with Title I in order to ensure that the supplemental funding is only used on a school-wide basis at schools where disadvantaged students make up a significant percentage of the student enrollment.

Local Control and Accountability Plan
Along with the LCFF the state created a new LCFF accountability system, which builds upon, rather than replaces, elements of the prior state accountability system. Under this new system, an LEA's plan for spending LCFF resources must focus on the LEA's goals and annual progress for student and school outcomes in eight state educational priorities and any additional local priorities. The accountability system also includes a new structure for providing technical assistance, and intervention when warranted, to districts and schools that struggle to achieve their goals.

School districts, charter schools, and county offices of education must adopt and update a local control and accountability plan (LCAP). The LCAP must include locally determined goals, actions, and expenditures of LCFF funds for each school year in support of the state educational priorities that are specified in statute and any local priorities. The state priorities that must be addressed in the LCAP, for all students and significant student subgroups in a school district and at each school, are:

- Williams settlement issues (adequacy of credentialed teachers, instructional materials, and school facilities)
- Implementation of academic content standards
- Parental involvement
- Pupil achievement (in part measured by statewide assessments, Academic Performance Index, and progress of English-language learners toward English proficiency)
- Pupil engagement (as measured by attendance, graduation, and dropout data)
- School climate (in part measured by suspension and expulsion rates)
- The extent to which students have access to a broad course of study
- Pupil outcomes for non-state-assessed courses of study

The LCAP must be developed with input from parents, students, teachers and other school employees, and the public. As a cornerstone of this new system of local control and accountability, the LCAP is intended to provide parents and the public with clear and accessible information about locally determined goals, actions, and expenditures of LCFF funds for the district and each school. An LEA must post its LCAP on its web site. LCAPs must be developed by July 1, 2014 and updated annually thereafter. School districts and county offices of education must adopt their annual LCAPs prior to adopting their annual budgets. In completing their LCAPs, LEAs must follow a LCAP template that has been adopted by the SBE. Statute requires the SBE to adopt an LCAP template by March 31, 2014. The board adopted an initial LCAP template as part of its recent adoption of LCFF emergency regulations on January 16, 2014.

School district LCAPs are subject to review and approval by county offices of education. County office of education LCAPs are subject to review and approval by the State Superintendent of Public Instruction (SPI). Technical assistance will be provided to LEAs when an LCAP is not approved, and LEAs may also request technical assistance. A new entity, the California Collaborative for Educational Excellence, was created to advise and assist LEAs with their LCAPs. The 2013-14 budget appropriated $10 million in Proposition 98 funding to establish this entity in 2013-14. Additional assistance may be provided to LEAs by county offices of education and the SPI.

The SPI is authorized to intervene in a struggling district or a county office of education under certain conditions to do one or more of the following: make changes to the district or county office LCAP; impose budget revisions; stay or rescind an action, if not required by a local collective bargaining agreement; and appoint an academic trustee. A charter school may be subject to revocation by its chartering authority or the SBE due to performance of the charter school on pupil outcomes in the state and local educational priorities. The SBE is required, by October 1, 2015, to adopt evaluation rubrics for the state educational priorities that will assist LEAs and the SPI to assess district and school performance under the LCAPs and to identify where assistance and intervention are warranted.

GOVERNOR'S PROPOSAL:

The Governor's budget provides an increase of $4.5 billion in Proposition 98 funding for schools for the second year of LCFF implementation. This amount includes $4.5 billion for school districts and charter schools and $25.9 million for county offices of education. This is the largest programmatic increase for K-12 schools included in the Governor's budget. According to the LAO, this represents an 11 percent year-over-year increase for the LCFF. The DOF indicates this funding level represents closing approximately 28 percent of the gap between the school districts' 2013-14 funding levels and the LCFF full implementation target rates as of the budget year.

When combined with the funding appropriated in 2013-14, the proposed funding for 2014-15 closes about one-third of the gap to LCFF full implementation during these first two years, according to the DOF. The DOF still anticipates an eight-year phase-in for funding of school district and charter school LCFF target rates, but the budget proposal reflects an acceleration of LCFF funding for districts and charter schools over the next few years that would later taper down. The DOF estimates that county offices of education would be brought very close to their target rates in the budget year.

There are two major proposals to change the LCFF from current law:

- **Create a new continuous appropriation to guarantee a dedicated minimum share of Proposition 98 funding for the LCFF annually during the formula's phase in period.** The budget proposes statutory language to require that a specified percentage of overall Proposition 98 funding (K-12 and community colleges) be automatically committed to the LCFF during each fiscal year until all school districts, charter schools, and county offices of education are funded at their LCFF target funding levels for full implementation of the funding formula.

  The Administration proposes to set this guaranteed percentage of Proposition 98 funding for the LCFF at 76.17 percent in 2014-15 and 79 percent in 2015-16 and each fiscal year thereafter until the LEA funding targets are met. According to the DOF, the LCFF currently makes up about 75 percent of annual Proposition 98 funding and that percentage would increase to 79 percent based upon the Administration's funding projections and plan for the LCFF. That percentage also reflects estimates of future funding increases for existing non-LCFF K-12 programs in order to cover growth and COLAs for those programs, but it does not reflect any new funding that the Legislature may want to provide for K-12 programs outside of the LCFF.

  The Administration's proposal specifies that, during the final year of such a continuous appropriation for the LCFF, any funding generated by the continuous appropriation that exceeds the amount needed to fund all LEAs at their LCFF target funding levels would be allocated as a "super-COLA" to increase the LCFF base grants. The proposal further specifies that, after the continuous appropriation has ceased once the target funding levels are met, appropriations for LCFF COLAs would be subject to appropriation by the Legislature in the annual budget act.

  The Administration continues to estimate that the LCFF will be fully implemented by 2020-21, the time when it is expected that all school districts and charter schools will reach or exceed their LCFF target funding levels. County offices of education are projected to reach their target funding levels in the budget year. If this proposal for a LCFF continuous appropriation is adopted by the Legislature, in 2015-16, the LCFF would receive an estimated total of $51 billion in Proposition 98 funding through a continuous appropriation outside of the regular budget process. The amount of that continuous appropriation would increase over time commensurate with Proposition 98 funding increases pursuant to the Proposition 98 minimum funding guarantee.

A continuous appropriation is a way in which funds are automatically appropriated every year without the approval of the Legislature. That is, a continuous appropriation occurs outside of the regular budget process and can only be suspended or altered if the Legislature changes the law authorizing that continuous appropriation. Current law allows for the continuous appropriation of prior-year LCFF appropriations, for example, a base level of funding will be provided to LEAs without an enacted state budget. However, increases in LCFF funding above the base appropriation are subject to appropriation by the Legislature in the annual budget. According to the DOF, a new continuous appropriation for the LCFF as a specific share of Proposition 98 funding would give LEAs certainty of LCFF funding increases that would improve their ability to plan educational programs. The DOF also points out that the prior finance system, which the LCFF replaced, featured a continuous appropriation of revenue limit apportionments for LEAs. However, under that system the Legislature had discretion to approve or deny COLA for revenue limits, and the Legislature appropriated funding for categorical programs through the annual budget process.

- **Additional Categorical Programs Eliminated and Funding Included in LCFF.** The budget proposes to eliminate two categorical programs—Specialized Secondary Programs ($4.9 million) and Agricultural Vocational Education ($4.1 million)—and transfer the funding for these programs into the LCFF for the districts that received these categorical program funds. This funding would count towards those districts' LCFF targets beginning in 2014-15, without adjustment to the target rates. Those districts could spend this funding to continue the services previously provided through the categorical programs or redirect the funding to other educational purposes.

ISSUES TO CONSIDER:

LCFF Funding Acceleration. The budget proposes to pay down approximately 28 percent of the gap between 2013-14 funding levels and target funding at full LCFF implementation. When the LCFF was enacted, it was anticipated that full implementation would take eight years. The budget still assumes an eight-year timeline, but it accelerates LCFF funding over the next few years and funding winds down in later years. Is this the appropriate funding level and timing for full implementation?

Continuous Appropriation for LCFF. The budget proposes statutory language to continuously appropriate a specified percentage of annual Proposition 98 funding for LCFF implementation during the funding formula's phase in period to full implementation. That would leave the Legislature no role in making this key appropriation during those years. Is it prudent for the

Legislature to relinquish such authority and oversight, particularly when the LCFF accountability framework (centered on the new Local Control and Accountability Plan) is at an early stage of implementation? It will be important for the Legislature to monitor LCFF implementation to assess how well this funding and accountability reform leads to improved student outcomes, including closing achievement gaps for educationally disadvantaged students. How does the Administration plan to monitor LCFF implementation?

Career Technical Education Programs. The Governor's plan would eliminate two more career technical education (CTE) programs—Specialized Secondary Programs and Agricultural Vocational Education—and roll funding for those programs ($9 million combined) into the LCFF. When this proposal was made as part of the Governor's 2013-14 budget, the Legislature rejected it. In particular, the Senate raised concerns about the elimination of dedicated funding streams for several CTE programs (also regional occupational centers and programs, California partnership academies, and adult education). What would be the impact of eliminating these two programs?

California Collaborative for Educational Excellence. The California Collaborative for Educational Excellence (CCEE) was created as part of the new LCFF accountability framework with the role to advise and assist school districts, charter schools, and county offices of education to achieve goals in their local plans and petitions under the LCFF. The 2013-14 budget provided $10 million in Proposition 98 funding for the CCEE. According to the DOF, this funding is currently unspent but expenditures will kick in during the spring. The Legislature may want to examine the status and current plan for CCEE.

Clean-up Legislation for LCFF Implementation. The DOF indicates there will be a forthcoming proposal for technical fixes to the LCFF, based on issues identified by the California Department of Education and the State Board of Education. While some technical fixes will likely be needed, the Legislature should be prudent about making changes to the LCFF so early in its implementation.

III. Legislative Analyst’s Office: Proposition 98

Education Analysis

The 2014-15 Budget:

Proposition 98 Education Analysis

MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 14, 2014

LAO

CONTENTS

Executive Summary ... 3
Introduction ... 5
Background ... 5
Overview: Changes in the Minimum Guarantee ... 7
Overview: Spending Changes ... 11
Wall of Debt Plan ... 12
Local Control Funding Formula ... 15
Career Technical Education ... 16
Student Assessments ... 23
Independent Study ... 33
Summary of Recommendations ... 40

EXECUTIVE SUMMARY

Overview

Governor Proposes $11.8 Billion in Additional Proposition 98 Spending. Proposition 98 funds K-12 education, the California Community Colleges (CCC), preschool, and various other state education programs. The Governor's budget includes $11.8 billion in Proposition 98 spending increases (attributable to 2012-13, 2013-14, and 2014-15). Of that amount, the Governor dedicates $6.7 billion to paying off outstanding one-time obligations and $5.1 billion for ongoing programmatic increases. Under the Governor's budget, ongoing K-12 per-pupil funding would increase from $7,936 in 2013-14 to $8,724 in 2014-15—an increase of $788 (10 percent).

Overall Plan Reasonable. We believe the Governor's plan is a reasonable mix of one-time and ongoing spending—eliminating the largest outstanding one-time obligation and significantly increasing ongoing programmatic support for schools and community colleges. A prudent reliance on one-time spending helps the state minimize potential disruption to ongoing school and community college programs were the state's fiscal situation to deteriorate as a result of revenue volatility or an economic slowdown.

Specific Proposals

Wall of Debt Plan. The Governor proposes to pay off all outstanding school and community college deferrals, as well as the state's Quality Education Investment Act (QEIA) obligation, by the end of 2014-15. The Governor also proposes to completely retire the state's Emergency Repair Program (ERP) obligation by the end of 2015-16 and the state's unpaid mandate claims by the end of 2017-18. We believe the Governor's plan is reasonable, particularly as it would pay off all of these obligations one year before the expiration of Proposition 30 revenues.

Local Control Funding Formula (LCFF). The Governor proposes to increase funding for the LCFF by $4.5 billion in 2014-15, closing approximately 28 percent of the remaining gap to full implementation. The Governor's budget also provides $26 million for county offices of education (COEs) to fully fund the remaining gap for their LCFF. In addition, the Governor proposes statutory language requiring that a specified percentage of annual Proposition 98 funding automatically be dedicated to the LCFF each year of the phase-in period. We believe the Governor's proposal to dedicate school funding increases primarily to the LCFF is a reasonable approach that is consistent with the intent of the Legislature in restructuring the school finance system last year. We are concerned, however, that the Governor's proposal to automate LCFF funding creates an additional, unnecessary formula that would further complicate school funding and remove the Legislature's discretion to determine the appropriate amount of funding to allocate for the LCFF. We recommend the Legislature reject this proposal.

High School Career Technical Education (CTE) Programs. The Governor proposes to add two high school CTE categorical programs—Specialized Secondary Programs (SSP) and the Agricultural CTE Incentive Program (hereafter referred to as Agricultural Education Grants)—to the LCFF. Under the Governor's proposal, school districts receiving funding for these two programs in 2013-14 would have those funds count toward their LCFF allocation in 2014-15. Beginning in the budget year, districts would have the option to use associated funds exactly as they do now or in a different way to address student needs. We believe the Governor's proposals are consistent with the LCFF's core principles of increasing local decision-making authority and reducing historical funding inequities across schools. We recommend the Legislature adopt these proposals. Beyond these specific budget-year issues, we recommend the Legislature adopt an overall approach to CTE that focuses on student outcomes rather than the specific educational strategies used to accomplish those outcomes.

Student Assessments. The Governor's budget increases funding for student assessments by $52 million in 2014-15. The increase is largely due to the higher costs of administering new English-language arts (ELA) and math assessments in 2014-15. The estimated annual cost of the new assessments is significantly higher than the cost of previous ELA and math assessments. The higher cost appears reasonable given the new assessments will be more expensive to score and the state plans to purchase interim and formative assessment tools on behalf of districts. (Having the state purchase these tools may reduce total state and local costs given economies of scale.) We recommend the Legislature approve the augmentation, adopt the Governor's proposed provisional language making assessment funding contingent upon Department of Finance (DOF) review of associated contract materials, and adopt additional provisional language requiring the testing vendor to meet with legislative staff and DOF on an annual basis to review components and costs of the contract.

Independent Study (IS). These programs serve students who are completing some or all of their coursework off-site under a written learning contract. For funding purposes, these programs are required to convert individual student work products into an equivalent amount of classroom "seat time." The Governor proposes several changes to IS programs. Most notably, the Governor proposes to allow local governing boards to convert entire IS courses (rather than individual IS assignments) to seat time—but only for IS programs serving high school students. Given its potential to reduce some of the administrative tasks required of teachers, we recommend the Legislature adopt this proposal but extend it to IS programs serving all grades. We further recommend the Legislature increase the transparency of the proposal by requiring local governing boards to disclose some basic information about the learning standards and expectations for each approved course. We recommend the Legislature reject a related proposal to establish a special set of funding rules for site-based blended learning, as extending the Governor's main IS proposal to all grades would better accommodate these programs.

INTRODUCTION

In this report, we analyze the Governor's 2014-15 Proposition 98 budget package. The report begins with background on the basics of Proposition 98 and school finance. The next two sections provide an overview of the Governor's Proposition 98 package. The subsequent sections analyze each of the Governor's major Proposition 98 proposals.

BACKGROUND

State budgeting for schools and community colleges is governed largely by Proposition 98, passed by voters in 1988. The measure, modified by Proposition 111 in 1990, establishes a minimum funding requirement for schools and community colleges, commonly referred to as the minimum guarantee. Both state General Fund and local property tax revenue apply toward meeting the minimum guarantee. As described in Figure 1, the Proposition 98 minimum guarantee is determined by one of three tests set forth in the State Constitution. These tests are based on several inputs, including changes in K-12 average daily attendance (ADA), local property tax revenues, per capita personal income (PCPI), and per capita General Fund revenue.

Applicable Test Determined Automatically. The applicable test used to determine the Proposition 98 minimum guarantee is triggered automatically depending on the inputs. Until inputs are finalized (which can take up to 24 months after the close of a fiscal year), the applicable test can fluctuate and the minimum guarantee can change significantly.

State Can Provide More or Less Than Minimum Guarantee. Although the Proposition 98 tests apply automatically, the Legislature can provide more or less funding than the tests require. For example, in 1999-00, when state revenues were booming, the Legislature provided $1.8 billion more than required under the minimum guarantee. Alternatively, in 2004-05 and 2010-11, the Legislature suspended the minimum guarantee and provided less than would otherwise have been required. To suspend the minimum guarantee requires a two-thirds vote of each house of the Legislature and creates an out-year obligation to return K-14 funding to where it otherwise would have been absent the suspension (discussed further below).

State Creates "Maintenance Factor" Obligation in Certain Years. Proposition 98 allows

Figure 1

Calculating the Proposition 98 Minimum Guarantee

Three Tests Used to Determine Minimum Guarantee:

- ***Test 1—Share of General Fund.*** Provides roughly 40 percent of state General Fund revenues to K-14 education. The guarantee was determined using this test 3 of the last 25 years.
- ***Test 2—Growth in Per Capita Personal Income.*** Adjusts prior-year Proposition 98 funding for changes in K-12 attendance and per capita personal income. The guarantee was determined using this test 13 of the last 25 years.
- ***Test 3—Growth in General Fund Revenues.*** Adjusts prior-year Proposition 98 funding for changes in K-12 attendance and per capita General Fund revenues. Generally, this test is operative when General Fund revenues grow more slowly than per capita personal income. The guarantee was determined using this test 7 of the last 25 years.

Note: In 2 of the last 25 years, the state suspended Proposition 98.

the state to provide less funding than the Test 2 level in Test 3 or suspension years. In these years, the state creates a maintenance factor obligation—equal to the difference between the higher Test 2 level and the amount of funding actually provided. In future years, the maintenance factor is adjusted for changes in K-12 attendance and growth in PCPI. As such, the maintenance factor obligation keeps track of the amount of funding needed to ensure the earlier reduction does not adversely affect schools and community colleges in the long run. The state has carried an outstanding maintenance factor obligation in 18 of the past 23 years, including an estimated $5.5 billion obligation at the end of 2012-13.

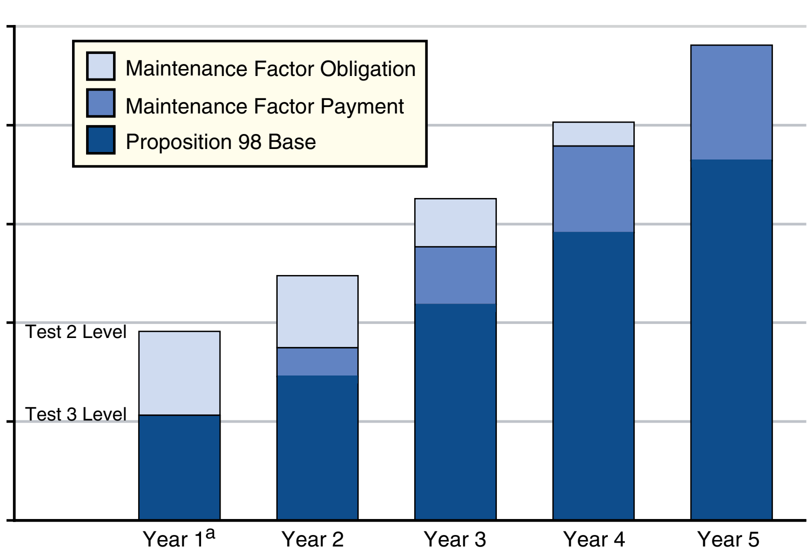
Maintenance Factor Payments Based on Growth in General Fund Revenues. When the state is carrying a maintenance factor obligation, Proposition 98 requires the state to provide additional payments until the entire maintenance factor obligation has been paid off. Figure 2 illustrates how these maintenance factor payments are made. The required maintenance factor payment is determined by formula and depends on how quickly state revenues grow. When state revenues grow quickly, larger payments are made and the obligation is paid off in a shorter period of time. Until all maintenance factor is paid off, the state generates savings each year compared to the level it otherwise would have been required to spend.

Most Proposition 98 Funding Provided for General Purposes. Upon determining the amount of total Proposition 98 funding to provide, the Legislature decides how to spend the associated funds. The Legislature allocates funds to schools and community colleges for one of two basic purposes—general (or unrestricted) purposes and categorical (or restricted) purposes. The state allocates general purpose funding to schools through the LCFF and to community colleges through apportionments. Currently, 86 percent of all Proposition 98 funding is allocated in this manner, with the remaining 14 percent allocated for various categorical programs.

Most School Funding Provided Through LCFF. In 2013-14, the state eliminated roughly three-quarters of its K-12 categorical programs and shifted those funds into the newly created LCFF.

Figure 2

Illustration of How a Maintenance Factor Is Created and Paid



[a] In this illustration, Test 3 is operative in Year 1 and a maintenance factor equal to the difference between the higher Test 2 level and the lower Test 3 level is created.

(Prior to 2012-13, general purpose funding was provided through K-12 revenue limits.) Under the LCFF, school districts receive the bulk of their funding based on ADA in four grade spans, with per-pupil funding higher for the upper grades. The LCFF provides additional funds to school districts based on their numbers of English learner (EL), low-income (LI), and foster youth students. In 2013-14, 86 percent of K-12 Proposition 98 funding was provided through the LCFF.

OVERVIEW: CHANGES IN THE MINIMUM GUARANTEE

As part of its budget package, the administration has updated its estimates of the minimum guarantee for 2012-13, 2013-14, and 2014-15. We describe the major changes below.

2012-13 Changes

Minimum Guarantee Up $1.9 Billion. As shown in Figure 3, the administration's revised estimate of the 2012-13 minimum guarantee is $58.3 billion, a $1.9 billion increase from the estimate made at the time the 2013-14 budget was enacted. Of the increase in the minimum guarantee, roughly $1.8 billion is due to General Fund revenues being $1.7 billion higher than previously budgeted. The minimum guarantee increases by more than the increase in General Fund revenues due to 2012-13 being a Test 1 year with a large required maintenance factor payment. In these situations, the minimum guarantee is very sensitive to changes in General Fund revenues, with the marginal increase in the minimum guarantee sometimes even greater than the marginal increase in revenues. The remaining $126 million increase in the 2012-13 minimum guarantee is due to baseline property tax revenues being higher than previously budgeted. Because 2012-13 is a Test 1 year, increases in baseline property tax revenues result in higher funding for schools and community colleges.

Total Costs Lower by $130 Million. Though the Governor's estimate of the minimum guarantee has increased, his estimate of 2012-13 Proposition 98 costs has decreased by $130 million. This is the net effect of savings due to lower-than-expected ADA in part offset by higher costs for basic aid districts.

- ***Slightly Lower ADA Costs.*** Rather than increasing by 0.06 percent, as was assumed in the 2013-14 budget plan, ADA decreased by 0.07 percent—reducing costs by $200 million. (A few other costs—most notably for K-3 Class Size Reduction—also went down slightly.)

- ***Higher Basic Aid Costs.*** Proposition 30 requires school districts to receive at least

Figure 3

Increase in 2012-13 and 2013-14 Proposition 98 Minimum Guarantees

(In Millions)

	2012-13			2013-14		
	Budgeted	Revised	Change	Budgeted	Revised	Change
Minimum Guarantee						
General Fund	$40,454	$42,207	$1,752	$39,055	$40,948	$1,893
Local property tax	16,011	16,135	124	16,226	15,866	-361
Totals	**$56,465**	**$58,342**	**$1,877**	**$55,281**	**$56,813**	**$1,532**

$200 per student and community colleges to receive at least $100 per full-time equivalent (FTE) student from revenues in the newly created Education Protection Account (EPA). For most school and community college districts, EPA revenues offset state General Fund costs. For basic aid districts—whose property tax revenues are sufficiently high that they receive no state general purpose aid—the state is required to make EPA payments to ensure they receive the required per-student EPA funding. These EPA obligations ended up being $68 million for school districts and $9 million for community colleges in 2012-13.

2013-14 Changes

Minimum Guarantee Up $1.5 Billion. As shown in Figure 3, the administration's revised estimate of the 2013-14 minimum guarantee is $56.8 billion, a $1.5 billion increase from the amount assumed in the 2013-14 budget. This increase is primarily due to the higher 2012-13 minimum guarantee and higher year-to-year growth in per capita General Fund revenues.

Spike Protection Provision Reduces Ongoing Effect of Increase in 2012-13 Minimum Guarantee. Though the 2013-14 guarantee is up from budget act estimates, it remains $1.5 billion below the revised 2012-13 level despite General Fund revenues increasing by $1.7 billion from 2012-13 to 2013-14. The decrease in the 2013-14 minimum guarantee is due to the spike protection provisions of Proposition 98. In a year when the minimum guarantee increases at a much faster rate than PCPI, the spike protection provision excludes a portion of Proposition 98 funding from the minimum guarantee calculation in the subsequent year. In 2012-13, because of the economic recovery and additional revenues from Proposition 30, the minimum guarantee increased $11 billion. The spike protection provision excludes $2.3 billion in 2012-13 funding from the Proposition 98 calculations moving forward, reducing the 2013-14 minimum guarantee by a like amount.

Total Costs $150 Million Lower. The Governor's estimate of 2013-14 spending is down $150 million from the amount assumed in the 2013-14 budget, primarily due to lower-than-expected student attendance. (The 2013-14 budget assumed ADA growth of 0.2 percent, while the Governor's budget assumes a 0.01 percent increase in ADA.) Lower attendance results in a $217 million drop in LCFF costs. These lower costs are partly offset by a $77 million increase to make EPA payments to basic aid school and community college districts. (As in 2012-13, the 2013-14 budget did not include funding for this purpose.)

Lower Estimate of Property Tax Revenues Increases General Fund Costs. Though the minimum guarantee is up $1.5 billion, the state's General Fund Proposition 98 requirement is up $1.9 billion due to estimated local property tax revenues decreasing by $361 million. As Figure 4 shows, this decrease is primarily driven by lower redevelopment agency (RDA) revenues. For 2013-14, the Governor projects ongoing RDA revenues will be $405 million lower than estimated—a $433 million reduction in asset revenues offset by a $29 million increase in ongoing RDA revenues. The administration anticipates that court rulings will delay the distribution of some former RDA assets that were assumed to provide state General Fund savings in 2013-14.

2014-15 Changes

2014-15 Minimum Guarantee $4.7 Billion Above Revised 2013-14 Level. The administration estimates the minimum guarantee will be $61.6 billion in 2014-15. As Figure 5 shows, this is $4.7 billion higher than the revised 2013-14 minimum guarantee. About $3.9 billion of the increase in the minimum guarantee is driven by the year-to-year increase in General Fund revenues. As in 2012-13, 2014-15 is a Test 1 year in which the strong growth in General Fund revenues results in a large maintenance factor payment ($3.3 billion). The remaining increase in the minimum guarantee is due to higher property tax revenues. Because 2014-15 is a Test 1 year, increases in baseline and ongoing RDA property tax revenues result in a higher Proposition 98 minimum guarantee. (Changes in RDA assets do not affect the minimum guarantee due to rebenching.)

Figure 4

Proposition 98 Property Tax Revenue Estimates

(In Millions)

	2013-14 Budget Act	*2014-15 Governor's Budget*	Difference
2012-13			
Ongoing residual RDA revenues	$898	$936	$38
RDA assets	1,160	1,167	8
All other	13,954	14,032	79
Totals	**$16,011**	**$16,135**	**$124**
2013-14			
Ongoing residual RDA revenues	$790	$818	$29
RDA assets	707	274	-433
All other	14,729	14,773	44
Totals	**$16,226**	**$15,866**	**-$361**
	2013-14 Revised	***2014-15 Governor's Budget***	**Difference From 2013-14**
2014-15			
Ongoing residual RDA revenues	$818	$743	-$76
RDA assets	274	42	-232
All other	14,773	15,712	939
Totals	**$15,866**	**$16,497**	**$631**

RDA = redevelopment agency.

Figure 5

Proposition 98 Funding

(Dollars in Millions)

	2012-13 Revised	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Preschool	$481	$507	$509	$2	—
K-12 Education					
General Fund	$37,740	$36,361	$40,079	$3,718	10%
Local property tax revenue	13,895	13,633	14,171	537	4
Subtotals	($51,634)	($49,995)	($54,250)	($4,255)	(9%)
California Community Colleges					
General Fund	$3,908	$4,001	$4,396	$395	10%
Local property tax revenue	2,241	2,232	2,326	94	4
Subtotals	($6,149)	($6,233)	($6,723)	($489)	(8%)
Other Agencies	$78	$78	$77	-$1	-1%
Totals	**$58,342**	**$56,813**	**$61,559**	**$4,746**	**8%**
General Fund	$42,207	$40,948	$45,062	$4,115	10%
Local property tax revenue	16,135	15,866	16,497	631	4

Local Property Tax Revenue Up $631 Million. As Figure 4 shows, total property tax revenues in 2014-15 are $631 million higher than the revised 2013-14 estimates. The Governor estimates baseline property tax revenues will be $939 million higher than the revised 2013-14 level. This increase is partially offset by RDA-related revenues being a combined $308 million lower. The reductions in RDA-related revenues to schools and community colleges are primarily driven by former RDA obligations being higher than expected.

ADA Is Somewhat Lower Than in 2013-14. The Governor projects overall ADA will decline by 0.12 percent in 2014-15. This is the net effect of a projected decline in school district ADA (2 percent), partly offset by increases in charter school attendance (15 percent). Because charter schools represent a much smaller share of the student population (10 percent), overall attendance is still down. Because 2014-15 is a Test 1 year, the minimum guarantee is unaffected by the overall decrease in student attendance.

Effects of New Revenues on Minimum Guarantee Will Vary Based on Year in Which Revenues Materialize. The minimum guarantee for 2014-15 will be sensitive to changes in estimates of General Fund revenues. The exact effect on the guarantee will vary significantly depending on whether revenue estimates change for 2013-14, 2014-15, or both years. If, for example, revenues were unchanged in 2013-14 but $1 billion higher in 2014-15, virtually all of the new revenues would go to Proposition 98. This is because 2014-15 is a Test 1 year in which a large maintenance factor payment is required. Alternatively, if revenues were up $1 billion in both 2013-14 and 2014-15, roughly half of new revenues would go to Proposition 98 in 2013-14 and 40 percent of new revenues would go to Proposition 98 in 2014-15. As in the previous scenario, the additional revenues would increase the Test 1 level in 2014-15. The maintenance factor payment, however, would not increase in this situation. Though total General Fund revenues would increase, the year-to-year growth in General Fund revenues would remain essentially unchanged, thus requiring no additional maintenance factor payment. Because of such differing results, the net change in the minimum guarantee resulting from changes in General Fund revenues could vary significantly at the May Revision (and continue changing as the state updates its General Fund revenue estimates over subsequent months).

Changes in PCPI Could Have Counterintuitive Effects. The Governor's budget projects the 2014-15 PCPI growth factor will be 0.24 percent. (The PCPI growth factor is calculated by measuring the growth in PCPI between the fourth quarter of 2012 and the fourth quarter of 2013.) As the PCPI factor in the Governor's budget is only a projection that was developed during the fourth quarter of 2013, the actual data—to be released by the federal government in late March—is likely to differ somewhat. Because of the PCPI's effect on the maintenance factor calculation, changes to the PCPI growth factor could have counterintuitive effects. The maintenance factor calculation is largely driven by the difference between growth in per capita General Fund revenues and growth in PCPI. A larger difference between these two factors corresponds to a larger maintenance factor payment. A decrease in PCPI growth would increase the difference between per capita General Fund revenue growth and PCPI, thus increasing the maintenance factor payment. Conversely, an increase in the PCPI growth factor would reduce the maintenance factor payment. We estimate that a 1 percent increase in the PCPI factor would decrease the minimum guarantee by roughly $500 million, with a corresponding increase if the PCPI factor were to decrease by 1 percent.

OVERVIEW: SPENDING CHANGES

The Governor's budget includes a total of $11.8 billion in Proposition 98 spending increases. From an accounting perspective, $2 billion is attributable to 2012-13, $1.7 billion is attributable to 2013-14, $7.6 billion is attributable to 2014-15, and $504 million is attributable to earlier years. Schools and community colleges, however, will receive all the funds in 2014-15. We describe the major spending changes below.

$2 Billion Deferral Paydown to Meet Revised 2012-13 Proposition 98 Obligation. The increase in the 2012-13 minimum guarantee combined with lower ADA costs that year creates a total "settle-up" obligation of $2 billion in 2012-13. The Governor proposes to retire this obligation by paying down additional deferrals—$1.8 billion for schools and $194 million for community colleges.

$1.7 Billion Deferral Paydown to Meet Revised 2013-14 Obligation. The increase in the 2013-14 minimum guarantee combined with lower ADA costs that year results in a total settle-up obligation of $1.7 billion in 2013-14. The Governor proposes to make $1.7 billion in deferral paydowns—$1.5 billion for schools and $163 million for community colleges—to meet this obligation. (We discuss deferrals in more detail in the "Wall of Debt Plan" section of this report.)

In 2014-15, $7.6 Billion in Spending Increases. Figure 6 provides a summary of the major 2014-15 spending changes. The largest spending increase is $4.5 billion for the LCFF. The Governor's plan also includes $2.5 billion ($2.2 billion for schools and $236 million for community colleges) to pay down the remaining K-14 deferrals, $375 million to expand two community college categorical programs, $155 million to fund a 3 percent increase in enrollment growth at the community colleges, and $82 million to provide a 0.86 percent cost-of-living adjustment for select K-12 programs as well as

Figure 6

Proposition 98 Spending Changes

(In Millions)

2013-14 Revised Spending	**$56,813**
Crosscutting K-14 Adjustments	
Remove prior-year deferral payments	-$1,955
Remove prior-year one-time funds	-468
Fund QEIA program outside of Proposition 98	-361
Adjust energy efficiency funds	-101
Make other adjustments	9
Subtotal	(-$2,876)
K-12 Education	
Fund increase in school district LCFF	$4,472
Pay down remaining deferrals	2,238
Increase funding for pupil testing	46
Provide 0.86 percent COLA to categorical programs	33
Fund increase in COE LCFF	26
Fund new English language proficiency assessment	8
Reduce categorical funding for lower ADA	-18
Subtotal	($6,805)
California Community Colleges	
Pay down remaining deferrals	$236
Augment Student Success and Support Program	200
Augment maintenance and instructional equipment (one-time)	175
Fund 3 percent enrollment growth	155
Provide 0.86 percent COLA to apportionments	48
Create new community college technical assistance teams	3
Subtotal	($817)
Total Changes	**$4,746**
2014-15 Proposed Spending	**$61,559**

QEIA = Quality Education Investment Act; LCFF = Local Control Funding Formula; COLA = cost-of-living adjustment; COE = county office of education; and ADA = average daily attendance.

community college apportionments. In addition, the budget plan provides $54 million in testing-related increases—$46 million to pay for the new assessments aligned to the Common Core State Standards (CCSS) and $7.6 million to develop a new English proficiency exam aligned to the CCSS. (The budget also includes a $101 million reduction for school and community college energy projects due to an updated estimate of associated Proposition 39 revenues.)

Provides $504 Million in One-Time Funding for Statutory Obligations. The Governor's budget also includes $504 million in one-time funds for QEIA ($410 million) and ERP ($94 million). We discuss these programs in more detail in the "Wall of Debt Plan" section of this report.

Per-Student Funding Increases Significantly. Overall, the Governor's plan increases ongoing K-12 per-pupil funding from $7,936 in 2013-14 to $8,724 in 2014-15—an increase of $788 (10 percent). (These amounts exclude one-time funding, including funding provided to pay down deferrals.)

Overall Plan Reasonable

Prudent Mix of One-Time and Ongoing Spending. Of the $11.8 billion in spending increases proposed by the Governor, about $6.7 billion is used to pay off outstanding one-time obligations and $5.1 billion is used for ongoing increases. We believe this is a reasonable mix of one-time and ongoing spending. Notably, by retiring the $6.2 billion in deferrals, the plan eliminates the largest component of outstanding school and community college obligations. Moreover, his plan significantly increases ongoing programmatic support by providing additional funding for LCFF and community colleges.

One-Time Funding Provides Cushion in Responding to Lower Revenues. Given possible swings in the 2014-15 minimum guarantee, the one-time spending on deferral paydowns provides the state with a cushion if the minimum guarantee were to decrease midyear. If the guarantee were to decrease, the state could reduce the deferral paydowns midyear, thus achieving General Fund savings without requiring schools and community colleges to make programmatic reductions. A prudent mix of one-time and ongoing spending also helps the state minimize potential disruption to school funding in 2015-16 as a result of revenue volatility or an economic slowdown. Because the $2.5 billion dedicated to paying down deferrals in 2014-15 is a one-time payment, the state could reduce spending by a like amount in 2015-16 without requiring schools and community colleges to make programmatic reductions.

WALL OF DEBT PLAN

The largest component of the Governor's budget plan is his proposal to retire all school and community college wall of debt obligations by the end of 2017-18. In this section, we discuss the Governor's plan for retiring these obligations.

Background

State Has $11.5 Billion in Outstanding School and Community College Obligations. The state currently has a total of $11.5 billion in one-time outstanding school and community college obligations. Figure 7 describes each existing type of obligation and identifies the corresponding amount the state owes. The largest outstanding obligations involve payment deferrals and unpaid mandate claims.

State Has One-Time Proposition 98 Settle-Up Obligations. The state currently has settle-up obligations totaling $1.5 billion. A settle-up obligation is created when the minimum guarantee increases midyear and the state does not make an additional payment within that fiscal year to meet the higher guarantee. The bulk of the outstanding settle up is associated with the state's 2009-10 Proposition 98 obligation. The state can designate settle-up payments be used for any educational purpose, including paying off other one-time obligations, such as deferrals and mandates. (Because settle up can be used to retire the obligations shown in Figure 7, it is not itemized separately. If the state were to pay these obligations using settle-up funds, no additional spending beyond the $11.5 billion would be required.)

Governor's Proposals

Figure 8 (see next page) displays the Governor's proposed multiyear wall of debt payment plan.

Pays Down All Deferrals by End of 2014-15. As shown in Figure 9 (see next page), the Governor proposes to pay down all $6.2 billion in outstanding school and community college deferrals by the end of 2014-15. As discussed earlier, the Governor designates Proposition 98 funding from 2012-13, 2013-14, and 2014-15 to pay down these deferrals. Under the Governor's plan, all additional Proposition 98 spending proposed in 2012-13 and 2013-14 is used for deferral pay downs. About one-third of the new spending proposed for 2014-15 is for deferral pay downs.

Makes Final $410 Million QEIA Payment in 2014-15. The Governor proposes to make a $410 million payment above the 2014-15 minimum guarantee (treated as a 2005-06 settle-up payment) to retire the state's QEIA-related obligation. Although statute requires a $410 million payment to fully retire the state's obligation, the estimated costs of the program in 2014-15 are $316 million. (Fewer schools are now participating in the program.) The Governor proposes to redirect the $94 million in freed-up funds to the ERP (as discussed further below).

Figure 7

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

(In Millions)

Obligation	Description	Amount Outstanding[a]
Payment deferrals	From 2008-09 through 2011-12, the state deferred certain school and community colleges payments from one fiscal year to the subsequent fiscal year to achieve state savings. State paid down $4.3 billion in deferrals in the 2013-14 budget plan.	$6,164
Mandates	State must reimburse school and community college districts for performing certain state-mandated activities. State deferred payments seven consecutive years (2003-04 through 2009-10). Since 2012-13, state has provided ongoing funding for mandates through the Mandates Block Grant.[b]	4,482
Emergency Repair Program	Chapter 899, Statutes of 2004 (SB 6, Alpert), requires the state to provide certain schools with a total of $800 million for emergency facility repairs.	462
Quality Education Investment Act	Chapter 751, Statutes of 2006 (SB 1133, Torlakson), sets forth a multiyear plan to provide an additional $2.7 billion to schools and community colleges. Annual payments of $450 million are to be provided until obligation has been retired.	410
Total		**$11,518**

[a] At the end of 2013-14 based on July 2013 estimate.
[b] The state provided $300 million in 2010-11 and $90 million in 2011-12 for unpaid mandate claims.

Figure 8

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

(In Millions)

Obligation	Total Owed at End of 2013-14[a]	2014-15	2015-16	2016-17	2017-18
Deferrals	$6,164	$6,164[b]	—	—	—
Mandates	4,482	—	$1,245[c]	$1,600	$1,637
ERP	462	188	274[c]	—	—
QEIA	410	410[d]	—	—	—
Totals	**$11,518**	**$6,762**	**$1,519**	**$1,600**	**$1,637**

[a] Based on July 2013 estimate.
[b] Paydowns to be made in 2014-15 using 2012-13, 2013-14, and 2014-15 Proposition 98 funds.
[c] Counts toward settle-up obligations, not towards the Proposition 98 minimum guarantee in 2015-16.
[d] Of amounts reflected, $94 million in QEIA funds not needed to support QEIA program is redirected to ERP.

ERP = Emergency Repair Program and QEIA = Quality Education Investment Act.

Pays Off ERP Obligation in 2015-16. The Governor's budget provides a total of $188 million for the ERP in 2014-15. Of that amount, $94 million is being redirected from freed-up QEIA funds (mentioned above) and $94 million is coming from unspent prior-year Proposition 98 funds. Under the Governor's multiyear payment plan, the state would retire more of its settle-up obligation by paying off the remaining $274 million in outstanding ERP obligations in 2015-16.

Retires Mandate Backlog by 2017-18. The Governor does not propose any funding to reduce the mandate backlog in 2014-15. As Figure 8 shows, the Governor's plan makes payments in 2015-16, 2016-17, and 2017-18 to pay off all unpaid mandate claims. In 2015-16, the $1.2 billion payment would be made using Proposition 98 settle-up funds, fully retiring the state's settle-up obligation.

Figure 9

Governor Proposes to Pay Down All Outstanding K-14 Deferrals

(In Millions)

	K-12	CCC	Totals
Pay Down Scored to:			
2012-13	$1,813	$194	$2,007
2013-14	1,520	163	1,683
2014-15	2,238	236	2,474
Totals	**$5,571**	**$592**	**$6,164**

Assessment and Recommendations

Reasonable Payment Plan. The Governor's plan is a reasonable multiyear approach that pays off all outstanding school and community college obligations. Such an approach would retire all outstanding obligations one year before the expiration of Proposition 30 revenues.

Consider the Functional Benefits of Payments. In developing a plan for paying off its outstanding obligations, the Legislature may want to consider how these payments will affect school and community college spending. Paying down deferrals will reduce the need for cash-flow borrowing but is unlikely to result in notable additional spending. In contrast, payments for mandates and ERP are one-time funds available for any purpose, such as deferred maintenance or implementation of the CCSS. (This is because school districts already have paid for the costs associated with the mandated activities and completed their ERP projects.)

Consider the Distributional Effects of Payments. The Legislature also may want to consider the different distributional effects these payments would have on school and community college districts throughout the state.

- ***Paying Down Deferrals.*** Though deferral paydowns would benefit most districts, those districts that rely more heavily on state funding (compared to local property tax funding) would benefit most from these payments.

- ***Mandates.*** Paying down the mandate backlog also would benefit most school and community college districts, but would disproportionately benefit districts that file more claims and claim much higher costs (in per-pupil terms) than other districts.

- ***QEIA.*** Payments for QEIA would benefit 365 schools in the bottom three deciles of the state's accountability index that currently participate in the program.

- ***ERP.*** Funding for ERP would benefit schools in the bottom three deciles that previously had projects approved by the Office of Public School Construction. (The $462 million owed would provide funding to 694 schools on the approved unfunded list.)

Pay Off Obligations Without Increasing Proposition 98 Commitments. As the Governor proposes in 2015-16, we recommend the state use outstanding settle up to pay off some of its existing school and community college obligations. In future years, if no outstanding settle-up obligations exist, we recommend the Legislature pay off the remaining obligations while still funding at the minimum guarantee. Such an approach would provide the state with more budgetary flexibility in responding to revenue volatility or an economic slowdown. Given Proposition 30 revenues begin to phase out in 2017-18 and fully expire by 2019-20, the minimum guarantee could decrease or grow more slowly in these years. If the minimum guarantee were to decrease in 2017-18 or 2018-19, one-time spending in the prior year to pay the mandate backlog would provide the state with a cushion to reduce spending without affecting ongoing programmatic funding levels.

LOCAL CONTROL FUNDING FORMULA

Governor's Proposals

Provides $4.5 Billion for District LCFF Increases. The Governor's largest proposed programmatic augmentation in 2014-15 is for the LCFF. In 2013-14, the state provided a $2.1 billion increase for the first year of implementing the LCFF, dedicating $41 billion to the formula (73 percent of the full implementation cost). The Governor's proposal dedicates an additional $4.5 billion to the LCFF in 2014-15, an 11 percent increase from the 2013-14 funding levels. The Governor estimates this additional appropriation would close approximately 28 percent of the gap between the 2013-14 funding levels and full implementation target funding rates. We estimate the 2014-15 LCFF funding level would be approximately 80 percent of the full implementation cost.

Adds Two Programs to LCFF. The majority of state categorical programs were consolidated into the LCFF in 2013-14. To further simplify the school finance system, the Governor proposes to add two remaining categorical programs to the LCFF—SSP ($4.8 million) and Agricultural Education Grants ($4.1 million). Under the Governor's proposal, school districts receiving funding for these two programs in 2013-14 would have those funds count towards their LCFF targets beginning in 2014-15. (No change would be made to the LCFF target rates.) The currently required categorical activities would be left to districts' discretion.

Fully Funds COE LCFF. The Governor's plan also provides COEs with $1.1 billion in LCFF funding, an increase of $26 million from the 2013-14 level. The administration projects that this increase will be sufficient to provide COEs their full LCFF target rates in the budget year. Of the amount provided, $450 million is generated by the county operations part of the formula, $400 million is generated by the alternative education part of the formula, $178 million is from a "hold harmless" provision that provides some COEs with funding in excess of their LCFF targets, and $33 million is for the Home-to-School Transportation add-on. With the exception of transportation funding and temporary spending requirements related to Regional Occupation Centers and Programs (ROCP), COEs have the flexibility to spend LCFF monies for any educational purpose.

Proposes New Automated Budget Formula for LCFF Funding. The Governor proposes statutory language requiring that a specified percentage of annual Proposition 98 funding automatically be dedicated to the total LCFF each year (school district and COE combined). In 2014-15, 76 percent of Proposition 98 funding would be required to go towards LCFF. Beginning in 2015-16, until the LCFF target rates are fully funded, 79 percent of Proposition 98 funding would go towards LCFF. Under current law, prior-year LCFF appropriations are continuously appropriated. This means these appropriations are automatically adjusted throughout the school year based on changes in ADA and automatically made to school districts, even without an approved state budget. In 2013-14, increases in LCFF funding were made at the discretion of the Legislature and included in the budget plan. In contrast, under the Governor's proposal, the share of Proposition 98 dedicated to LCFF each year would be predetermined by statute.

Assessment and Recommendations

LCFF Proposals Reasonable. We believe the Governor's proposal to dedicate school funding increases primarily to the LCFF is a reasonable approach that is consistent with the intent of the Legislature in restructuring the school finance system last year.

Reject Proposal to Automate LCFF Funding. We have concerns, however, with the Governor's proposal to set in statute the specific share of Proposition 98 funding that would be dedicated to LCFF each year moving forward. Although prioritizing funding for LCFF is consistent with the Legislature's intent in adopting the LCFF and eliminating most categorical programs, we are concerned that the proposal creates an additional, unnecessary formula that would further complicate school funding. Such an approach would remove the Legislature's discretion to determine the appropriate amount of funding to allocate for LCFF in any particular year. Given the considerable loss of associated legislative authority and discretion, we recommend the Legislature reject this proposal.

Recommend Approving Shift of Two Programs into LCFF. As we discuss in more detail in the next section of this report, we recommend approving the Governor's proposal to shift SSP and Agricultural Education Grants into the LCFF.

CAREER TECHNICAL EDUCATION

In this section, we focus on high school CTE programs. We start by providing an overview of the state's current CTE programs, with a particular focus on two programs—SSP and the Agricultural Education Grants—both of which would be directly affected by the Governor's 2014-15 CTE budget proposals. We then describe the Governor's CTE proposals, assess those proposals, and offer associated recommendations for the Legislature's consideration.

Background

Overview of High School CTE

High School CTE Consists of Instruction in a Number of Fields. The California Department of Education (CDE) defines CTE as coursework in one of 15 industry areas. As Figure 10 shows, these industries are diverse and broad in scope—including building and construction trades, fashion design, and health occupations.

Lines Increasingly Blurred Between CTE and "Core" Instruction. High school CTE traditionally has been thought of as an alternative to a college preparatory pathway. In recent years, however, the state has increasingly focused on the policy goal of ensuring that students have both college and career options upon graduating from high school. This has increased the state's emphasis on promoting career pathways, which are sequences of courses that align with postsecondary education and industry needs. In addition, there is a growing literature on the benefits of contextual (applied) learning, in which students are taught math, English, and other subjects in a way that incorporates students' interests in an occupational field. As a result, many CTE courses have become integrated into high school students' regular instructional curriculum—thereby blurring the traditional lines between CTE and core instruction. For example, a college-bound student may take high school CTE courses such as engineering and graphic arts to satisfy course requirements for admission to four-year university systems, while a student interested in entering the workforce directly after graduation may learn math and science as part of a health occupations course.

Various High School CTE Programs Operate in California. As shown in Figure 11 (see next page), high schools receive funding for CTE in

Figure 10

CTE Industry Sectors

- **Agriculture and Natural Resources**
- **Arts, Media, and Entertainment**
- **Building and Construction Trades**
- **Business and Finance**
- **Education, Child Development, and Family Services**
- **Energy, Environment, and Utilities**
- **Engineering and Architecture**
- **Fashion and Interior Design**
- **Health Science and Medical Technology**
- **Hospitality, Tourism, and Recreation**
- **Information and Communication Technologies**
- **Manufacturing and Product Development**
- **Marketing, Sales, and Service**
- **Public Services**
- **Transportation**

CTE = career technical education.

Figure 11

California's High School Career Technical Education (CTE) Programs

2013-14, Unless Otherwise Specified

State-Funded Programs	Description	Funding (In Millions)
Regional Occupational Centers and Programs (ROCP)	Regionally focused CTE offered during the school day, after school, and in the evening at high schools and regional centers. Primarily serves high school students ages 16 through 18.	$384.0[a]
Career Pathways Trust	One-time competitive grants intended to improve linkages between CTE programs at schools, community colleges, and local businesses. Authorizes several types of activities, such as creating new CTE programs and curriculum. These funds are available for expenditure through 2015-16.	250.0
CTE Pathways Initiative	Funding intended to improve linkages between CTE programs at schools, community colleges, universities, and local businesses. This program sunsets at the end of 2014-15. Of these funds, $8.2 million supports California Partnership Academies and $5.2 million supports Linked Learning (both reflected below).	48.0
California Partnership Academies	Small learning cohorts that integrate a career theme with academic education in grades 10 through 12. Considered a form of Linked Learning (see below).	29.6
Linked Learning	One-time funding to support small, career-themed learning cohorts within comprehensive high schools that tie academic coursework to technical content and work-based learning.	5.2[b]
Specialized Secondary Programs	Competitive grants that provide seed money to pilot programs that prepare students for college and careers in specialized fields ($3.4 million). Funding also supports two high schools specializing in math, science, and the arts ($1.5 million).	4.9
Agricultural CTE Incentive Program	Ongoing funding that can be used for the purchase of nonsalary items for agricultural education. Funds are commonly used to purchase equipment and pay for student field trips. Districts are required to provide matching funds.	4.1
Federally Funded Programs		
Carl D. Perkins	Ongoing funding that can be used for a number of CTE purposes, including curriculum and professional development and the acquisition of equipment and supplies for the classroom. Of these monies, 85 percent directly funds local CTE programs and the other 15 percent supports statewide administration and leadership activities.	$56.3
Youth Career Connect Grant	One-time competitive grants available for the 2014-15 school year that are intended to improve career options for high school students by facilitating partnerships with businesses, high schools, and higher education. Grant recipients are required to provide a 25 percent match.	12.0[c]

[a] Due to categorical flexibility allowed between 2008-09 and 2012-13, this amount is likely higher than the actual amount spent by providers on ROCP. In 2013-14 and 2014-15, providers must spend on ROCP at least as much as in 2012-13.

[b] In addition, since 2008, the James Irvine Foundation has contributed more than $100 million to Linked Learning.

[c] Assumes California receives an amount proportional to its population (12 percent). Total federal appropriation is $100 million.

various forms, including categorical programs, one-time competitive grants, foundation funding, and federal funding. In addition, many high schools fund CTE instruction using their LCFF (general purpose) monies.

Largest High School CTE Categorical Program Folded Into New K-12 Funding Formula. The 2013-14 budget package eliminated approximately three-quarters of categorical programs and folded their associated funding into LCFF. The state's largest CTE categorical program, ROCP, was included in this consolidation. However, to ensure ROCP continued to operate during the next couple of years, the budget package requires providers (school districts and COEs) to maintain at least their 2012-13 level of state spending on ROCP in 2013-14 and 2014-15. Funds used to satisfy this maintenance-of-effort (MOE) requirement count toward school districts' LCFF allocations. At the end of 2014-15, school districts and COEs will have discretion to spend former ROCP funds as they choose.

Several Smaller High School CTE Programs Left Out of LCFF. The 2013-14 budget package took a different approach for three smaller CTE programs. Specifically, SSP, Agricultural Education Grants, and California Partnership Academies (CPA) were retained as stand-alone categorical programs. In signing the *2013-14 Budget Act*, however, the Governor expressed his desire to fold SSP and Agricultural Education Grants into LCFF in 2014-15.

State in Process of Refining CTE Accountability Measures. For the past fifteen years, the state's accountability system for public schools has been based almost entirely on student test scores. Based on these test results, schools have received an annual Academic Performance Index (API) score and ranking. Recently, the state has been moving toward a more comprehensive accountability system that includes multiple measures of student performance. Specifically, Chapter 577, Statutes of 2012 (SB 1458, Steinberg), requires the State Superintendent of Public Instruction (SPI) to develop by 2015-16 a revised API for high schools that takes into account graduation rates and high school students' readiness for college and career. In October 2013, the SPI provided to the Legislature a statutorily required status report that laid out a number of options under consideration for broadening the API, including assigning points to high schools based on the extent to which their students are deemed college and career ready. Currently, the SPI is gathering feedback on the possible components of the new API.

Specialized Secondary Programs

Consists of Two Distinct Parts. The SSP was created in 1984 with the stated goal of encouraging high schools to create curriculum and pilot programs in specialized fields, such as technology and the performing arts. In 1991-92, SSP's mission was expanded to include base funding for two high schools that are affiliated with the California State University (CSU) system. Of the $4.9 million provided for SSP in the current year, $3.4 million is awarded as "seed" funding for the development of specialized instruction and $1.5 million supports the state's two SSP-funded high schools.

Competitive Grants Totaling $3.4 Million Awarded in 2013-14. In the current year, CDE, which administers SSP's competitive grant program, has awarded 67 SSP grants totaling $3.4 million. The SSP funding is distributed in four-year grant cycles. School districts initially apply for a one-year planning grant. Applicants then reapply for three-year implementation grants. Funds are permitted to cover various costs, including equipment and supplies, instructor and staff compensation, and teacher release time to develop curriculum. After the grant cycle is complete, recipients are ineligible to reapply for SSP grants.

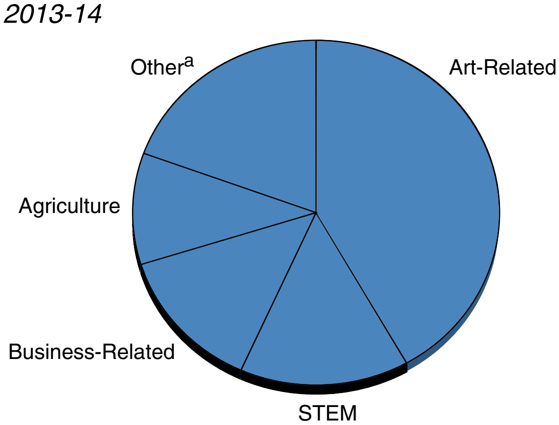
Arts, Science, and Technology Are Common Themes for Competitive Grant Program. The SSP competitive grant program funds various types of instruction. As Figure 12 shows, of the 67 grants awarded in 2013-14, 42 percent are arts programs and 15 percent are science, technology, engineering, or mathematics (STEM) programs. Other industry areas include business and agriculture.

Total of $1.5 Million in Ongoing SSP Funding Provided to Two High Schools on Top of LCFF. In addition to competitive grants, SSP provides a total of $1.5 million in annual funding for two high schools operating in conjunction with the CSU system. This amount is split evenly between an arts-themed high school affiliated with CSU Los Angeles and a math- and science-themed high school affiliated with CSU Dominguez Hills. (Unlike virtually all other public schools, students compete for admission to these two schools.) The SSP funds provided to these schools is on top of LCFF monies they receive and are used primarily to pay for teachers. (By statute, these teachers do not need to be credentialed.)

Figure 12

Specialized Secondary Programs by Area of Focus

2013-14



[a] Includes education, transportation, and mixed-industry programs.

STEM = science, technology, engineering, and mathematics.

Agricultural Education Grants

Agricultural Education Grants Totaling $4.1 Million Awarded in 2013-14. The stated purpose of Agricultural Education Grants is to create an incentive for high schools to offer state-approved agricultural programs. In the current year, CDE has awarded 303 grants to 222 school districts totaling $4.1 million. Funds typically are used by grant recipients for instructional equipment and supplies. Other allowable uses of the funds include paying for field trips and student conferences.

Grant Funds Are Awarded to All Qualified Applicants. The CDE administers the grants by splitting available funds based on the number of qualified applicants in a given year. To qualify, grantees must provide matching funds. In addition, the high school program must offer three instructional components: classroom instruction, a supervised agricultural experience program (project-based learning), and student leadership development opportunities. To receive a grant renewal, high schools must agree to be evaluated annually on 12 program quality indicators. (These indicators include curriculum and instruction requirements, leadership development, industry involvement, career guidance, and accountability.) As part of this process, five regional supervisors conduct on-site reviews and provide ongoing technical assistance to grantees.

Governor's CTE Proposals

Adds SSP and Agricultural Education Grant to LCFF. The Governor proposes to add both SSP and Agricultural Education Grants to LCFF. Under the Governor's proposal, school districts receiving funding for these two programs in 2013-14 would have those funds count toward their LCFF targets beginning in 2014-15. (No change would be made to the LCFF target rates.) The currently required categorical activities would be left to districts' discretion.

Makes No Changes to ROCP and CPA. The Governor's budget does not make any proposal related to the existing MOE spending requirement for ROCP. Additionally, the Governor's budget does not make any proposal related to CPA.

Increases High School LCFF Rate by 11 Percent. While not a specific proposal related to CTE, the Governor's budget proposes additional LCFF monies for schools in 2014-15, which high schools also can use for CTE instruction. The average high school base rate would increase from $6,306 in 2013-14 to $6,987 in 2014-15, an increase of $681 (11 percent). (When accounting for the additional funding provided for EL/LI students, the high school rate is notably higher—$8,384 in 2014-15.) As indicated earlier, many districts likely are devoting some portion of this base funding for CTE activities. Given the large proposed funding increase in the high school base rates, districts would have considerably more to spend on these types of activities in 2014-15.

Assessment and Recommendations

As detailed below, we recommend the Legislature adopt the Governor's proposals to fold SSP and Agricultural Education Grants into LCFF and also take steps to ensure that high schools are held accountable for the quality of their CTE programs.

Categorical Programs Have Notable Drawbacks. While categorical programs can be helpful in certain instances, we generally believe they should be used sparingly. This is because categorical programs have several short-comings, including:

- ***Inflexibility.*** Categorical programs typically are highly prescriptive in terms of how funds are spent. This is as true of CTE categorical programs as other K-12 categorical programs. Yet students' problems and educators' preferred solutions can vary across the state. By requiring funds to be spent in a specific way for a specific purpose, categorical programs can limit district and school flexibility to develop local strategies that address local needs in the most effective and efficient way.

- ***High Administrative Costs.*** Categorical funds generally are expensive for districts and CDE to administer. Districts must apply for, track, and report the appropriate use of categorical funds and CDE must oversee districts' compliance with numerous statutory and regulatory requirements.

- ***Focus on Inputs, Not Results.*** Because of the focus on how categorical funds are spent, the state and districts often can lose sight of the outcomes the programs are intended to achieve (such as successful transitions to college or the workforce).

Adoption of LCFF Reflects Commitment to a More Streamlined and Rational Funding System. It was largely in recognition of the need to overhaul the state's overly burdensome and ineffective K-12 categorical system that the Legislature and Governor enacted LCFF. The LCFF is based on two main underlying principles, namely that: (1) unless the state has a compelling reason to the contrary, districts should be permitted to decide how to allocate their funding to address their student needs; and (2) the overall funding level provided by the state should reflect the higher costs of educating specific groups of students (such as EL students), who may need additional services to be successful. In response to this latter goal, the LCFF generally is designed to provide similar-sized districts serving similar students with a similar amount of funding.

Proposal for SSP and Agricultural Education Grants Is Consistent With LCFF Tenants. The Governor's proposal to eliminate SSP and Agricultural Education Grants as stand-alone categorical programs is consistent with the purpose of LCFF, as discussed below.

- ***SSP Competitive Grants.*** The purpose of SSP competitive grants is to encourage program innovation and development of new curriculum in high schools. Having a restricted program implies that innovation and development of new curriculum is a supplemental activity that requires special incentives and a separate funding stream. Yet, course and program development is a core function for educators, and schools already have wide discretion to use LCFF for such core activities.

- ***SSP-Funded High Schools.*** In creating uniform per-pupil LCFF rates with adjustments for particular student groups, the Legislature and Governor sought to provide a more rational finance model that significantly reduced historical funding inequities across schools. The two SSP-funded high schools, however, work at direct cross-purposes to the LCFF. We estimate that students at these two schools receive roughly $1,200 more in per-student funding than students at other high schools with similar students.

- ***Agricultural Education Grants.*** Educators routinely make decisions about the type of instructional equipment and supplies to purchase and ways to enhance students' learning experience through field trips, conferences, and other activities. These costs typically are covered with LCFF or certain non-state sources (such as federal Perkins funding). For example, according to the most recent data from CDE, in 2011-12 districts spent more than $300 million in state general-purpose monies on school equipment, materials, and supplies. These funds are used to cover a wide range of instructional costs—from supplies in chemistry labs to materials for fine arts classes. Given the substantial unrestricted resources available and currently being spent for these purposes, no clear rationale exists for providing a small separate appropriation for covering similar costs in one specific discipline (agricultural education).

Recommend Legislature Approve the Governor's Proposals. Given these findings, we recommend the Legislature approve the Governor's budget proposals to consolidate SSP and Agricultural Education Grants into LCFF. Under his proposal, districts currently receiving these funds would continue to receive them in 2014-15 and subsequent years (though those funds would now count toward meeting their LCFF funding targets). Districts would have the option to use these funds exactly as they do now (though without the administrative burden associated with meeting current CDE compliance requirements). Alternatively, districts would have flexibility to use these funds in a different way to meet students' needs. (Eliminating these categorical programs would reduce administrative workload within CDE's Agricultural and Home Economics Office. Currently, this office has 15 positions. The CDE indicates about one full-time position is dedicated to administering Agricultural Education Grants.)

Recommend Overall Approach to CTE That Focuses on Student Outcomes. The Legislature does not need to make any decisions now about two larger CTE programs—ROCPs and CPAs—as certain related statutory provisions do not trigger off until 2015-16. Looking ahead, however, we recommend the Legislature adopt an overall approach for high schools and CTE that relies more heavily on student outcomes and less heavily on the specific educational strategies educators use to achieve those outcomes. Under this approach, the Legislature would eliminate programmatic requirements for all CTE programs in favor of evaluating and holding districts and high schools accountable for student outcomes. In evaluating success, the Legislature could use various outcome measures, such as the number and share of students who: (1) meet both high school graduation and university admissions course requirements, (2) complete a sequence of CTE courses, (3) earn community college credit in a CTE program, (4) obtain an industry certification, and (5) secure an apprenticeship. By holding districts more accountable for student outcomes, the state could promote the positive benefits of CTE while providing more local flexibility to develop effective programs.

Recommend Legislature Request SPI Provide Update on Development of Revised API. The planned addition of college and career readiness measures to the API provides an opportunity for the Legislature to obtain a more comprehensive look at high schools' performance. To ensure the Legislature is well informed about likely changes to the API, we recommend the Legislature request the SPI to present a status update at a spring budget hearing on the development of the revised API.

STUDENT ASSESSMENTS

In this section, we provide background on the state's academic standards and assessments, describe the Governor's proposals to increase funding for California's new student assessments, assess those proposals, and make several related recommendations.

Background

In the late 1990s, California adopted academic standards specifying the content that students were expected to learn while in school. Shortly after developing these standards, the state adopted a series of assessments aligned to those standards that measured the extent to which students had mastered the required content. A few years ago, California began the process of replacing these original standards with newly developed CCSS. These new standards have triggered development of a new round of assessments. Below we describe the state's original and new systems of standards and assessments.

California's Original Academic Standards and Assessments

California Has Had Academic Standards for More Than 15 Years. As Figure 13 shows (see next page), California first adopted academic content standards for its core content areas—ELA, math, science, and history-social science—in 1997 and 1998. Shortly thereafter, the state developed English language development (ELD) standards for ELs as well as visual and performing arts standards. Several years later, the state adopted standards for physical education, CTE, and world languages.

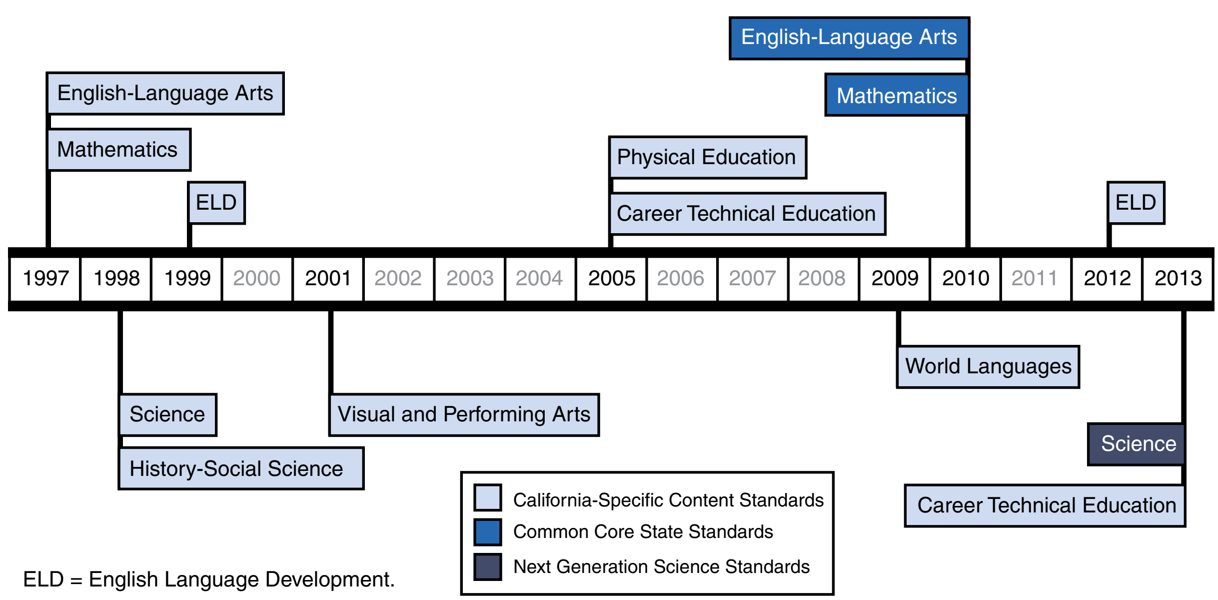
Student Assessments Aligned to Standards in Core Subject Areas. To determine whether students were successfully learning the standards in the core content areas, the state developed summative assessments that students took each spring. (A summative assessment is intended to measure student mastery of content taught throughout the school year.) Collectively these assessments were known as the Standardized Testing and Reporting (STAR) program. Most students took the California Standards Tests (CSTs)—the main component of the STAR program. As Figure 14 shows, the state administered grade-level CSTs in ELA for grades 2 through 11; in math for grades 3 through 7; in science for grades 5, 8, and 10; and in history-social science for grades 8 and 11. In addition to the specific grade-level exams, students took a number of course-specific CSTs in grades 8 through 12.

Two Alternative Assessments for Students With Disabilities. Under the STAR program, some students with disabilities were required to take one of two other assessments—the California Modified Assessment (CMA) or the California Alternate Performance Assessment (CAPA). The CMA covered the same grade-level content standards as the CSTs, but was designed for students whose disabilities precluded them from achieving proficiency on the CSTs. The CAPA was designed for students with severe cognitive disabilities and covered only portions of content standards.

State Has Assessment to Determine English Proficiency. Another component of the state's assessment system is the California English Language Development Test (CELDT). The CELDT is aligned to the state's 1999 ELD standards. (As we discuss later, the state has yet to develop a new assessment aligned with the 2012 ELD standards.) The CELDT is used to (1) determine if an incoming student should be classified as an EL and (2) measure an EL's proficiency in subsequent years. (School districts administer the CELDT to any incoming student whose parent or guardian reports on the home language survey that a language other than English is the student's initial language learned or the primary language used at home.) Decisions regarding reclassifying students

Figure 13

Adoption of Academic Content Standards in California



ELD = English Language Development.

Figure 14

California Standards Tests (CST)

Standard	Grade-Level Exams	End-of-Course Exams[a]
English-Language Arts	2 through 11[b]	None.
Mathematics	2 through 7	Algebra; Geometry; Algebra II; Integrated Mathematics 1, 2, and 3; General Mathematics; High School Summative Mathematics.
Science	5, 8, 10	Biology; Chemistry; Earth Science; Physics; Integrated/Coordinated Science 1, 2, 3, and 4.
History-Social Science	8, 11	World History.

[a] Primarily designed to test middle and high school students in specific subject areas.
[b] As part of the English-language arts CST, students take a writing exam in grades 4 and 7.

are made at the local level based on CELDT results, performance on other state assessments, teacher input, and local criteria.

Standards-Based Tests in Spanish (STS) for Some ELs and Dual Immersion Students. The STS are assessments in Spanish aligned to California's 1997 ELA and math standards. The state required students that had been receiving instruction in Spanish or had been enrolled in school in the United States for less than one year to take the STS. Students required to take the STS also were required to take the ELA and math assessments in English (either the CST or CMA). Students who are not ELs but are currently enrolled in a dual immersion program—receiving instruction in both Spanish and English—also could take the STS.

Certain Assessments Required by Federal Law. As set forth in the *No Child Left Behind Act* (NCLB) *of 2001*, the federal government requires states to assess students in ELA and math in grades 3 through 8 and at least once from grades 10 through 12. The NCLB also requires states to assess students in science at least once during: (1) grades 3 through 5, (2) grades 6 through 9, and (3) grades 10 through 12. States also are required to annually assess the English proficiency of ELs. California's STAR program exceeded these requirements.

Common Core Standards and Assessments in ELA and Math

Common Core Standards in ELA and Math Adopted by 45 States. In 2009, the National Governor's Association and Council of Chief State School Officers, in consultation with education experts, developed a set of common standards in ELA and math for grades K-12. (California's Governor and Superintendent of Public Instruction were a part of this group.) The new standards, known as the CCSS, were intended to be better at preparing all students for college and career. The finalized standards were released in June 2010.

California Created Commission to Review CCSS. Among other things, Chapter 2, Statutes of 2010, of the Fifth Extraordinary Session (SBX5 1, Steinberg), created an Academic Content Standards Commission to review the CCSS and determine whether the state should adopt these new standards. Upon recommendation of the commission, the State Board of Education (SBE) ultimately adopted the CCSS, with the addition of a few California-specific standards, in August 2010. To date, the CCSS have been adopted by 45 states and the District of Columbia. (Four states—Alaska, Nebraska, Texas, and Virginia—did not adopt either the ELA or math standards. Minnesota adopted the ELA standards only.)

California Part of Consortium for Developing New Assessments. In September 2010, as part of its Race to the Top Assessment Program, the federal government awarded $330 million to two consortia to develop assessments aligned to the CCSS. California and 22 other states are members of the Smarter Balanced Assessment Consortium (SBAC), which received $160 million. (The other consortium, Partnership for Assessment of Readiness for College and Careers, received $170 million.) The federal funding is being used to develop the new SBAC assessments and conduct field tests during spring 2014 using a sample of students from member states. These field tests will be used to ensure the quality of assessment questions, establish proficiency levels, and ensure technological systems are ready for administration of the assessments. The official SBAC assessments will be administered by member states in spring 2015. (Unlike the CSTs, the SBAC assessments do not have a second grade exam. The SBAC assessments also lack end-of-course assessments in various mathematical subjects.)

Ongoing Responsibilities of SBAC and Member States. Moving forward, the SBAC is responsible on an ongoing basis for developing additional test items, producing common materials such as manuals, and maintaining a digital library of instructional tools for SBAC member states. As the federal Race to the Top funding expires in September 2014, these activities will be funded by fees charged to the SBAC's member states. Individual states will be directly responsible for funding the administration, scoring, and reporting of the assessments.

New Assessments Will Require Devices and Internet Connections. The assessments developed by SBAC are intended to be taken online using a desktop computer, laptop computer, or tablet. Given the technology required to administer these exams, school districts must have the technological capacity to administer the assessments to all students within the required testing window. To help ease the transition to computer-based exams, SBAC will provide a pencil-and-paper option in the first three years the assessments are administered. In the 2013-14 budget, the state provided $1.25 billion in one-time funding for implementation of the CCSS. These funds can be used for technology, professional development, or instructional materials. Initial surveys show that virtually all school districts plan on using some portion of these funds to purchase additional technology.

Assessments Will Use Computer-Adaptive Technology and Performance Tasks. One part of the SBAC assessments will be computer adaptive, such that the difficulty of the next test item is based on whether the student answered the previous item correctly. Because computer-adaptive exams essentially provide a custom set of items for each student, fewer items are required to determine a student's skill level. In addition to computer-adaptive test items, the SBAC assessments will include performance tasks for students to complete, which will require students to review source materials and respond in writing to several questions. The SBAC test blueprints, for example, show that the ELA performance tasks for grades 3 through 5 will require students to review source materials, answer three short-response questions, and write one long essay. Because students are expected to use evidence to integrate knowledge and skills across multiple content standards, the SBAC assessments are expected to measure deeper understanding of course material. (By contrast, virtually all of the items on the state's CST exams were noncomputer-adaptive, multiple-choice questions.) As we discuss later, because performance tasks cannot be graded by a computer, the new SBAC exams will be more costly to grade than the CSTs.

In 2013-14, SBAC Field Test to Replace ELA and Math CSTs and CMA. To begin transitioning to the CCSS, Chapter 489, Statutes of 2013 (AB 484, Bonilla), eliminates all ELA and math CSTs and CMAs beginning in 2013-14. (The state retained the CAPA.) For 2013-14, Chapter 489 requires school districts to participate in the SBAC field test and redirects funding from the CSTs and CMA to cover the associated costs. Five percent of California students will take a sample of questions and complete one performance task in either ELA or math. The remaining 95 percent of students will take a sample of both ELA and math questions and will complete a performance task in one subject. (No paper and pencil version of the field test will be available.) All students will take the full-length SBAC assessments in both subjects in 2014-15. (For the next two years, CDE must provide school districts with access to test forms for assessments that are no longer required by law. The cost of administering these exams must be paid by school districts. Chapter 489 also makes the STS optional, but provides state funding to administer the exam for ELs who receive instruction in Spanish or have been in the U.S. less than one year.)

School Accountability Systems Temporarily Suspended During Transition. Because the field test is intended to determine the quality of the assessments and make subsequent refinements to them, none of the results will be reported. As a result, California schools will have virtually no ELA or math scores available for state and federal accountability purposes. The state is currently seeking a waiver from the federal accountability requirements. The U.S. Secretary of Education has expressed willingness to grant waivers to schools participating in the consortium field tests. In other states, however, only a small portion of schools are participating in the field tests. (The box on page 30 discusses associated accountability issues in more detail.)

Next Generation Science Standards

State Recently Adopted New Science Standards. Given the CCSS created common standards only in ELA and math, a group of 26 states and various national science organizations—including the National Research Council, National Science Teachers Association, and American Association for the Advancement of Science—convened a group in 2011 to develop new K-12 science standards. (California was a lead state partner in the development of these new standards.) In March 2013, the Next Generation Science Standards (NGSS) were finalized and released to the public. Chapter 624, Statutes of 2011 (SB 300, Hancock), required the SPI to convene a group of science experts to adopt new science standards, using the NGSS as the basis for discussions. Upon recommendation from the group of science experts, the SBE adopted the NGSS in September 2013.

Development of New NGSS-Aligned Assessments Not Yet Underway. Unlike the CCSS, no consortia have been established to develop assessments of the NGSS. The SPI is required to consult with stakeholders and make recommendations to the SBE regarding the development of a new assessment aligned to the NGSS. The recommendations must include cost estimates and a plan of implementation to replace the current science STAR exams with NGSS-aligned assessments. Until the NGSS-aligned assessments are ready, the state will continue to administer the CST, CMA, and CAPA science exams in grades 5, 8, and 10 (as required by federal law). Chapter 489 eliminates all end-of-course science assessments in specific subject areas beginning in 2013-14.

Other Changes to Standards and Assessments

History-Social Science at Crossroads. Of the four core subjects, history-social science is the only area without new standards or assessments. While California's history-social science standards remain in place, Chapter 489 eliminated California's history-social science CST exams beginning in 2013-14.

New ELD Standards Adopted, New Assessments to Be Developed. Chapter 605, Statutes of 2011 (AB 124, Fuentes), required the state to update its ELD standards to align with the CCSS. The SBE approved the new CCSS-aligned ELD standards in November 2012. The state now must develop an assessment based on the new standards to replace the CELDT. The CDE currently plans to develop a short initial screener to use for placing incoming students and a longer summative assessment to determine proficiency at the end of the year.

New Primary Language Exams to Be Developed. Among its other provisions, Chapter 489 also requires the SPI to develop new assessments in languages other than English that are aligned with the ELA CCSS for use no later than 2016-17. (These new assessments would replace the STS, but presumably also could be developed for languages other than Spanish.) The SPI must consult with stakeholders to determine the purpose and content of such exams, as well as how the exam would be included in the state's accountability system. The SPI then must make recommendations and provide a cost estimate to the SBE no sooner than one year after the new SBAC assessments in ELA and math are administered.

SPI to Submit Plan for Future of Other Exams in 2016. By March 1, 2016, the SPI must have consulted with various groups and submitted recommendations to the SBE regarding the inclusion of other assessments into the state's assessment system. The SPI is to consider whether the state should add assessments in social science, visual and performing arts, technology, or any other subject matter. The SPI also may consider whether additional assessments should be developed to supplement existing exams in ELA, math, and science. These recommendations must include suggestions regarding grade level, content, and assessment type, as well as include a cost estimate and timeline for test development.

Governor's Proposals

Increases Total Assessment Funding by $52 Million in 2014-15. As shown in Figure 15, the Governor's budget provides $149 million for student assessments in 2014-15, a $52 million increase from the 2013-14 spending level. Of that amount, $129 million is from Proposition 98 General Fund and $21 million is from federal Title VI funds.

Provides Funding for New Exams Based on Consortium Estimates. The largest increase in proposed spending is associated with the higher costs of administering assessments in 2014-15. As shown in Figure 16, the budget includes $77 million for the ELA and math SBAC assessments. Of that amount, $67.5 million is to cover the estimated contract costs of administering, scoring, and reporting the new assessments. (This cost estimate is based on data provided by SBAC.) The remaining $9.6 million would be used to pay the SBAC-managed services for ongoing maintenance of the system, including adding additional test items and conducting additional research. (The exact cost of these services has not yet been finalized with SBAC.) Based on these two estimates, the state would spend a total of $24 per student on SBAC assessments.

Funds Development of Three New Assessments. The Governor's budget also includes $13.6 million for the development of assessments aligned to the ELD standards ($7.6 million), the NGSS ($4 million), and ELA exams in primary languages other than English ($2 million). These

Figure 15

Budget for Student Assessments

(In Millions)

	2010-11 Enacted	2011-12 Enacted	2012-13 Enacted	2013-14 Enacted	2014-15 Proposed
Expenditures					
State-level contract costs	$88.0	$91.4	$94.4	$74.1	$125.9
District apportionments[a]	28.6	28.1	34.1	23.7	23.5
Totals	**$116.7**	**$119.5**	**$128.5**	**$97.8**	**$149.4**
Funding					
State Proposition 98 General Fund	$88.7	$90.4	$104.0	$72.7	$128.8
Federal Title VI	28.0	29.1	24.5	25.1	20.6
Totals	**$116.7**	**$119.5**	**$128.5**	**$97.8**	**$149.4**

[a] Provides per-student funding to cover district administration costs. Rates vary by test, ranging from $2.52 to $5 per student.

funds would be used to contract with vendors to begin developing the new assessments.

Makes Funding Contingent on DOF Review of Contract Material. The funding provided for the new assessment system and development of future assessments is contingent upon DOF review of the SBE-approved contracts. The CDE would be prohibited from spending the funds until DOF approved the contracts.

Provides Additional Positions for Implementation of New System, Contingent Upon Additional Information. The Governor's budget also includes $482,000 for CDE to manage additional assessment workload. The budget includes two, two-year, limited-term positions and $250,000 (non-Proposition 98 General Fund) for additional workload associated with creating an automated process and user interface integrating student-level data from the California Longitudinal Pupil Achievement Data System and the new testing system. The remaining $232,000 (non-Proposition 98 General Fund) is for hiring two program consultants at CDE that would be experts in the use of technology for student assessments. (No additional position authority is provided for these two consultants.) All four positions are contingent upon the submission of Feasibility Study Reports (FSRs) to DOF that document the need for additional positions. Funding for the two program consultants also is contingent upon DOF approval of an expenditure plan that justifies why the additional positions are necessary for monitoring the new assessment contract.

Figure 16

Contract Costs for Student Assessments

2014-15 (In Millions)

New ELA and Math Assessments	
Administration and reporting	$67.5
SBAC-managed services[a]	9.6
Subtotal	($77.0)
Development of New Assessments	
English language development	$7.6
Next Generation Science Standards	4.0
Primary languages other than English	2.0
Subtotal	($13.6)
Ongoing Assessments	
California High School Exit Exam	$11.4
Prior-year testing costs	8.3
California English Language Development Test	7.4
Cost of other assessments	6.1
Assessment review and reporting	2.1
Subtotal	($35.4)
Total State-Level Contract Costs	**$125.9**

[a] SBAC will provide ongoing support of the assessment, including developing additional test items and conducting additional research.

ELA = English-language arts and SBAC = Smarter Balanced Assessment Consortium.

Assessment and Recommendations

Higher Costs Appear Reasonable as New Tests More Expensive to Grade. The estimated annual cost of the new SBAC assessments—$24 per student—is significantly higher than the cost of previous ELA and math assessments. According to CDE, the state spent roughly $15 per student to administer grade-level exams in ELA and math from 2009-10 through 2011-12. These higher costs, however, appear reasonable considering the different structure of the new exams. Because the performance tasks included in the SBAC assessments will include several written response items and short essays, they cannot be scored by a computer. As a result, these assessments will be more expensive to score than the previous ELA and math CSTs, which consisted almost exclusively of multiple-choice questions that could be computer-scored. The exact costs of the new system, however, will ultimately depend on the cost of the new contract negotiated between the SBE and a vendor. The SBE is expected to release a Request for Submission during the spring of 2014, with the terms of a contract expected to be completed by the summer of 2014.

State and Federal Accountability Systems in Flux

Both the state and federal accountability systems primarily rely on student assessment data to evaluate the performance of schools and districts. Given recent changes in standards and assessments, these accountability systems will undergo significant changes over the next several years.

State Academic Performance Index (API) Relies Exclusively on Test Scores. The state's API measures school performance using data from the California Standards Tests (CSTs), California Modified Assessment (CMA), California Alternate Performance Assessment (CAPA), and California High School Exit Exam (CAHSEE). For each school, achievement on student assessments is combined into an API score that ranges from 200 to 1,000. The state has set a school API performance target of 800, which falls above the performance level that represents a "basic" mastery of grade-level skills (700) and below the performance level that represents academic "proficiency" (875). Schools that have yet to reach the API performance target of 800 are expected to meet an API growth target. A school's API growth target is equal to 5 percent of the distance between a school's prior-year API and 800, or a gain of 5 points, whichever is greater.

Each significant student subgroup at a school also is expected to meet an API growth target (the distance between the subgroup's prior-year API and 800, or a gain of 5 points, whichever is greater). Subgroups exist for African American, American Indian/Alaska Native, Asian, Filipino, Latino, Pacific Islander, White (not of Hispanic origin), economically disadvantaged, English learner, special education, and foster youth students. With the exception of foster youth, a subgroup is considered significant if it consists of 30 or more students. Foster youth are considered a significant subgroup if they consist of more than 15 students.

API May Not Be Available in 2013-14 and 2014-15. Current law gives the Superintendent of Public Instruction discretion not to calculate an API score in 2013-14 and 2014-15 if the transition to the new assessment system compromises the API results across schools and districts. Because

Higher Costs Also Linked to Interim and Formative Assessments. The higher cost of the SBAC assessments also is driven by the state's plan to purchase interim and formative assessment tools from SBAC. The interim assessment software allows teachers to design exams throughout the year to measure some or all of the grade-level standards. Items on the interim assessment will use the same grading scale as the summative assessment, allowing for teachers to easily determine whether students have mastered the standards taught to date. Teachers also will have access to a digital library of formative tools—smaller learning modules or activities that can be used to improve instruction and assess student learning on a daily basis. Teachers will be able to rate items in the digital library, submit their own tools, and share with teachers in other member states.

Though Interim and Formative Assessments Increase State Costs, May Create Overall Efficiencies. Chapter 489 requires that the state purchase interim and formative assessments and make them available to districts at no cost. A portion of the estimated $9.6 million in costs for SBAC-managed services will be for accessing the interim and formative tools. In addition, the Governor's budget provides $4.7 million in additional contract costs related to managing

most assessments previously used in calculating the API will not be administered in 2013-14, little data will be available to calculate an API. (Only results from the CAPA; the CAHSEE; and science tests in grades 5, 8, and 10 will be available.) In 2014-15, results from the new English-language arts (ELA) and math assessments will be available, but if no API is calculated in 2013-14, developing API growth targets for 2014-15 still may not be possible. (As we discussed in the "Career Technical Education" section of this report, the state also will make changes to the API for high schools beginning in 2016-17.)

Federal Adequate Yearly Progress Measure Also Relies Mostly on Test Scores. The federal accountability system, as set forth in the *No Child Left Behind Act* (NCLB) *of 2001,* measures whether schools and districts have made Adequate Yearly Progress (AYP). In order to annually meet AYP, schools and districts must demonstrate success based on the following four indicators: (1) the percentage of students that score at proficient or above on assessments in ELA and math (CSTs, CMA, and CAPA); (2) student participation in state assessments; (3) graduation rates; and (4) API scores. Success on these indicators applies to schools and districts as well as to each numerically significant subgroup within a school or district. (All state subgroups, with the exception of foster youth, also are federal subgroups.) Schools and districts that do not make their AYP targets for two consecutive years enter federal Program Improvement, which requires them to implement various turnaround strategies.

Virtually No Data to Measure Proficiency in 2013-14. Because most California students will be participating in field tests of the new ELA and math assessments in spring 2014, virtually no 2013-14 student data will be available for determining whether California schools and districts have met the AYP target. (Only students taking the CAPA will have eligible ELA and math scores.) Absent a waiver, California schools and districts will be considered to have failed to meet the AYP target.

the interim assessment system. (Under the STAR testing system, the state provided no interim or formative tools to school districts. Districts that chose to administer interim assessments or purchase additional formative tools covered these costs using existing resources.) Although purchasing these tools from SBAC will increase state assessment costs, it likely would reduce total state and local costs on interim and formative tools given the economies of scale.

Recommend Additional Oversight of Contract. We recommend the Legislature adopt the Governor's provisional language making assessment funding contingent upon DOF review of contract materials. This would ensure that the amount of funding provided in the budget is aligned with actual contract costs. We recommend the Legislature adopt additional language requiring the vendors of the state's SBAC contract to meet with legislative staff and DOF staff on an annual basis to review components and costs of the contract. Such an approach would provide additional oversight of contract costs. The Legislature adopted similar language in 2010-11 and 2011-12.

Review FSRs Before Approving New Positions. The CDE has not yet provided FSRs related to the four new positions included in the Governor's budget. Absent these reports, the Legislature lacks sufficient information to assess the merit of providing additional positions to CDE. We recommend the Legislature review the required FSRs and associated documentation prior to approving any new positions.

In Future Years, Consider Using SBAC Exams to Replace the High School Exit Exam. In addition to completing the appropriate coursework, California students must pass the California High School Exit Exam (CAHSEE) in order to graduate with a high school diploma. (Some students with disabilities are exempt from this requirement.) The CAHSEE covers both ELA and math. Because the CAHSEE is based on the prior ELA and math standards (based on math standards through the first part of Algebra I and ELA standards through grade 10), it will no longer be aligned with student expectations under the CCSS. Recent legislation modifying the state assessment system has not addressed the future of the CAHSEE. Rather than spending additional resources to develop a new high school exit exam, the Legislature could consider using a student's performance on the 11th grade SBAC assessments to determine whether a student has demonstrated knowledge sufficient to earn a diploma. This would ensure that expectations for high school graduation are aligned with the CCSS, while avoiding duplicative tests and reducing testing time.

Using Teachers to Score Assessments Could Provide Professional Development Opportunities. In order to score the performance tasks in the SBAC assessments, the state's contractor will hire and train individuals to review and score student responses. Individuals will be trained to develop a deep understanding of the CCSS and distinguish between high quality and low quality work. Because such training encourages mastery of the CCSS, it could serve as a quality professional development activity for teachers and other instructional staff. Given these potential benefits, the Legislature could consider requiring the state's contractor to give priority to credentialed teachers and other school staff when hiring individuals to score SBAC performance tasks.

INDEPENDENT STUDY

In this section, we discuss the Governor's proposals relating to IS, provide our assessment of those proposals, and offer associated recommendations for the Legislature's consideration.

Background

Below, we provide information on certain state funding rules, IS programs, and special rules for charter schools running IS programs.

Most State Funding Linked to Students' Seat Time. To qualify for state funding for students in a regular classroom setting, a district must offer a minimum number of classroom instructional hours per year. The required instructional hours—often known as seat time—vary by grade level (with a daily average of six hours required for grades 9 through 12, five hours for grades 4 through 8, 4.7 hours for grades 1 through 3, and 3.3 hours for kindergarten). Students generate state funding only for the days of the school year they are physically present in class.

IS Provides Alternative to Classroom-Based Instruction. In contrast to the traditional classroom setting, an IS program allows students to earn credit for academic work they complete independently. The purpose of an IS program is to allow schools to adapt activities and assignments to individual student needs without the requirement for daily attendance. An IS program can take a variety of forms, such as online instruction, blended learning (partially online and partially site-based), paper-based learning packets, assisted home-schooling, and internship-based learning. In all cases, students are supervised by a certificated teacher who assigns and evaluates student work on a periodic basis. Students enroll in IS programs for a variety of reasons, such as to gain flexibility in their schedules, recover missed credits, or because they prefer an individualized setting.

IS Funding Determined by Converting Student Assignments to Seat Time. Since IS students do not attend school on a daily basis, funding for IS programs is based on students' academic work products. For each assignment, the supervising teacher equates a student's work to an equivalent amount of seat time. This conversion is based on the supervising teacher's judgment as to the number of classroom instructional hours that would have been required to achieve a similar amount of learning. An IS program can claim full per-pupil funding if the seat-time equivalent of the students' work is the same as the time the students would have spent in a classroom setting.

IS Students Work Under Detailed Written Learning Contracts. Every student participating in IS works under an individualized learning contract. This document describes: (1) the time, place, and manner in which students will submit assignments; (2) the methods of study for the pupil's work and the methods for evaluating that work; (3) the materials and staff resources that will be available to the student; and (4) the number of missed assignments that may occur before the school needs to reevaluate whether the student should remain in IS. An IS contract is valid for up to one semester, and a written copy of the contract must be signed by the student, one of the student's parents, and all teachers who will instruct the student. In addition, IS programs must maintain records that include: (1) the date each work product was assigned, completed, and assessed; (2) representative samples of the student's work signed and dated in all cases by the supervising teacher; and (3) written evidence that all state and local policies pertaining to IS have been observed. The IS programs are audited annually for compliance with these requirements. An IS program that fails to maintain the necessary records receives an audit finding and may face financial penalties—usually the requirement to repay the state funding generated by any students whose records are missing or incomplete.

IS Programs Have Limits on Student-Teacher Ratios. The state sets a cap on the ratio of students to teachers in IS programs. This cap is determined differently for school districts and charter schools. For a school district, the student-teacher ratio cannot exceed the districtwide average student-teacher ratio in classroom settings. For a charter school, the student-teacher ratio cannot exceed the average ratio for the largest unified school district within the county or 25:1, whichever is higher. (As a practical matter, many charter schools rely on the 25:1 cap because the ratio at the largest district—even when above 25:1—fluctuates from year to year.) If an IS program exceeds its ratio cap, the state provides no per-pupil funding for students in excess of the cap.

Participation in IS Concentrated in High Schools and Charter Schools. Available data suggest that about 140,000 California students took at least half of their coursework through IS in 2012-13. (An additional 25,000 students took at least one but fewer than half of their courses through IS.) Collectively, these students represent about 2.6 percent of all K-12 enrollment. Figure 17 shows the relative distribution of IS enrollment by grade level and provider. About two-thirds of total IS enrollments are high school students whereas one-third is elementary students. Regarding providers, about two-thirds are charter schools whereas one-third is district-run programs. (In recent years, enrollment in charter school IS programs has grown rapidly while enrollment in district-run programs has remained stable.)

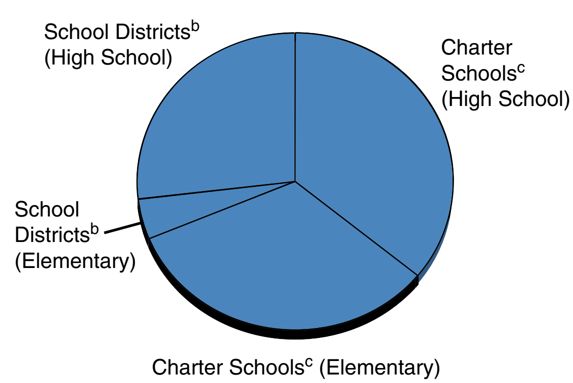
IS Programs Sometimes Used to Deliver Blended Learning. Blended learning refers to programs in which students learn in part through supervised instruction at a school site and in part through independently completed online coursework. For funding purposes, these programs must count student attendance based on the requirements for classroom instruction (seat time) or IS (work products tied to seat time). The seat-time funding model tends to be used when the online coursework is provided on-site under the supervision of a teacher whereas the IS format tends to be used when the online coursework is conducted off-site.

Special Fiscal Review Required for Certain Charter Schools. In 2001, the Legislature established a special fiscal review for charter schools offering IS programs. The review requires charter schools offering less than 80 percent of their instructional time in a classroom setting (most IS charter schools fall into this category) to submit financial information to the SBE every few years. Most notably, the SBE must verify these charter schools: spend at least 80 percent of

Figure 17

Independent Study Enrollment[a]

2012-13



[a] Students enrolled in independent study for at least 50 percent of their coursework.

[b] Includes county offices of education.

[c] Includes charter schools operated by school districts.

their budget on instruction and related services, spend at least 40 percent specifically on salary and benefits for teachers, and meet the student-teacher ratio caps. Charter schools that do not meet these requirements can lose either 15 percent or 30 percent of their per-pupil funding. (For schools far below the requirements, the SBE may award no funding, effectively closing the charter school.) In 2012-13, about 250 charter schools (or one-fourth of all charter schools) were subject to this additional review, with about 10 receiving funding reductions of 15 percent.

Governor's Proposals

As shown in Figure 18, the Governor has a package of IS proposals, which we discuss below.

Creates New "Course-Based" IS Option. The Governor proposes to allow high school IS programs to convert entire courses (rather than individual assignments) to seat time. Under this option, the local governing board would need to certify the seat-time equivalency of the IS course. In addition, the local board would need to certify the IS course was "of the same rigor and quality" as a classroom-based course and that the course included "all relevant local and state content standards." Similar to existing IS programs, students would work under the general supervision of a teacher and work under written learning contracts, but these contracts (unlike existing IS contracts) could last up to one year and be stored electronically. Teachers would be required to communicate with students at least once a week to determine if students were making "satisfactory academic progress," as measured through statewide assessments, the completion of assignments, and other locally determined measures. The communication could include an in-person meeting, phone call, or online video conference. If

Figure 18

Summary of Governor's Independent Study Proposals

✓ **Creates New "Course-Based" Independent Study (IS) Option**

- Allows local governing boards to convert entire courses (rather than individual assignments) to seat-time for funding purposes.
- Requires students to work under written learning agreements and the general supervision of a teacher (same as existing IS).
- Allows instruction to occur off site (same as existing IS).
- Requires students to make "satisfactory academic progress," as determined weekly by a teacher, to remain in program.
- Allows IS programs serving grades 9 through 12 to use this option.

✓ **Creates Variant of New IS Option for Site-Based Blended Learning Programs**

- Creates an option similar to the course-based IS option but with two major differences:
  - Requires daily on-site instruction under the general supervision of a teacher. (An instructional aide could be responsible for providing instruction for some portion of the day.)
  - Allows IS programs serving grades K-12 to use this option.

✓ **Makes Two Changes to Student-Teacher Ratio Caps**

- Computes ratio caps by grade span instead of by districtwide averages.
- Allows ratios to exceed caps if agreed upon in a collective bargaining agreement.

✓ **Eliminates One Recordkeeping Requirement in Existing IS Programs**

- Eliminates requirement that each student assignment bear the signature of the supervising teacher.

✓ **Exempts Charter Schools Using New IS Options From Special Fiscal Review**

- Exempts charter schools using new IS options from the special fiscal review generally required of charter schools offering IS programs.

satisfactory progress was not occurring, the teacher would be required to inform the student's parents/guardians and conduct an evaluation to determine whether the student should remain in IS. (Students removed from a course would be credited with a prorated share of the seat time approved for the course.)

Creates Variant of New IS Option for Blended Learning Programs. The Governor proposes to create a variant of the course-based IS option to serve certain types of site-based blending learning programs. This option includes all of the elements from the course-based option, including written learning contracts, but contains two major modifications. First, students would be required to be on a school site on a daily basis, similar to students in a classroom-based program. Unlike a classroom-based program, however, students could be supervised during this time by their teacher or an instructional aide. Second, this option would be open to IS programs serving grades K-12 rather than limited to grades 9 through 12.

Makes Two Changes to Student-Teacher Ratio Caps. Under the Governor's proposal, all IS programs would be subject to the caps on student-teacher ratios. The Governor proposes, however, to make two changes affecting these caps. For school districts, the caps would be calculated separately for grade spans K-3, 4 through 6, 7 through 8, and 9 through 12 rather than being based on the districtwide average. The Governor also proposes to allow the caps to be exceeded if agreed upon in a local collective bargaining agreement.

Eliminates One Recordkeeping Requirement in Existing IS Programs. For existing IS programs that do not want to use the new course-based IS options, the Governor proposes to eliminate the requirement that all student assignments be signed and dated by a supervising teacher. (The underlying requirements for teachers to evaluate student assignments, keep a record of all work assigned, and maintain representative samples of student work would remain in place.)

Exempts Charter Schools Using New IS Options From Special Fiscal Review. The Governor proposes to deem charter schools that use either of the new IS options as classroom-based for the purpose of determining whether a charter school must receive special fiscal review. That is, these charter school IS courses would count as classroom time (regardless of how or where the course was taught), thereby being exempt from the special fiscal review.

Assessment and Recommendations

Compared to the IS proposals the Governor introduced last year, the proposals introduced this year are more modest—making changes to certain funding and programmatic rules but maintaining much of the basic structure of IS. As shown in Figure 19, we think many of the components of the Governor's IS proposals this year have merit, though we identify several ways the Legislature could improve upon the proposals.

New IS Options

Course-Based Option Includes Reasonable, Streamlined Seat-Time Conversion Process. The Governor's proposal to establish a seat-time equivalency for each course provides a reasonable mechanism of counting students for funding purposes. Although the Governor maintains many of the administrative requirements currently imposed on existing IS, eliminating assignment-based time conversions would reduce some tasks that require the particular effort of teachers (such as maintaining detailed logs of all assignment and making time judgments about every assignment). The resources not spent on these administrative tasks could be directed toward student instruction and other activities. Placing responsibility for the seat-time conversion on local governing boards also has the benefit of making boards more accountable for the quality of their IS programs. For all these reasons, we recommend the Legislature adopt this proposal.

(Although there could be some concern that local governing boards might assign different amounts of seat time to a course, existing IS programs also face this issue in that teachers can assign different amounts of seat time to similar student assignments. Furthermore, the Governor's proposal includes some elements that could make the seat-time conversion process more consistent than under current IS programs, including a clear standard for approving courses and board disclosure of the amount of seat time approved for each course.)

Course-Based Option Also Facilitates a Variety of Instructional Formats. Another strength of the Governor's course-based IS proposal is that it can accommodate a variety of instructional formats. That is, rather than focus narrowly on encouraging a specific type of instruction, the Governor establishes a framework that schools can use to receive funding for a variety of programs that best meet local needs. This approach could encourage local creativity in offering new types of nontraditional instruction, thereby expanding the options for students with needs less easily served in a classroom setting. The framework also is consistent with the Legislature's recent focus on increasing the autonomy of schools.

Course-Based IS Option Could Benefit Earlier Grades. Given the versatility of the Governor's proposal for course-based IS, we believe the option could benefit K-8 IS programs too. The concerns that motivate the creation of the course-based option, such as reducing paperwork requirements, apply equally to IS programs serving earlier grades. New and nontraditional forms of instruction may be found in all grade levels and adopting a proposal only for high school IS programs misses an opportunity to encourage innovation in earlier grades. For these reasons, we recommend extending this option to all grades (K-12).

Additional Information on Standards and Learning Goals Could Improve Course-Based IS. We believe the Governor's proposal for course-based IS could be further improved by requiring local governing boards to provide additional information when approving courses. Specifically,

Figure 19

Summary of Independent Study Recommendations

Governor's Proposal	LAO Recommendations
Creates new "course-based" Independent Study (IS) option	• Adopt basic proposal. • Extend proposal to all grades. • Require additional information on standards and learning goals for each course.
Creates variant of new IS option for site-based blended learning programs	• Reject proposal (programs can be accommodated by above option, if extended to all grades).
Makes two changes to student-teacher ratio caps	• Adopt proposal. • Providing corresponding flexibility to charter schools.
Eliminates one recordkeeping requirement in existing IS programs	• Adopt proposal. • Allow contracts to last up to one year. • Allow electronic recordkeeping.
Exempts charter schools using new IS options from special fiscal review	• Reject proposal. • Simplify and refocus fiscal review process.

we recommend the governing board disclose for each course: (1) the relevant local and state content standards reflected in the course and (2) the student learning goals for the course. This information would help local stakeholders—including students, parents, and teachers—compare an IS course with a classroom-based course to determine if the courses were similar in content and rigor. It also would help these stakeholders determine whether the amount of seat time approved for each course was reasonable given what the students would be learning. Given that local governing boards already would need to ensure the course was of comparable rigor and included relevant standards, we believe this requirement could be satisfied with only a small amount of additional work.

Site-Based Blended Option Provides Little New Flexibility. We are concerned that the site-based blended learning option would provide little, if any, added benefit—especially if the course-based IS option were extended to grades K-8. The blended learning option allows an instructional aide to provide classroom supervision but only in exchange for placing all students on an IS contract and providing daily instruction on-site. The supervision requirements are more flexible than the rules for classroom-based instruction, but less flexible than the rules for existing IS or the new course-based option. (Under either of these latter options, there is no requirement for any particular amount of time on site, and time on site may be supervised by a teacher or other individual.) We think a blended learning program willing to make the effort of establishing learning contracts for all of its students would be likely to use one of the more flexible IS options. For these reasons, we recommend the Legislature reject the proposal.

Student-Teacher Ratio

Changes to Student-Teacher Ratio Caps Would Increase Flexibility for Most School Districts. Computing the IS caps by grade span would result in IS student-teacher ratios being more comparable to other district programs. As a result, the proposal would increase flexibility for high school IS programs. This is because class sizes in high schools tend to be larger than in elementary schools. We estimate that basing the IS high school cap on other high school programs would effectively raise the IS cap by about two students per teacher. (Conversely, the IS cap in earlier grades would be lowered, but since relatively few school districts enroll elementary students in IS programs, the effect is less significant.) The Governor's proposal to allow higher caps to be collectively bargained would allow schools the flexibility to increase student-teacher ratios above current limits but would minimize the chances that a district adopts an excessively high ratio. We believe both of the Governor's proposed changes to the IS caps are reasonable and recommend adopting them.

Grade-Span Adjustment Does Not Provide Corresponding Flexibility to Charter Schools. The Governor's proposal to compute IS student-teacher ratios by grade span provides greater flexibility for school districts but little new flexibility for charter schools. Although charter schools would be allowed to compare their IS ratios to the grade span-adjusted ratios in the largest unified school district, those ratios change annually, making many charter schools reliant on the 25:1 ratio. In addition, only about 20 percent of charter schools have collective bargaining agreements in place that would allow them to negotiate a higher cap. To provide corresponding flexibility to charter schools, we recommend the Legislature increase the ratio cap for their IS programs serving grades 9 through 12 from 25:1 to 27:1—consistent with the expected increase of two students per teacher in district IS high school programs. (For other grade levels, the charter school ratio requirement would remain 25:1.)

Recordkeeping

Recommend Eliminating Recordkeeping Requirement in Existing IS Programs. We recommend adopting the Governor's proposal to eliminate the requirement for supervising teachers in existing IS programs to sign every assignment. As described earlier, an IS program is required to maintain an extensive "paper trail" including assignment logs, samples of assignments, and other documentation. Removing the signature requirement would eliminate one highly specific compliance requirement while leaving other recordkeeping in place.

Charter School Special Fiscal Review

Existing Fiscal Review Process Has Several Drawbacks. We think the special fiscal review process for charter schools has several drawbacks. Some parts of the review—such as the requirement to spend a fixed percent of revenues on staff salary—are not well aligned with goals the Legislature has established for charter schools, such as the encouragement of "different and innovative teaching methods." Additionally, charter schools that miss one of the spending thresholds by a narrow margin face a loss of 15 percent of their funding, creating a "cliff" around the thresholds. Moreover, some aspects of the process are not clearly defined, such as how facility-related costs should be counted toward the spending thresholds. Given these issues, we believe the special fiscal review could be improved.

Governor's Proposed Solution Raises Concern. Although the special fiscal review has several problems, we are concerned about the Governor's proposed solution. Under his proposal, a charter school using the course-based IS option would be exempt from the review while a charter school offering a similar academic program and using the existing IS option would be subject to the review. That is, apart from whether they use assignment-based or course-based attendance accounting, the two schools could be very similar in every other way, yet only one would be subject to the review. We can identify no compelling reason why the method of converting IS to seat time should be a deciding factor in triggering this review. We recommend the Legislature reject the Governor's proposal but consider alternatives for improving charter school fiscal oversight (as discussed below).

Recommend Either Improving Review Process or Strengthening Routine Fiscal Oversight. The Legislature has two basic options for improving the fiscal oversight of charter schools operating IS programs.

- ***Rework Special Fiscal Review Process.*** One option would be to simplify and refocus the special fiscal review for all charter school IS programs. The Legislature could do this by relaxing some of the more specific spending requirements and reducing the penalties that accompany narrowly missing the spending thresholds.

- ***Redirect Resources Toward New Process.*** Alternatively, the Legislature could consider whether the resources devoted to reviewing all IS charter schools would be better spent scrutinizing schools that show warning signs of financial abuse or mismanagement. For example, the state could replace the existing review with heighted scrutiny of all schools that received negative audit findings, displayed unusual spending patterns, or generated formal complaints.

SUMMARY OF RECOMMENDATIONS

✓ ***Proposition 98 Spending Plan***

- Governor's mix of ongoing and one-time Proposition 98 spending is reasonable. Given possible swings in the 2014-15 minimum guarantee, one-time spending provides the state with a cushion if the minimum guarantee were to decrease midyear. Also helps the state minimize a potential disruption to school funding in 2015-16 as a result of revenue volatility or an economic slowdown.

✓ ***Revenues***

- Track revenue developments, as Proposition 98 minimum guarantee is likely to be highly sensitive to changes in General Fund revenues in 2014-15. The exact effect on the guarantee will vary significantly depending on whether revenue estimates change for 2013-14, 2014-15, or both years. General Fund increases only in 2014-15 will result in virtually all revenue going to Proposition 98, while increases in both 2013-14 and 2014-15 will provide a lower share of funding for Proposition 98.

✓ ***Wall of Debt Plan***

- Adopt a plan to eliminate outstanding one-time Proposition 98 obligations by the end of 2017-18. Governor's plan is a reasonable starting point. When paying off existing obligations, consider the different distributional effects these payments would have on school and community college districts throughout the state. Also consider the functional benefits of such payments. Some payments would provide cash flow relief whereas others would allow for one-time general purpose spending.

✓ ***Local Control Funding Formula (LCFF)***

- Adopt a plan that dedicates ongoing funding to second-year implementation of LCFF.
- Reject Governor's proposal to create a statutory formula requiring a certain portion of Proposition 98 funding be dedicated to LCFF each year of the phase-in period.

✓ ***High School Career Technical Education (CTE) Programs***

- Adopt the Governor's proposals to eliminate Specialized Secondary Programs and Agricultural CTE Incentive Program and fold associated funds into LCFF.
- Moving forward, adopt an overall approach to CTE that focuses on student outcomes rather than the specific educational strategies used to accomplish those outcomes.
- Request Superintendent of Public Instruction present at a spring hearing a status report on development of a revised Academic Performance Index that includes college and career readiness indicators.

✓ ***Student Assessments***

- Approve augmentation for student assessments. Costs appear reasonable given new tests will be more expensive to grade. State costs also will increase due to purchasing interim and formative assessments on behalf of districts, but total state and local costs could decline due to economies of scale.
- Adopt the Governor's provisional language making assessment funding contingent upon Department of Finance (DOF) review of contract materials.
- Recommend additional provisional language requiring the vendor of the state's Smarter Balanced Assessment Consortium contract to meet with legislative staff and DOF on an annual basis to review components and costs of the contract.

✓ ***Independent Study (IS)***

- Adopt the Governor's proposal to allow local governing boards to convert entire courses (rather than individual assignments) to seat time. Extend this option to all grade levels.
- Adopt the Governor's proposal to compute school districts' student-teacher ratios by grade span and allow caps to be exceeded if collectively bargained. Provide corresponding flexibility to charter schools by slightly increasing their ratio for grades 9 through 12.
- Reject the Governor's proposal to create a modified IS option for site-based blended learning (as these programs could be accommodated by extending the course-based IS option to all grades).
- Also reject the proposal to exempt charter schools using the course-based IS option from special fiscal review. Instead, simplify the fiscal review or strengthen fiscal oversight of certain IS charter schools.

Contact Information

Edgar Cabral	Proposition 98 Wall of Debt Student Assessments	319-8343	Edgar.Cabral@lao.ca.gov
Carolyn Chu	Local Control Funding Formula	319-8326	Carolyn.Chu@lao.ca.gov
Natasha Collins	Career Technical Education	319-8335	Natasha.Collins@lao.ca.gov
Kenneth Kapphahn	Independent Study	319-8339	Kenneth.Kapphahn@lao.ca.gov

LAO Publications

This report was reviewed by Paul Steenhausen and Jennifer Kuhn. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

To request publications call (916) 445-4656. This report and others, as well as an e-mail subscription service, are available on the LAO's website at www.lao.ca.gov. The LAO is located at 925 L Street, Suite 1000, Sacramento, CA 95814.

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, March 13, 2014
9:30 a.m. or upon adjournment of session
Room 3191, State Capitol

Consultant: Joe Stephenshaw

Item	Department
6980	**California Student Aid Commission (CSAC)**
	Informational Hearing Cal Grants and Governor's Financial Aid Proposals

Presenters

Judy Heiman, Higher Education Analyst, Legislative Analyst's Office
Matt Saha, Budget Analyst, Education Systems Unit, Department of Finance
Diana Fuentes-Michel, Executive Director, California Student Aid Commission

Debbie Cochrane, Research Director, The Institute for College Access & Success
Alecia A. DeCoudreaux, President, Mills College

Public Comment

6980 California Student Aid Commission

Since its creation by the Legislature in 1955, the California Student Aid Commission (CSAC) has continued to operate as the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. The mission of CSAC is to make education beyond high school financially accessible to all Californians by administering state authorized financial aid programs.

CSAC is composed of 15 members: 11 members are appointed by the Governor and confirmed by the Senate, two members are appointed by the Senate Rules Committee and two members are appointed by the Speaker of the Assembly. Members serve four-year terms except the two student members, appointed by the Governor, who serve two-year terms.

Cal Grant Program. The Cal Grant program is the primary financial aid program run directly by the state. Modified in 2000 to become an entitlement award, Cal Grants are guaranteed to students who graduated from high school in 2000-01, or beyond, and meet financial, academic, and general program eligibility requirements. Administered by CSAC, the following table displays the Cal Grant entitlement awards.

Cal Grant Entitlement Awards	
Cal Grant A	Provides tuition fee funding for the equivalent of four full-time years at qualifying postsecondary institutions to eligible lower and middle income high school graduates (income ceiling of $87,400 for a family of four) who have at least a 3.0 grade point average (GPA) and apply within one year of graduation.
Cal Grant B	Provides funds to eligible low-income high school graduates (income ceiling of $45,900 for a family of four) who have at least a 2.0 GPA and apply within one year of graduation. The award provides up to $1,473 for book and living expenses for the first year and each year following for up to four years (or equivalent of four full-time years). After the first year, the award also provides tuition fee funding at qualifying postsecondary institutions.
Community College Transfer	Provides a Cal Grant A or B to eligible high school graduates who have a community college GPA of at least 2.4 on a four-point scale and transfer to a qualifying baccalaureate degree granting college or university.

The maximum award for new Cal Grant A and B recipients in 2014-15 is equal to the mandatory systemwide tuition at the University of California (UC) and the California State University (CSU), $8,056 at private, non-profit institutions, and private, for-profit institutions that are accredited by the Western Association of Schools and Colleges (WASC) as of July 1, 2012, and $4,000 at private, for profit institutions that are not WASC accredited as of July 1, 2012. Renewal award recipients at private, for-profit and non-profit institutions will continue to receive an award amount of $4,000 to $9,223 depending on when they received their first award.

In addition to the entitlement awards, the Cal Grant program includes a limited number of competitive awards and awards for occupational or technical training. These awards are displayed in the following table.

Non-Entitlement Cal Grant Awards	
Competitive Awards	There are 22,500 Cal Grant A and B competitive awards available to applicants who meet financial, academic, and general program eligibility requirements. Half of these awards (11,250) are offered to those applicants who did not receive an entitlement award and meet the March 2 deadline. The remaining 11,250 awards are offered to students who are enrolled at a California Community College and meet the September 2 deadline.
Cal Grant C	The Cal Grant C Program provides funding for financially eligible lower income students preparing for occupational or technical training. The authorized number of new awards is 7,761. For new and renewal recipients, the current tuition and fee award is up to $2,462 and the allowance for training-related costs is $547.

The LAO points out that Cal Grant spending nearly doubled from 2007–08 to 2011–12, mostly in response to tuition increases at UC and CSU. Since 2011–12, tuition has remained flat and growth in Cal Grant costs has been driven mainly by participation increases. In 2012–13, for example, the number of new Cal Grant recipients increased 19 percent over the prior year. Implementation of the California Dream Act accounts for about one–quarter of the growth.

The following chart, from the LAO's analysis of the Governor's proposed 2014-15 higher education budget, displays three-year expenditures for Cal Grants by segment, program and award type. As the chart shows, the General Fund is the primary source of funding for the Cal Grant program, accounting for $1.2 billion of the $1.8 billion proposed for 2014-15.

Cal Grant Spending

(Dollars in Millions)

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
By Segment:					
University of California	$721	$781	$822	$41	5%
California State University	437	501	552	51	9
Private nonprofit institutions	222	240	238	-1	-1
California Community Colleges	88	100	107	7	7
Private for-profit institutions	50	35	37	2	6
Totals	**$1,518**	**$1,656**	**$1,756**	**$100**	**6%**
By Program:					
High School Entitlement	$1,234	$1,331	$1,418	$87	7%
CCC Transfer Entitlement	185	214	217	3	1
Competitive	95	105	114	9	9
Cal Grant C	4	6	6	1	11
Totals	**$1,518**	**$1,656**	**$1,756**	**$100**	**6%**
By Award Type:					
Cal Grant A	$868	$985	$1,059	$74	7%
Cal Grant B	646	665	691	26	4
Cal Grant C	4	6	6	1	11
Totals	**$1,518**	**$1,656**	**$1,756**	**$100**	**6%**
By New or Renewal:					
New	$471	$541	$525	-$16	-3%
Renewal	1,047	1,115	1,231	116	10
Totals	**$1,518**	**$1,656**	**$1,756**	**$100**	**6%**
By Funding Source:					
General Fund	$630	$1,016	$1,151	$135	12%
Student Loan Operating Fund	85	98	60	-38	-64
Federal TANF	804	542	545	3	1
Totals	**$1,518**	**$1,656**	**$1,756**	**$100**	**6%**

TANF = Temporary Assistance for Needy Families.
Posted January 2014.

Other Awards. In addition to Cal Grants, CSAC administers various other financial aid programs, including:

- **The Middle Class Scholarship Program.** Provides a scholarship to UC and CSU students with family incomes of up to $150,000. The scholarship amount is limited to no more than 40 percent of the UC or CSU mandatory system-wide tuition and fees. The individual award amount is determined after any other publicly-funded financial aid is received. The program will be phased in over four years, with full implementation in 2017-18. The program is funded from the General Fund.

- **The Assumption Program of Loans for Education (APLE).** Allows the State to issue agreements for loan assumptions annually to students and district interns who are pursuing careers in teaching and credentialed teachers teaching at schools ranked in the lowest 20 percentile of the Academic Performance Index (API). Through APLE, a participant who teaches a total of four years can receive up to $11,000 toward outstanding student loans. APLE participants who provide the designated teaching service in the areas of math, science, or education specialist instruction in a school ranked in the lowest 60 percentile of the API may be eligible to receive an additional $1,000 per year in loan assumption benefits. Participants meeting this requirement who provide teaching service in a California public school that is ranked in the lowest 20 percentile of the API may be eligible to receive an additional $1,000 per year for a possible total loan assumption benefit of up to $19,000. Beginning in 2012-13, no new APLE warrants have been issued; only renewals will continue to be funded. There are similar programs for graduate and nursing studies, which also only currently fund renewal awards.

- **The Child Development Teacher and Supervisor Grant Program.** Provides grants to recipients who intend to teach or supervise in the field of child care and development in a licensed children's center. Recipients attending a California Community College may receive up to $1,000 annually and recipients attending a four-year college may receive up to $2,000 annually for a total of $6,000. This program is funded from federal funds through an agreement with the State Department of Education.

- **The California Chafee Grant Program**. Provides grants of up to $5,000 to eligible foster youth who are enrolled in college or vocational school at least half-time. New and renewal awards are assigned based on available funding. This program is funded from federal funds and the General Fund through an agreement with the State Department of Social Services.

- **The California National Guard Education Assistance Award Program.** Provides funding for active members of the California National Guard, the State Military Reserve, or the Naval Militia who seek a certificate, degree, or diploma. Recipients attending the UC or CSU may receive up to the amount of a Cal Grant A award. Recipients attending a community college may receive up to the amount of a Cal Grant B award. Recipients attending a private institution may receive up to the amount of a Cal Grant A award for a student attending the University of California. An award used for graduate studies may not exceed the maximum amount of a Cal Grant A award plus $500 for books and supplies. This program is funded from the General Fund through an agreement with the California Military Department.

- **The Law Enforcement Personnel Dependents Scholarship Program.** Provides college grants equivalent to Cal Grant amounts to dependents of: California law enforcement officers, officers and employees of the Department of Corrections and Rehabilitation, and firefighters killed or permanently disabled in the line of duty. This program is funded from the General Fund.

- **The John R. Justice Program.** Provides loan repayments to eligible recipients currently employed as California prosecutors or public defenders who commit to continued employment in that capacity for at least three years. Recipients may receive up to $5,000 of loan repayment disbursed annually to their lending institutions. This program is federally funded through an agreement with the Office of Emergency Services.

Governor's Budget Proposals. The Governor's budget includes the following adjustments related to postsecondary education financial aid funding administered by CSAC:

- **Cal Grant Program Growth.** Includes $3.4 million General Fund in 2013-14, and $103.3 million General Fund in 2014-15, to reflect increased participation in the Cal Grant program. Of the 2014-15 amount, $28 million is attributable to the second year of implementation of the California Dream Act.

- **Expand Cal Grant Renewal Award Eligibility.** Includes $14.9 million General Fund to allow students who have previously been denied a Cal Grant renewal award for financial reasons (their income rose above eligibility levels) to reapply for the program no more than three academic years after receiving their original award (if their incomes fall below the income threshold in that timeframe).

- **Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements.** Includes a decrease of $3.2 million General Fund to reflect increased TANF funds available through an interagency agreement with the Department of Social Services. This adjustment will bring the total TANF funds expended on the Cal Grant program to $544.9 million in 2014-15.

- **Offset Cal Grant Costs with Student Loan Operating Fund (SLOF).** Includes $60 million SLOF funds to offset Cal Grant General Fund costs.

- **Middle Class Scholarship Implementation.** Includes $107 million General Fund to begin implementation of the Middle Class Scholarship Program.

The majority of the Governor's budget financial aid adjustments are based on existing statutory or program requirements (such as Cal Grant Growth and Middle Class Scholarship Implementation) or funding offsets that do not impact program operations (such as the SLOF and TANF offsets). The proposal to expand Cal Grant renewal eligibility is the only significant financial aid policy change contained in the Governor's budget.

LAO. In its analysis of the Governor's proposed 2014-15 higher education budget, the LAO makes the following recommendations relative to financial aid programs:

- **Consider Prioritizing Middle Class Scholarship Awards.** Early estimates suggest the statutory appropriation of $107 million may be insufficient to cover the award levels scheduled for 2014-15. As a result, awards are likely to be prorated downwards. Rather than reducing all awards proportionally, the LAO recommends the Legislature consider adjusting this requirement to prioritize students with greater financial need. Students with the highest need could receive the full scheduled award (up to 14 percent of UC or CSU tuition for 2014–15) while those with no financial need might receive lesser amounts.

- **Recommend Time Limit for Middle Class Scholarship Awards.** The LAO points out that many financial aid programs, including Cal Grants, provide support for a limited number of years (typically four years of full–time enrollment or the equivalent). Such limits provide a strong incentive for students to complete their studies expeditiously. California's nonprofit colleges and universities maintain that Cal Grant recipients at their institutions have higher four–year graduation rates than nonrecipients because of this incentive. For the new Middle Class Scholarship Program, however, the number of years a student may qualify for awards is unlimited. The LAO recommends the Legislature set a statutory time limit, comparable to the Cal Grant limit.

- **Recommend Adopting Cal Grant Eligibility Change.** According to the LAO, there is no justification for denying a Cal Grant renewal award to an otherwise eligible recipient who temporarily exceeded financial limits in one of the past few years. The LAO recommends the Legislature adopt the Governor's proposal to permit these recipients to qualify for renewals within three academic years of initially receiving an award.

Issues to Consider.

Funding for Two Financial Aid Outreach Programs Set to Expire in 2015-16. The LAO has also pointed out that California funds two relatively longstanding financial aid outreach programs that expire in 2015-16: The California Student Opportunity and Access Program and the California Cash for College Program. Created in 1978, the California Student Opportunity and Access Program is designed to increase postsecondary education opportunities for low–income and underrepresented elementary and secondary school students. The program provides special tutoring, counseling, and information services to participants. Funds support 15 local consortia, each consisting of a local high school and community college. Consortia also include representatives from nonprofit educational, counseling, or community agencies, as well as postsecondary education institutions. The second outreach program, California Cash for College, provides free workshops across the state to help students and their parents complete the federal financial aid application.

Both programs have been funded at times from the General Fund, the Student Loan Operating Fund, and federal funds. Since 2008-09, they have been supported by the federal College Access Challenge Grant, which is set to expire in 2015-16. The LAO recommends the Legislature direct CSAC to report on outcomes and effectiveness of these programs by October 2014. The Legislature could use this information to determine whether to continue funding these outreach efforts (including whether to backfill with state funds if the federal grant is not renewed).

Research cited by Education Trust-West notes that students who apply for financial aid are twice as likely to enroll in college as students who do not, and are more likely to persist in college once they have enrolled; thus, policies that encourage applying for financial aid appear warranted.

Education Trust-West has made several recommendations to increase the number of students applying for federal financial aid and Cal Grants, including having school districts automatically submit graduation verification and student GPA's to CSAC, having school districts track students' application progress using the electronic WebGrant system, and having CSAC annually report application data by high school to the public.

How State Financial Aid Programs Impact Access and Affordability. Although, as the LAO points out, public financial aid covers tuition for the majority of public college students, living expenses, including food and housing; transportation; and personal expenses, make up the majority of undergraduate student budgets. These expenses are similar across segments (roughly $13,000 at CCCs and the CSU and $16,000 at the UC). These costs are relatively high in California, about 20 percent higher than the national averages.

According to an April 2013 report by the Institute for College Access and Success (TICAS), done in collaboration with more than a dozen other student, civil rights, business, and college access organizations, Cal Grant awards for many qualifying students have been stagnant for decades and many of California's low-income college students are left out of the program entirely. For example, TICAS points out that the original Cal Grant B access award was $900 in 1969-70, equal to $5,900 in 2012-13 dollars. Instead the 2012-13 access award of $1,473, where it remains today, was just one quarter of what the original award would be worth had it kept pace with inflation. TICAS also points out that, beside the recent high school graduate entitlements; all other eligible applicants compete for a very limited number of grants. According to their report, in 2012-13, there was only one competitive Cal Grant available for every 17 eligible applicants.

More recently, TICAS has reported that college affordability, as measured by the proportion of family income needed to pay college costs, is inversely related to family income, with lower income families expected to contribute a much larger share of their income to paying for college than higher income families. The following table, prepared by TICAS, displays college costs by net price for different income ranges, percentage of total income required to pay for college, and percentage of discretionary income required to pay for college.

Income Range	What does college cost?			Is the cost of college affordable?					
	2011-12 Net Price by Family Income			Share of *Total Income* Required to Pay the Cost			Share of *Discretionary Income* Required to Pay the Cost		
	UC	CSU	CCC	UC	CSU	CCC	UC	CSU	CCC
$0 - $30,000	$8,808	$6,563	$5,815	29%	22%	19%	64%	48%	42%
$30,001 - $48,000	$10,126	$8,945	-	21%	19%	-	32%	28%	-
$48,001 - $75,000	$13,771	$13,387	-	18%	18%	-	23%	23%	-
$75,001 - $110,000	$21,234	$18,572	-	19%	17%	-	23%	20%	-
> $110,000	$28,282	$20,021	-	19%	13%	-	21%	15%	-

TICAS, along with other student, civil rights, business, and college access organizations have presented three recommendations designed to build on the strengths of the Cal Grant program and better serve California's students going forward:

1. Increase the Cal Grant B access award.
2. Serve more of the state's Cal Grant eligible students.

3. Include tuition awards for first-year Cal Grant B recipients at universities.

The Cal Grant maximum award for students attending private nonprofit colleges and universities is scheduled to decrease by 11 percent in the budget year. The 2012 Budget Act put in place reductions to the Cal Grant award amounts for independent non-profit and accredited for-profit institutions. The Governor's 2014-15 budget proposal accounts for the continued reduction. More than 32,000 California students use Cal Grants to help them attend these schools, allowing access to college for low-income students during a period in which the CSU system is turning away eligible students. The chart below indicates the reduced amount of the Cal Grant for these schools.

Cal Grant Maximum Award for WASC Accredited Private Colleges and Universities					
	2011-12	**2012-13**	**2013-14**	**2014-15**	**Cumulative Change**
Cal Grant Amount Per Student	$9,708	$9,223	$9,084	$8,056	-17%

A trailer bill associated with the 2011 budget act put into place state requirements for an institution's participation in the Cal Grant program. Currently, all participating institutions where more than 40 percent of students borrow federal loans must have a cohort default rate of no more than 15.5 percent and a graduation rate of at least 30 percent.

Given the role that accredited private nonprofit colleges and universities play in California's postsecondary education system and the need to maximize degree and certificate output (many studies point to a significant gap between the number of degrees and certificates that the workforce will demand in the next decade and the number that California is on pace to produce), it is important to understand how the reductions in the maximum Cal Grant award impact access and affordability at these institutions. In addition, the LAO has pointed out that, overall, the state cost of a Cal Grant student in a private nonprofit college or university is less than the state cost of a Cal Grant student at the UC or CSU. The LAO estimated that in 2012-13, the annual state subsidy provided for a Cal Grant student attending a UC institution was approximately $24,200, $12,985 at the CSU, and $9,223 at a private nonprofit institution.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, March 20, 2014
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191

Consultants: Jennifer Troia, Jody Martin, and Mark Ibele

Proposed Discussion / Vote Calendar

6110 **Department of Education** **Page**

Issue 1 Common Core Standards Implementation (Informational Item) 2
Jillian Kissee, Department of Finance
Edgar Cabral, Legislative Analyst's Office
Monique Ramos, Department of Education
Kimberly Rodriguez, Association of California School Administrators

Issue 2 Student Assessment Proposals (Informational Item) 9
Jillian Kissee, Department of Finance
Edgar Cabral, Legislative Analyst's Office
Diane Hernandez, Department of Education

Public Comment

6360 **Commission on Teacher Credentialing**
Kimberly Leahy, Department of Finance
Jameel Naqvi, Legislative Analyst's Office
Mary Vixie Sandy, Ed.D., Commission on Teacher Credentialing
Teri Clark, Commission on Teacher Credentialing

Issue 1 Accreditation Fee Proposal (Discussion / Vote) 16

Issue 2 Inter-account Fund Transfers (Discussion / Vote) 18

Issue 3 Teacher Induction Programs (Informational Item) 25

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Items Proposed for Discussion

6110 DEPARTMENT OF EDUCATION

Issue 1: Common Core Standards Implementation (Information Only)

This informational item is included to update the subcommittee about state and local implementation of California's Common Core State Standards (CCSS), including what is known or not known, about how local education agencies (LEAs) are spending $1.25 billion in one-time Proposition 98 funding that was provided in the 2013-14 budget for CCSS implementation.

Specifically, these funds were provided to school districts, county offices of education, charter schools, and state special schools to spend for 2013-14 and 2014-15, in three areas of CCSS implementation: professional development for teachers and other educators, instructional materials, and technology enhancements. This level of funding provides $201 per pupil. The funds were distributed to LEAs by late October 2013.

As a condition of receiving these funds, LEAs must meet two requirements:

1. Develop and adopt an expenditure plan, which is presented in a public meeting and adopted in a subsequent public meeting. There is no requirement to submit that plan to the California Department of Education (CDE).

2. By July 1, 2015, report certain expenditure information to the CDE about purchases made and the number of teachers and other educators that received professional development. By January 1, 2016, the CDE must submit to the Legislature, and the Department of Finance (DOF), a report that summarizes this expenditure information.

With the exception of the budget request for assessments described in Issue 2 of this agenda, the Governor's budget does not propose any new dedicated resources to support CCSS implementation. However, the Governor's budget includes a significant increase in Proposition 98 funding for allocation to LEAs in 2014-15 for the second-year implementation of the Local Control Funding Formula (LCFF)—an increase of $4.5 billion for school districts and charter schools (roughly $750 per student) and $25.9 million for county offices of education. While there are some limited restrictions on the expenditure of LCFF funds, these monies are a major source of discretionary funds that LEAs will spend on core and supplemental educational programs, which could include ongoing implementation of the CCSS.

Also, the Governor's budget proposes to pay off all remaining K-12 apportionment deferrals in 2014-15, which will provide a total of $5.6 billion in funding to LEAs. The Legislative Analyst's Office (LAO) believes that paying down these deferrals will reduce LEAs' needs for cash-flow borrowing but not result in significant additional program spending. Depending on how a LEA implemented the deferrals, some LEAs could be in a position to use some of this funding for new programs, including the standards implementation.

<u>California's Adoption of the CCSS</u>

The CCSS are academic content standards in English-language arts and math that define what pupils should know and be able to do at specific grade levels. The CCSS were developed from an initiative of the Council of Chief State School Officers and the National Governors Association. Key goals of the initiative were to standardize what states expect of their students; to transform instruction by focusing on fewer, higher, and deeper standards; and to define the knowledge and skills that students should have in order to graduate high school ready to succeed in college and be prepared for the workforce.

California is one of 45 states that adopted the CCSS. In August 2010, the State Board of Education (SBE) adopted the CCSS in English-language arts and math and additional California-specific standards that were determined necessary to maintain the rigor of California's already high academic content standards.

<u>CCSS Implementation is a System Transformation</u>
Significant effort is underway at the state and local levels to implement the standards. Full implementation will occur over several years, as the state's public education system is transformed to align to the standards. Below are the system elements that are affected:

- Standards in other content areas, such as science, history-social science, and English-language development, must be aligned to the CCSS.

- Curriculum frameworks are the blueprint for implementing the standards, which include criteria by which instructional materials are evaluated.

- Instructional materials must be aligned to the current standards.

- Professional development must be provided to teachers and instructional leaders.

- Student assessments must be developed that are aligned to the new standards. Summary assessments measure student mastery of academic content towards the conclusion of a course, while interim and formative assessments give teachers earlier opportunities to assess student learning and to improve instruction.

<u>State-Level Efforts</u>
In March 2012, the SBE adopted a CCSS systems implementation plan, which builds towards the goal of implementing CCSS-aligned assessments in spring of 2015. State implementation efforts to date include, among other things, the establishment of these elements aligned to the CCSS:

- Supplemental instructional materials in English-language Arts and Math that build off materials based on the state's prior content standards, until new CCSS-aligned materials are adopted (approved Nov. 2012, Jan. 2013, July 2013)

- Curriculum framework for Math and K-8 Math Instructional Materials (adopted Nov. 2013 and Jan. 2014, respectively)

- English-Language Development Standards (adopted Nov. 2012)

- Next Generation Science Standards (adopted Sept. 2013)

- Professional development modules that provide instructional strategies for educators to deliver CCSS-curriculum (available online at no cost to educators)

The adoption of a curriculum framework for the English-Language Arts/English Language Development Standards is anticipated by May 2014, with instructional materials for those areas by November 2015.

Major Transition to CCSS-Aligned Assessments
California and 22 other states are members of the Smarter Balanced Assessment Consortium (SBAC), which is working to develop CCSS-aligned assessments. SBAC and a second consortium of other states, Partnership for Assessment of Readiness for College and Careers, received funding from the federal government under the Race to the Top Assessment Program, to develop CCSS-aligned assessments.

Unlike the state's prior assessments, which were multiple-choice pencil-and-paper tests, the SBAC assessments will be computer-based, computer-adaptive tests that students will take on a computer or tablet. These tests will have a broader range of question types that are designed to illicit critical thinking, reasoning, and problem solving, and which reflect critical skills for college and career readiness. LEAs will need the technological capacity (including high-speed internet connectivity/bandwidth, hardware/devices, software, and technology staff) to administer these assessments to all students within the required testing window. Because this is a major transition to computer-based exams, a pencil-and-paper test will be an option during the first three years of CCSS testing.

AB 484 (Bonilla), Chapter 489, Statutes of 2013, established the state's plan to transition from the prior assessment program, Standardized Testing and Reporting (STAR) Program, to the new California Assessment of Student Performance and Progress (CAASPP), which includes the CCSS-aligned assessments, among other state tests. The new assessment system is described in more detail in Issue 2 of this agenda.

During the transition, in 2013-14, the state will not administer the California Standards Tests (CSTs) in English-language arts and math, which are aligned to the former academic standards and have been used to meet accountability requirements under the federal No Child Left Behind Act (NCLB) of 2001. Instead, California will participate in a field test of the SBAC assessments. (Recently, the federal government granted California its request to waive NCLB testing requirements for one year, so that California can conduct this field test and avoid double testing students with the CSTs. The waiver is necessary because the field test will not yield individual student test results for accountability purposes.)

The SBAC field tests are a "test of the tests" to ensure the quality of test questions, to establish proficiency levels, and to assess the technological capacity of LEAs to administer the tests. The field tests will occur from March 25, 2014 through June 6, 2014. Within that time frame, the state has assigned LEAs one of four testing windows in which to conduct the tests. Nearly all students (95 percent) will take a field test that includes sample items in both English-language arts and math; the other five percent of students will be tested in only one of those subjects. The field tests are approximately half the length of the operational tests that will begin in spring 2015.

CCSS Implementation Cost
Since the CCSS are common to most states, there are opportunities for states to jointly develop and share instructional materials and tests and to collaborate on best practices for implementing the standards. Still, there are implementation challenges and costs related to obtaining new instructional materials, providing professional development to teachers and administrators, and implementing computer-based assessments.

During the 2013-14 budget hearings, the CDE provided its estimate of $3 billion over two years (2013-14 and 2014-15) for the statewide costs of CCSS implementation. No other estimate has been provided to the Legislature. While it is clear that the implementation cost is significant, it will be offset by the shifting of current costs to CCSS activities, benefits of shared costs with other states, and improved efficiencies.

In light of this, the 2013-14 budget provided $1.25 billion in one-time Proposition 98 funding ($201 per pupil) for LEAs to spend over two years (2013-14 and 2014-15) for professional development, instructional materials, and enhancements to technology.

LEA Implementation

There is limited information about the status of CCSS implementation by LEAs across the state, including how LEAs are spending their one-time CCSS implementation funds and what their additional funding needs may be. There are three surveys that shed light some light on these issues:

1. During summer 2013, the CDE surveyed LEA information technology directors about technology preparedness. There were 880 respondents (683 school districts, including the 25 largest districts, and 197 charter schools), representing 87 percent of K-12 student enrollment.

2. In fall 2013, the California County Superintendents Educational Services Association (CCSESA), on behalf of the Consortium for the Implementation of the Common Core Standards, surveyed all school districts about CCSS implementation. There were 818 respondents, representing 83 percent of student enrollment.

3. This month, the Association of California School Administrators (ACSA) conducted a CCSS implementation survey of its members. There were 232 respondents (222 school districts and 10 county offices of education), representing 24 percent of student enrollment.

Notable findings from these surveys are described below. (The CDE recently released a voluntary online survey for LEAs to share their CCSS implementation status; there are no survey findings at this time.)

Use of One-Time Implementation Funds

In CDE's survey of LEA IT directors (summer 2013), 86 percent of the respondents said they would use implementation funds to purchase technology equipment to prepare for the SBAC assessments.

In CCSESA's survey (fall 2013), respondents were asked about their expected allocation of the implementation funds for technology, professional development, or instructional materials. For each of those purposes, roughly half of the respondents indicated they would spend 25 to 50 percent of their funds in that area, indicating that the funds are being fairly evenly split across the three areas. About 10 percent of the respondents indicated they would spend at least 75 percent of their funds on technology, and even fewer respondents would spend that much on professional development or instructional materials. According to CCSESA, districts reported their biggest implementation challenges are: time (too much all at once), funding, technology, instructional shifts (increased rigor and across subjects), and lack of curriculum (materials and assessments).

In ACSA's survey (March 2014), 43 percent of the respondents reported they had already spent at least 61 percent of their one-time implementation funds. Only about 13 percent of the respondents said they had spent 20 percent or less of their funds. When asked about their spending priorities for these funds, there was little difference in the percentages of ACSA respondents that rated each area (technology, professional development, and instructional materials) as their 1-2 highest spending priorities. Instructional materials slightly outranked technology and professional development. In terms of where they would put additional funding, instructional materials and professional development (including professional development on technology) appear to be their future spending priorities. The survey did not ask about the amount of additional funding needed.

Instructional Materials

In CCSESA's survey, only 25 percent of school districts reported using the supplemental instructional materials in English-language Arts and math that were adopted by the SBE. Most school districts (88 percent) reported they are using other materials and resources. Many school districts indicated they will purchase new instructional materials within the next 18 months for math (62 percent) and English-language arts (about one-third). Similarly, ACSA reported that purchasing new instructional materials is a high priority for many LEAs. In the past, the state provided dedicated funding for instructional materials through the Instructional Materials Block Grant. That funding was ultimately consolidated into the LCFF.

Professional Development

CCSESA's findings suggest that there is much work remaining to train teachers on the CCSS and implement CCSS curriculum in classrooms. According to CCSESA, on average, school districts expect to provide about 40 hours per year of training on the CCSS for teachers and administrators. Other findings are:

- A majority of school districts reported that all their site administrators have received training in the CCSS in both English-language arts (71 percent) and math (68 percent). But fewer districts reported that all of their teachers have received training in the CCSS in English-language arts (42 percent) or math (39 percent).

- Teachers in all grades at about half of school districts understand the content, structure, and organization of the CCSS and understand the English-language arts skills or the math progressions. The creation of CCSS units or lessons, or the alignment of existing units or lesson to the CCSS, is either planned or has not yet taken place in 45 percent of school districts.

- About half of school districts reported that teachers have identified strategies and resources to support the transition to the CCSS for English language learners or students with disabilities.

In the past, the state provided dedicated funding for professional development, including the Professional Development Block Grant. That funding was ultimately consolidated into the LCFF.

Technology

The following table shows LEA report of their technology needs to administer the SBAC assessments from the CDE's technology survey last summer. At that time, the respondents overall indicated that the greatest need was for professional development related to technology. A high need for headphones, laptops, and tablets was also identified. Less need was identified for internet bandwidth, keyboards, and printers. About two-thirds of the respondents reported a high or moderate need for facilities. (In ACSA's survey, most of the respondents identified classrooms/facilities as being their highest priority need, over hardware/devices and internet bandwidth/connectivity, for administering the SBAC field test.)

Reported Level of Technological Need to Administer Smarter Balanced Assessments in 2014–15 CDE Technology Survey, Summer 2013 (683 school districts and 197 charter schools)			
	Percentage of Respondents Reporting High Need	**Percentage of Respondents Reporting Moderate Need**	**Percentage of Respondents Reporting Low Need**
Desktop	27%	38%	35%
Laptops	44%	34%	22%
Tablets	44%	28%	28%
Keyboards	18%	27%	55%
Headphones	50%	34%	16%
Printers	20%	40%	41%
Assistive Technology	32%	40%	28%
Internet Bandwidth	26%	24%	50%
Internal Bandwidth	29%	27%	43%
Wireless Access	42%	26%	32%
Professional Development	53%	38%	10%
Facilities	27%	40%	33%

[1] Row totals may not equal 100 percent due to rounding.
Source: California Department of Education

The SBAC-developed online Technology Readiness Tool enables school districts to do an intensive inventory of technology capacity across all their schools. According to the CDE, about 30 percent of school districts, representing 34 percent of the student testing population, have completed the tool. In addition, the CDE is working with the K-12 High-Speed Network to assist LEAs with their technology needs. The network provides internet connection for LEAs at no cost to them. All county offices of education, 88 percent of school districts, and 83 percent of schools are connected to the K-12 network. It is part of a broader communications network, the California Research and Education Network, which is operated by the Corporation for Education Network Initiatives in California (CENIC).

It has been reported generally that all school districts have internet connectivity (but this is not true for all schools), and the majority of districts expect that all of their schools will assess students during the 2014-15 school year with computers.

Staff Comment.
Widespread transition to the CCSS is a several-year endeavor due to the development and implementation of curriculum, professional development, instructional materials, and assessments aligned to the standards. There is a significant, yet indeterminate, cost to make this statewide transition. The upfront costs for initial professional development, instructional materials, and technology will evolve into ongoing costs for LEAs to maintain these resources. Over time Proposition 98 funding increases provided through the LCFF will help to support ongoing CCSS implementation; however, the funding formula will provide greater resources to some districts than others.

While information about LEA spending on CCSS implementation is limited, data from LEA surveys suggests that most LEAs will use the existing one-time implementation funds across technology, professional development, and instructional materials, rather than invest in only one of these areas, and LEAs report needing additional funding for all three purposes. LEAs that prioritized their existing one-time implementation funds for technology in light of the upcoming SBAC assessments may have remaining needs for instructional materials and professional development. Some districts have initially used supplemental (bridge) instructional materials with the intention to purchase new CCSS-aligned materials later coinciding with the state's adoption of approved materials. In addition, a large percentage of districts reported that not all teachers in their schools are trained on the CCSS nor have they all aligned their classroom lessons to the CCSS.

For these reasons, the Legislature may want to consider providing additional one-time funding to LEAs for CCSS implementation.

Subcommittee Questions

1. **Implementation Status.** What is the status of CCSS implementation across school districts and schools—Are students being taught with curriculum and materials that are aligned to the CCSS?
    a. Have survey/outreach efforts focused on charter schools?
    b. Are CCSS instructional strategies in place for students with special needs (such as English-language learners and students with disabilities)?

2. **Technology Readiness**
    a. Overall, what is the technology readiness of LEAs to implement the SBAC assessments? Are there differences by type of district and school (i.e., urban/suburban/rural)? Where do LEAs face the biggest technology challenges?
    b. LEAs may not have internet connectivity to schools in remote areas. For example, the CDE reported that one school district has a one-mile network gap that could be connected for a cost of $84,000 per foot. What can the state do to help LEAs address that kind of technology gap?

3. **New Cost Estimate**
    a. Is there a way to estimate the cost offsets (i.e., shift of existing costs and operational efficiencies)?
    b. What are the main upfront implementation costs that remain for most LEAs?

4. **Instructional Materials.** The SBE recently adopted instructional materials for math, but the board has not yet adopted instructional materials for English-language arts and English language development.
    a. In light of the SBE's schedule for adopting CCSS-aligned instructional materials, how are school districts meeting their instructional materials needs?
    b. With more instructional materials options on the market, including digital and online options, are LEAs able to purchase materials at a lower price than in the past?
    c. How has the state helped LEAs to navigate through the broad array of instructional materials options?

Staff Recommendation. Staff recommends the subcommittee request that the CDE continue to update the Legislature (1) as information becomes available from the Field Test and (2) if there is new information about LEAs' expenditure of the one-time implementation funds and their additional funding needs.

Issue 2: Student Assessment Proposals

The Governor's budget proposes a total of $149.4 million for student assessments in 2014-15, which is a $52 million increase over the 2013-14 appropriation. As shown below, this proposed funding level reflects $128.8 million in Proposition 98 funding and $20.6 million in federal funding (Title VI of the Elementary and Secondary Education Act). It also reflects planned expenditures of $125.9 million for state-level contract costs and $23.5 million for per-student funding to school districts to cover their test administration costs (this rate varies by test and ranges from $2.52 to $5.00 per student).

Budget for Student Assessments, 2014-15
($ in millions)

	2010–11 Enacted	2011–12 Enacted	2012–13 Enacted	2013–14 Enacted	2014–15 Proposed
Expenditures					
State–level contract costs	$88.0	$91.4	$94.4	$74.1	$125.9
District apportionments[a]	28.6	28.1	34.1	23.7	23.5
Totals	**$116.7**	**$119.5**	**$128.5**	**$97.8**	**$149.4**
Funding					
State Proposition 98 General Fund	$88.7	$90.4	$104.0	$72.7	$128.8
Federal Title VI	28.0	29.1	24.5	25.1	20.6
Totals	**$116.7**	**$119.5**	**$128.5**	**$97.8**	**$149.4**

[a] Provides per–student funding to cover district administration costs. Rates vary by test, ranging from $2.52 to $5 per student.

Source: Legislative Analyst's Office

The table below shows the proposed contract costs in the Governor's budget for each assessment area. The costs for new components of the assessment system are described in further detail below the table.

Contract Costs for Student Assessments, 2014-15
($ in millions)

Source:

New ELA and Math Assessments	
Administration and reporting	$67.5
SBAC–managed services[a]	9.6
Subtotal	($77.0)
Development of New Assessments	
English language development	$7.6
Next Generation Science Standards	4.0
Primary languages other than English	2.0
Subtotal	($13.6)
Ongoing Assessments	
California High School Exit Exam	$11.4
Prior–year testing costs	8.3
California English Language Development Test	7.4
Cost of other assessments	6.1
Assessment review and reporting	2.1
Subtotal	($35.4)
Total State–Level Contract Costs	**$125.9**

[a] SBAC will provide ongoing support of the assessment, including developing additional test items and conducting additional research.

ELA = English–language arts and SBAC = Smarter Balanced Assessment Consortium.

Legislative Analyst's Office

The budget proposal includes $77 million for administering the new CCSS-aligned SBAC assessments in English-language arts and math (a cost of $24 per student). This cost includes $67.5 million for the estimated costs of a test vendor contract for administering, scoring, and reporting the assessments. This estimate is based on data provided by SBAC. The other $9.6 million is the cost for SBAC to maintain the test system (for example, development of new test items and research). Both are cost estimates; actual costs will be determined by the outcome of the state's cost negotiations for a contract with a new test vendor and with SBAC.

The Governor's budget proposal assumes the CDE would go out to bid this spring for a new contract with a test vendor to begin the work on the SBAC assessments in July 2014. However, the CDE recently notified staff that CDE has determined it is unable to bid the contract as originally planned because that process requires bidders to have information about the SBAC system open-source code that will not be available until at least September 2014. Because that timing makes it impossible to bid and execute a contract for the spring of 2015 testing, the CDE intends to recommend that the State Board of Education extend the current contract with the existing testing contractor for a period that will allow for a new contract to be completed at a later date. This change will require the CDE to reassess its budget proposal for administration of the SBAC assessments.

The Governor's budget also proposes total funding of $13.6 million for the development of three new assessments:

- $4 million for a test aligned to the new Next Generation Science Standards that were adopted by the SBE in Sept. 2013

- $7.6 million for assessments aligned to the new English Language Development Standards that were adopted by the SBE in November 2012 (the existing California English Language Development Test is aligned to the state's former English Language Development Standards and is a single test used to determine both initial student placement and subsequent level of English language proficiency; the new assessments will include both a screening test to determine student placement and a separate end-of-year summative assessment of English language proficiency)

- $2 million for CCSS English-language Arts assessments in primary languages other than English (these tests will replace the Standards-based Tests in Spanish that are aligned to the state's former English-language Arts standards and potentially will also include tests in other languages)

The Governor proposes to make the funding for developing these new assessments and administering the SBAC assessments contingent upon DOF review of the testing contracts that are approved by the State Board of Education.

In addition, the Governor's budget proposes an increase of $482,000 in non-Proposition 98 General Fund to support four positions at CDE, due to an increase in assessments workload. The proposal includes language to make these positions contingent upon CDE's submission of feasibility study reports that demonstrate the additional workload. Specifically, two new two-year, limited-term positions ($250,000) are proposed to help link data from the new assessments to the California Longitudinal Pupil Achievement Data System (CALPADS). The other two positions ($232,000) are for experts in the use of technology in student assessment, given the expanded use of technology in the SBAC assessments. Funding for the technology expert positions would be contingent upon DOF approval of an expenditure plan that justifies the need for the positions. Additional position authority is not proposed for these two positions, so CDE must use existing positions authority.

Related Legislation.

AB 484 (Bonilla), Chapter 489, Statutes of 2013, established the state's plan to transition from the prior assessment program, Standardized Testing and Reporting (STAR) Program, to the new California Assessment of Student Performance and Progress (CAASPP), which includes the SBAC assessments aligned to the CCSS in English-language arts and math, among other state tests. Among these statutory requirements:

- Beginning in the 2014-15 school year, school districts, charter schools, and county offices of education are required to administer the SBAC assessments in English-language arts and math, replacing the previously administered STAR tests in those subjects.

- The Superintendent of Public Instruction is required to recommend to the State Board of Education a science assessment that is aligned to the Next Generation Science Standards, with a plan to administer the assessments beginning in the 2016-17 school year.

- The Superintendent of Public Instruction is required to develop and administer the English-language arts summative assessment in primary languages other than English by the 2016-17 school year, to the extent funding is provided for this purpose.

SB 201 (Liu), Chapter 478, Statutes of 2013, requires the development of new English language development assessments that are aligned to the CCSS, including one test for the initial identification of English learner pupils and a separate summative assessment of English language proficiency.

LAO Analysis

<u>SBAC Assessments</u>
The LAO notes that the cost of administering the SBAC assessments ($24 per pupil) is higher than the amount spent on the previous English-language arts and math tests under the STAR Program ($15 per pupil). The LAO believes the higher costs seem reasonable due to the different structure of the new exams. The prior tests were multiple choice pencil-and-paper exams, whereas the SBAC tests include performance tasks that feature written responses that cannot be scored by computer. Thus, the SBAC tests will be more expensive to score than the former multiple-choice exams. The LAO indicates that the budget proposal reflects a cost estimate and the actual cost of the new exams will be determined through CDE's negotiations for a new test contract.

Other new features of the SBAC test system are interim and formative assessment tools that will enable teachers to assess student learning and to improve instruction throughout the year. Statute requires that the state purchase these SBAC tools and provide them to districts at no cost. The state did not provide these tools under the STAR program; instead, that was a local cost for districts that chose to utilize them. The LAO notes that purchasing these tools from SBAC will increase state costs, but it will likely reduce total state and local costs given the economies of scale.

LAO Recommendations

The LAO recommends the following modifications from the Governor's budget proposals:

<u>Contract Oversight</u>
The LAO recommends that the subcommittee adopt the Governor's provisional language making assessment funding contingent upon DOF review of contract materials, in order to ensure that the funding provided in the budget is consistent with the actual contract costs. In addition, the LAO recommends that the subcommittee adopt additional language requiring the vendors of the state's

SBAC contract to meet with legislative staff and DOF staff on an annual basis to review components and costs of the contract, in order to provide additional contract oversight.

Assessment Positions

The LAO recommends that the subcommittee adopt language that would require legislative review, in addition to DOF review, of the required feasibility study reports prior to approving any new positions.

Staff Comment

SBAC Assessments

Staff concurs with the LAO's analysis of the increased costs associated with the SBAC assessments. Some level of increased cost for the new exams is expected and the actual cost will be determined through the contract negotiation process. As previously noted, the Governor's budget proposal assumes that the CDE would initiate a bidding process this spring for a contract for SBAC test administration to be in place by July 1, 2014. But recently, the CDE has determined that instead it will recommend that the State Board of Education extend the current contract with the existing test contractor to cover SBAC test administration in 2014-15. Consequently, the CDE will need to reassess its budget proposal for administration of the SBAC assessments.

Staff agrees with the LAO's recommendations to adopt language that (a) requires the vendors of the state's SBAC contract to meet with legislative staff and DOF staff on an annual basis to review the contract, and (b) requires legislative review of the required feasibility study reports prior to approving any new assessment positions for CDE. In addition, staff believes there should be legislative review, in addition to DOF review and approval, of the testing contracts before the CDE may spend the funding provided in the budget for those tests. Staff suggests that the subcommittee seek clarification from DOF about the proposed contract oversight language to ensure that the language's intent is to require DOF approval of the contracts.

English-Language Development Assessments ($7.6 million)

In reviewing this proposal, staff requested clarification about the total amount of savings from the current test contract (in 2013-14 and 2014-15) that CDE intends to use to fund a portion of this new test development. While CDE has now identified the total savings in the current contract that will be redirected towards this new work ($1.6 million), the CDE has not provided a scope of work that justifies a total cost of $9.2 million for developing these assessments. That information is necessary to justify the requested increase of $7.6 million for 2014-15.

Subcommittee Questions

1. **SBAC Test Administration Contract ($67.5 million)**
    a. The budget proposal assumes that the CDE would have a new test vendor contract in place by July 1, 2014, but staff has been informed that is no longer the CDE's plan. What is the CDE's timeline for an initial contract for the SBAC test administration?
    b. What is the Administration's position on the update from the CDE about the SBAC test contract?

2. **Interim and Formative Assessment Tools**
    a. Some of the cost for SBAC-managed services ($9.6 million) is for purchasing interim and formative assessment tools from SBAC. In addition, the budget assumes $4.7 million in costs for interim assessments under the state's SBAC test administration contract. Can you clarify what the test administration contract would provide for interim and formative assessments compared to what SBAC will provide?

3. **English-Language Development Test ($7.6 million)**
    a. Can the CDE provide a scope of work for developing these assessments that reflects the total estimated cost of the work, including the funds that CDE plans to redirect from savings in the current test contract?

Staff Recommendation. Staff recommends that the subcommittee hold this item open pending the May Revision and any updated information from the CDE regarding SBAC test administration and the English-Language Development assessments.

Items Proposed for Discussion and Vote

6360 COMMISSION ON TEACHER CREDENTIALING

Commission Overview. The California Commission on Teacher Credentialing (CTC) is an agency in the Executive Branch of California State Government. The major purpose of the agency is to serve as a state standards board for educator preparation for California public schools, the licensing and credentialing of professional educators, the enforcement of professional practices of educators, and the discipline of credential holders. The CTC consists of 19 members, 15 voting members and four ex-officio, non-voting members. It is supported by a staff of approximately 152 authorized positions.

The CTC is responsible for the following major, state operations activities, which are wholly supported by special funds:

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

The CTC currently processes approximately 226,000 candidate applications annually for 200 different credential and waiver documents. In addition, it currently administers – largely through contract – a total of five different educator exams for approximately 116,000 educators annually, monitors the assignments of educators, and reports the findings to the Legislature.

The CTC also must review and take appropriate action on misconduct cases involving credential holders and applicants resulting from criminal charges, reports of misconduct by local educational agencies, and misconduct disclosed on applications. In 2012-13, it received new reports from all these sources and, upon review, opened 5,849 cases. During 2012-13, it completed disciplinary review for 6,660 cases.

Lastly, the CTC is responsible for accrediting 261 approved sponsors of educator preparation programs, including largely public and private institutions of higher education and, local educational agencies in California. Of this total, there are 23 California State University programs; eight University of California programs; 58 private college and university programs; 172 local educational agency programs; and three other sponsors. All sponsors participate in the CTC's cycle of accreditation activities, which include an on-site visit once during the seven-year cycle.

In 2012-13, the CTC suspended accreditation-site activities due to budget constraints. The accreditation system was also suspended, from December 2002 through June 2007, due to both declining CTC budgets and because the Commission was developing a revised accreditation system. As a result of these suspensions, there is a group of educator preparation institutions that have not hosted a site visit in more than ten years. The CTC believes the lack of on-site visits has allowed some programs to stray from the Commission's standards, as it affects selecting quality instructors and placing intern teachers in appropriate supervised field instruction.

Budget Overview: The CTC is a "special fund" agency whose state operations are supported nearly entirely by two special funds -- the Test Development and Administration Account (0408) and the Teacher Credentials Fund (0407). The CTC receives no General Fund support. Of the CTC's $19.8 million state operations budget in 2013-14, about 77 percent is supported by credential fees, which are a revenue source for the Teacher Credentials Fund and 22 percent is supported by educator exam fees, which fund the Test Development and Administration Account. The other one percent is supported by reimbursements from the Department of Education.

As shown in the table below, the Governor's budget proposes a total of $20.4 million for the CTC budget in 2014-15, providing an overall net increase of $640,000 (3.2 percent). This change mostly reflects the Governor's proposal to increase revenues to the Teacher Credentials Fund by $650,000, by allowing the CTC to charge new fees for reviewing existing educator preparation programs for accreditation. This fee proposal, which builds upon the accreditation fee authority the CTC received in the 2013-14 budget, is described further below.

The Governor proposes to continue $308,000 in reimbursements from the Department of Education for support of the Teacher Misassignment Monitoring Program in 2014-15. The CTC receives no General Fund.

Summary of Expenditures (Dollars in Thousands)	2013-14	2014-15	Change	% Change
General Fund, Proposition 98	$0	0	$0	0.0
Teacher Credentials Fund	15,271	15,919	648	4.2
Test Development & Adm. Account	4,226	4,218	-8	-0.2
	--	--	--	--
Reimbursements	308	308	0	0.0
Total	**$19,805**	**$20,445**	**$640**	**3.2**
Full-Time Positions*	**135.8**	**147.1**	**11.3**	**8.3**
Authorized Positions*	**152.4**	**152.4**	**0.0**	**0.0**

*Positions do not include temporary help (retired annuitants)

For 2014-15, the Governor proposes $20.1 million from the two special funds that support the CTC's state operations: $15.9 million from the Teacher Credentials Fund and $4.2 million from the Test Development and Administration Account. The Governor proposes 152.4 authorized positions for CTC, which reflects no change from 2013-14.

Items Proposed for Discussion / Vote

Issue 1: Accreditation Fee Proposal (Governor's Budget Trailer Bill Language)

The Governor's budget adopts a CTC proposal to institute new fees, beginning in 2014-15, to recover a portion of the standard costs of reviewing existing education preparation programs for accreditation. This proposal builds upon the authority the CTC received in the 2013-14 budget, to institute new fees for certain other accreditation services beginning in 2013-14. Similar to that reform, this proposal reflects the premise that sponsors of educator preparation programs should share in the cost of assuring program quality with credential holders.

Prior Action to Institute Accreditation Fees

The 2013-14 budget authorized the CTC to institute fees for the following three categories of accreditation activities:

- Initial accreditation for new institutions
- Review of new educator preparation programs
- Extraordinary accreditation activities for any institutions and programs that do not meet the CTC's standards and, therefore, require additional visits

These fees were designed to cover the non-salary, travel costs for new accreditation reviews and extraordinary accreditation activities. The fees were not intended to recover the entire costs of the accreditation process, which also include salary costs and other operating costs. The 2013-14 budget assumed that these fees would generate additional revenue of $200,000 to the Teachers Credential Fund in 2013-14, based on fees ranging from $500 to $3,000 per review. It was anticipated that those revenues would allow the CTC, in 2013-14, to resume the accreditation activities that it had suspended in 2012-13 due to insufficient funds.

On September 27, 2013, the Commission approved emergency regulations implementing a cost recovery plan to institute the fees for select accreditation activities. The fees became effective on October 30, 2013 after the emergency regulations were approved by the Office of Administrative Law. That cost recovery plan includes an option for institutions to use an in-kind contribution in lieu of paying a fee for the initial program review. The in-kind contribution consists of providing program reviewers who have completed the CTC's Board of Institutional Review (BIR) training. The in-kind option is not allowed to offset fees for other accreditation activities.

In 2013-14, to date, under the cost recovery plan, the CTC has assessed fees totaling about $31,500, which are primarily fees for new program proposals rather than for accreditation activities that go beyond the norm. According to the CTC, this level of fee collection is significantly lower than the 2013-14 budget projection of $200,000 due to the suspension of accreditation site visits in 2012-13. Since accreditation site visits have restarted in 2013-14, the CTC's budget assumes the fees will generate revenues of $200,000 in 2014-15.

Current Fee Proposal

The Governor's budget proposes trailer bill language to allow the CTC to institute new fees, beginning in 2014-15, for accreditation reviews of existing educator preparation programs. Like the fees previously instituted in 2013-14, the new fees are intended to cover only non-salary, travel costs for specific accreditation reviews, and not the entire cost of accreditation activities for educator preparation programs. The Governor's budget assumes the new fees would generate additional revenues of $650,000 to the Teacher Credentials Fund in 2014-15. This amount is in addition to the $200,000 assumed in the budget for the fees adopted in 2013-14.

Consistent with current law governing the CTC's existing accreditation fees, the trailer bill language would require the CTC to notify the legislative budget committees and the Department of Finance at least 30 days prior to implementing the new fees or making any adjustments to them. The trailer bill language would prohibit the CTC from accepting an in-kind contribution from sponsors of education preparation programs in lieu of assessing the new fees. However, the language would not impact the CTC's existing cost recovery policy that allows an in-kind contribution in lieu of the initial program review fee.

The CTC is currently working to identify specific options for implementing the new fees (for example, by institution and by program). It is anticipated that, in June, the Commission would consider a recommendation for the new fee policy and, in August, the Commission would consider emergency regulations to implement it.

Below are the specific activities that the additional revenues would support:

- Accreditation site visits (about 35-40 program sponsors annually)
- Pre-visits to institutions one year in advance of the accreditation site visit
- Training for the educators who serve on accreditation teams and for the team leaders
- Initial program reviews and program assessment reviews
- Convening a panel of experts to inform the Commission on revisions to the accreditation framework

Allocating the additional revenues to the above activities would enable the CTC to use freed up discretionary resources for other activities or staffing needs, such as policy work to align CTC programs with the Common Core State Standards, maintaining the technology infrastructure for online services and security, and filling vacant positions that are important for timely credential processing and discipline related field investigations. The CTC indicates that, absent the new revenues, there would be insufficient funds for accreditation site visits and these other important program responsibilities.

Issue 2: Fund Transfer from the Test Development and Administration Account to the Teacher Credentials Fund (Governors Budget Trailer Bill Language)

The Governor proposes trailer bill language that would require the State Controller to transfer funds from the Test Development and Administration Account to the Teacher Credentials Fund when monies in the Teacher Credentials Fund are insufficient to meet the CTC's immediate funding needs to cover payroll and other obligations.

Under the proposal, funds transferred to the Teacher Credentials Fund would be returned to the Test Development and Administration Account as soon as there are sufficient funds in the Teacher Credentials Fund, but no later than 60 days after the initial funds transfer. At that time, if there is a balance owed to the Teacher Development and Administration Account, then funds would be returned to the account in monthly installments as monies accumulate in the Teacher Credentials Fund. If, at the end of the fiscal year, a balance is still owed to the Teacher Development and Administration Account, then the Teacher Credentials Fund would be ineligible for further fund transfers until the Teacher Development and Administration Account is fully repaid.

This language would supplement existing provisional language in the annual budget act (which the Governor's budget proposes to continue) that presently allows the Department of Finance to authorize a fund transfer from the Test Development and Administration Account to address an operating deficit in the Teacher Credentials Fund. The Department of Finance must notify the Joint Legislative Budget Committee of the department's intent to authorize the fund transfer at least 30 days prior to authorizing the transfer.

According to the CTC, the current language proposal is intended to address the CTC's short-term cash flow needs in the Teacher Credentials Fund. Specifically, there is an uneven pattern of revenue accrual to the fund during the year—with the lowest revenues accrued during November and December. These short-term fund transfers would help to meet the CTC's cash needs during months when the fund has a low cash balance. The CTC indicates that the provisional language in the annual budget act continues to be necessary to permit fund transfers to the Teacher Credentials Fund in the event of an operating budget shortfall.

<u>Status of Teacher Credentials Fund (Credential Fees)</u>
The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. Current law also requires, as a part of the annual budget review process, the Department of Finance to recommend to the Legislature an appropriate credential fee sufficient to generate revenues necessary to support the operating budget of the Commission plus a prudent reserve of not more than 10 percent. In 2012-13, the credential fee was increased from $55 to $70 due to a projected budget shortfall and drop in credentials. This action restored the fee to the statutory maximum (Education Code §44235). The fee remained $70 for 2013-14, and there is no proposal to change the fee for 2014-15.

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

In 2000-01, the fee was dropped further to $55. The volume of credential applications grew substantially from 2000-01. However, as indicated by the following chart, applications began decreasing in 2007-08 as the state economy slowed. The CTC experienced a 25 percent decline in credential applications from 2007-08 to 2012-13, while experiencing about a 32 percent increase in nondiscretionary costs during that period. Recently, the number of credential applications has started to increase. Between 2012-13 and 2014-15, credential applications are projected to increase by 3.3 percent. At this time, however, the CTC is projecting little or no growth in credential revenue in 2014-15.

Summary of Credential Applications and Fees Since 2000-01

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14 Est	2014/15 Est
Credential Applications Received	215,954	239,501	250,701	235,327	233,164	240,159	254,892	267,637	264,153	246,899	232,208	230,559	225,287	232,789	232,789
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,561	2,561	2,561	1,287	893	858	751	713	713
Total	**223,819**	**247,419**	**255,845**	**238,154**	**235,566**	**242,159**	**257,453**	**270,198**	**266,714**	**248,186**	**233,101**	**231,417**	**226,038**	**233,502**	**233,502**
Credential Processing Staff*	**82.1**	**83.2**	**77.4**	**71.2**	**60.6**	**65.2**	**66.8**	**75.9**	**69.1**	**68.9**	**68.4**	**68.4**	**59.9**	**61.4**	**61.4**
Credential Fees **	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$70**	**$70**	**$70**

***Certification Assignment and Waivers Division Staff**
****Individuals applying for a Certification of Clearance and then a first time Credential (i.e., first-time teachers) only pay one fee for the two documents, based on the current credential fee, i.e., $70 credential fee (made up of $35 for Certificate of Clearance and $35 First Time Credential), then at 5-year renewal pay the full fee of $70.**

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

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

In recent years, the number of examinations has been falling. The CTC projects continuing declines in the number of examinees, based on the trends identified in the Teacher Supply Report and enrollment data from the various educator preparation programs. As the next chart shows, the CTC has made a number of adjustments in recent years, based upon the demand for the various exams, as indicated by the following table. In 2005-06, it raised fees by $6 for all exams, except the CBEST. Prior to this, fees had not been increased since 2001-02. However, in 2007-08, the CTC reduced fees for most exams.

Summary of Exam Fee Adjustments Since 2005-06						
Candidate Fee*	**2005-06**	**2007-08**	**2011-12**	**2012-13**	**2013-14**	**Change**
CBEST						
CBEST – Paper Based Test	--	-$10.00	--	--	--	-$10.00
CBEST – Computer Based Test	--	--	-$4.00	+$1.00	--	-$3.00
RICA						
RICA – Written Examination	+$6.00	-$10.00	+$35.00	+$6.00	--	+$37.00
RICA – Video Performance Assessment	+$6.00	-$10.00	--	+$41.00	--	+$37.00
CTEL	--		-$65.00	+$22.00	--	-$43.00
CSET	+$6.00	-$12.00	-$12.00	+$9.00	--	-$9.00
CPACE (Replaces the SLLA)	--	--	-$102.00	+$44.00	--	-$58.00

***No changes in exam fees were made in 2013-14 and no changes are planned for 2014-15.**
Source: Commission on Teacher Credentialing.

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

In March 2012, the CTC reviewed and approved additional fee increases for all of its major exams that were approved as a part of the 2012-13 budget. These fee increases achieved $500,000 in new revenues for the Test Development and Administration Account in 2012-13. No exam fee adjustments were made for 2013-14, and no adjustments are planned for 2014-15.

<u>Changing Condition of Special Funds and Budget Actions</u>
The Teacher Credentials Fund (0407) has been experiencing a loss of revenues since 2007-08, which has contributed to a widening gap between annual revenues from credential fees and expenditures for credential activities. The Test Development and Administration Account (0408) has also experienced declines in revenues in recent years, but has had healthy balances to cover expenditures.

Continuing revenue declines for CTC's two special funds, combined with some increased expenditure costs, resulted in a budget shortfall in 2011-12 that was addressed through a $1.5 million fund transfer from the Teacher Credentials Fund to the Test Development and Administration Account. The 2012-13 budget included credential fee and exam fee increases, as well as expenditure reductions, to avert another shortfall in the special funds. No fund transfers were necessary in 2012-13. Specifically, the 2012-13 budget included the following budget changes:

- **Credentialing Fee Increases.** Teacher credentialing fees were increased by $15 -- from $55 to $70 – which generated an estimated $3.4 million in additional revenue for the Teacher Credential Fund in 2012-13.

- **Exam Fee Increases.** Testing fees were increased by five percent in 2012-13, which generated an estimated $300,000 in additional revenue for the Test Development and Administration Account.

- **Staff Reductions and Other Savings.** State operations were reduced by $1.5 million in 2012-13 as a result of: (1) eliminating 13 positions to reflect streamlining the teacher preparation and credentialing processes, and (2) achieving operational savings from reduced information technology costs.

For the 2013-14 budget, the Legislature adopted the Governor's proposal to give the CTC authority to charge new fees, beginning in 2013-14, for certain activities related to the accreditation of institutions to operate educator preparation programs. These fees apply to new institutional reviews, new educator preparation program reviews, and extraordinary accreditation site visit activities.

<u>Estimated Fund Conditions for 2014-15</u>
Fund Condition Summaries for the Teacher Credentials Fund and the Test Development and Administration Account are displayed below. These summaries reflect updated revenue projections (as of the 2014-15 Governor's budget) and the Governor's proposed accreditation fee increase, which has the effect of increasing fee revenues within the Teacher Credentials Fund by $650,000 beginning in 2014-15. Otherwise, the budget assumes the CTC will experience little or no growth in credential revenue and testing revenue in 2014-15 and 2015-16.

Teacher Credentials Fund
Fund Condition

	2012-13 (Actual)	2013-14 * (Estimated)	2014-15 (Proposed)	2015-16 (Proposed)
Beginning Balance	-$74,000	$153,000**	$242,000	$539,000
Revenues	14,794,000	15,428,000	16,228,000	16,228,000
TDAA Transfer	0	0	0	0
Repayment of GF Transfer*	-540,000	0	0	0
Expenditures/ Appropriation	-13,891,000	-15,339,000	-15,931,000	-15,931,000
Ending Balance	**<u>$289,000</u>**	**<u>$242,000</u>**	**<u>$539,000</u>**	**<u>$836,000</u>**
Reserve %	*2.1%*	*1.6%*	*3.4%*	*5.2%*

*Repayment of the General Fund augmentation that was authorized by the 2009 -10 Budget Act, Item 6360-011-0407.
** The 2013-14 beginning balance includes an adjustment of -$136,000.

As a result of the budget actions adopted for 2013-14, the Teacher Credentials Fund (TCF) projects a positive fund balance of $242,000 in 2013-14; however, this equates to a reserve of only 1.6 percent. Assuming the $650,000 in new accreditation fees in the Governor's budget proposal, these fund balances are projected to remain positive at $539,000 in 2014-15 and $836,000 in 2015-16. However, reserves will continue to be low, 3.4 percent and 5.2 percent, respectively in 2014-15 and 2015-16. For comparison, in 2006-07, the TCF reserve was 33.4 percent.

In addition to its concern about this low reserve, the CTC has an ongoing concern about the cash flow in the TCF. Specifically, there is an uneven pattern of revenue accrual to the TCF throughout the year—with the lowest revenues occurring in November and December—that results in very low cash on hand during those times of the year. To address this cash flow issue, the Governor's budget proposes statutory language to require a fund transfer from the Test Development and Administration Account to the Teacher Credentials Fund when monies in the Teacher Credentials Fund are insufficient to meet the CTC's immediate funding needs to cover payroll and other obligations.

Absent the $650,000 in new revenues from the Governor's accreditation fee proposal, the CTC indicates that increases in nondiscretionary operational costs will outpace the growth in credential revenue and reduce the commission's resources for discretionary operational costs. Without the additional revenues, discretionary spending would make up 3.7 percent of CTC's 2014-15 budget. With those revenues, discretionary spending would increase to 6.7 percent of the budget.

For the Test Development and Administration Account, the CTC projects both positive fund balances and healthy reserves of $2,064,000 (48.9 percent) in 2014-15 and $1,954,000 (46.3 percent) in 2015-16.

FUND CONDITION
(As of 2014-15 Governor's Budget)
TEST DEVELOPMENT AND ADMINISTRATION ACCOUNT (TDAA)

	2012-13 (Actual)	2013-14* (Estimated)	2014-15 (Proposed)	2015-16 (Proposed)
Beginning Balance	$4,502,000	$2,314,000	$2,177,000	$2,064,000
Revenues	4,066,000	4,108,000	4,108,000	4,108,000
TCF Transfer	0	0	0	0
Repayment of GF Transfer*	-2,160,000			
Expenditures/ Appropriation	-4,094,000	-4,245,0000	-4,221,000	-4,218,000
Ending Balance	**$2,314,000**	**$2,177,000**	**$2,064,000**	**$1,954,000**
Reserve %	*56.5%*	*51.3%*	*48.9%*	*46.3%*

* Repayment of the General Fund augmentation that was authorized by the 2009-10 Budget Act, Item 6360-011-0408.

Staff Comments

The Test Development and Administration Account projects large, positive balances in 2013-14, 2014-15, and 2015-16; however, this fund's end-of-year balance continues to decline. For example, the Test Development and Administration Account is projected to end the 2014-15 and 2015-16 fiscal years with reserves of 48.9 percent and 46.3 percent, respectively. The reserve at the end of fiscal year 2012-13 was 56.5 percent.

The Teacher Credentials Fund projects a small positive balance of 1.6 percent in 2013-14. Assuming an additional $650,000 in fee revenues from the Governor's accreditation proposal, the Teacher Credentials Fund would end the 2014-15 and 2015-16 years with slightly higher positive balances of 3.4 percent and 5.2 percent, respectively. However, without the additional $650,000 in accreditation fees proposed by the Governor, the Teacher Credentials Fund would face a structural imbalance in 2014-15 and 2015-16.

The CTC anticipates the need for short-term fund transfers in 2014-15 to address immediate cash flow needs in the Teacher Credentials Fund at certain times of the fiscal year. However, the CTC doesn't expect the type of fund transfer that would be required to address an operating budget shortfall.

Accreditation fee proposal is reasonable and builds upon the fee authority provided in 2013-14. This proposal builds upon the authority the CTC received in the 2013-14 budget to institute new fees for certain other accreditation services. Similar to that past action, this proposal reflects the premise that sponsors of educator preparation programs should share in the cost of assuring program quality with credential holders.

Because the fees implemented in 2013-14 have so far generated only a portion of the revenues that were anticipated in the current year, staff questions whether those fees and the new fees proposed to begin in 2014-15 will generate the entire $850,000 in the Teacher Credentials Fund that is assumed by the Governor's Budget.

Including all of those revenues, the Teacher Credentials Fund is still projected to have small positive balances for 2014-15 and 2015-16. The CTC may need to consider additional options for stabilizing the Teacher Credentials Fund in the near future.

Subcommittee Questions.

1. **Accreditation Fee Proposal.**

    a. How did the CTC implement the accreditation cost recovery plan in 2013-14? What additional revenues have been generated from those accreditation fees?

    b. Have accreditation site visit activities resumed in the current year? Do those activities look any different now than in the past? What is the outlook for conducting these activities in the budget year?

    c. What was the impact of suspending accreditation site visit activities in 2012-13?

    d. How would the CTC implement the new fee proposal?

    e. What specific activities would the CTC accomplish as a result of receiving the additional revenues associated with this proposal?

2. **Prioritizing Resources.** The CTC indicates that, absent new revenues from the accreditation fee proposal, there would be insufficient funds to continue accreditation site visits and to make progress in other responsibilities such as aligning CTC programs with the Common Core State Standards, maintaining the technology infrastructure for online services and security, and filling vacant positions that are important for timely credential processing and discipline related field investigations.

    a. As revenues in the Teacher Credentials Fund have declined, how has the CTC prioritized its resources to support its program responsibilities?

    b. How has the decline in discretionary resources impacted the CTC's policy work? For instance, what has been the impact on CTC's efforts to align programs with the Common Core State Standards?

3. **Credential and Exam Fees**. Both credential fees and exam fees were increased in 2012-13. How did those fee increases affect the CTC's budget? Will additional fee increases be necessary in the near future?

4. **Workload Efficiencies**. What savings has CTC been able to achieve in the past few years due to workload reductions or efficiencies? Does CTC see the potential for future staff and operations savings from workload reductions or efficiencies?

5. **Fund Transfers to the Teacher Credentials Fund.** Does the CTC anticipate there will be an ongoing need for regular short-term fund transfers from the Test Development and Administration Account to the Teacher Credentials Fund?

Staff Recommendation. Staff recommends that the subcommittee approve the Governor's budget for the CTC (Issues 1 and 2) including, but not limited to, these proposals:

1. The Governor's trailer bill language to allow the CTC to institute fees for the standard costs of accreditation for existing educator preparation programs.

2. The Governor's trailer bill language to authorize fund transfers from the Test Development and Administration Account to the Teacher Credentials Fund for the purpose of meeting the CTC's immediate funding needs to cover payroll and other obligations.

VOTE:

Item Proposed for Discussion

Issue 3: Teacher Induction Programs (Information Only)

Teacher induction programs are intended to provide a support structure for beginning teachers. This informational item is included to update the subcommittee about recent issues affecting teacher induction programs in California, in light of the changes to state funding for teacher induction programs during the past few years, notably:

- From 2009-10 to 2012-13, the state provided local education agencies (LEAs) with spending flexibility intended to help them manage their budgets during challenging fiscal times. Specifically, LEAs were allowed to use funding for about 40 K-12 categorical education programs for the purposes of those programs or any other educational purpose. The Teacher Credentialing Block Grant, which provided state funding for the Beginning Teacher Support and Assessment (BTSA) Induction program, was among those programs that LEAs could decide to continue funding or redirect the funding to other educational purposes.

- In the 2013-14 budget, the state eliminated the separate funding streams for the majority of K-12 categorical education programs, including the Teacher Credentialing Block Grant, in order to redirect those monies for allocation to LEAs under the new Local Control Funding Formula (LCFF) and its accountability framework. Under that framework, LEAs have much greater flexibility to spend their funding allocations in support of state and local educational priorities than they did when the funds were restricted through categorical programs. There is no requirement for LEAs to spend LCFF monies on teacher induction programs.

It is important for the Legislature to assess how the elimination of dedicated state funding for teacher induction programs impacts (a) the availability and the quality of local induction programs across the state, and (b) the new teachers that must access these programs to fulfill their requirements for a clear teaching credentialing.

In addition, these issues should be examined due to the role teacher induction plays in teacher retention. Maintaining access to high quality teacher induction programs is a critical strategy for improving teacher retention. Teacher retention is an ongoing issue, but it is particularly relevant if there is a teacher shortage. While this is not currently the situation, and many beginning teachers have experienced lay-offs in recent years due to education budget cuts, other factors (such projected growth in student enrollments, and projected statewide increases in teacher retirements) could drive a demand for new teachers in future years.

In fact, recent data on enrollment in teacher preparation programs and the issuance of new teaching credentials points to a shrinking teacher workforce in California. According to the CTC's most recent annual report to the Legislature, in 2011–12, California saw a **12 percent** decrease in the number of newly-issued teaching credentials. This decrease is across all three types of preliminary teaching credentials and represents the eighth consecutive year in which the total number of initial teaching credentials issued has declined. Additionally, enrollment in teacher preparation programs has also dropped, as much as **33 percent** over the five-year period ending in 2010–11.

<u>Induction Program Completion is Required for a Teaching Credential</u>
In order to teach in a California public school, a teacher must have a teaching credential that is issued by the CTC. There are four basic teaching credentials that reflect the subject matter taught in schools: the Single Subject Teaching Credential, the Multiple Subject Teaching Credential, the Education Specialist Instruction Credential, and the Designated Subjects Teaching Credential.

To help ensure that individuals are prepared for teaching, the state has established requirements to receive a preliminary teaching credential and to advance to earn a clear teaching credential. Among these requirements, beginning teachers who have a preliminary credential must, in order to earn a clear credential, participate in a standards-based teacher induction program that has been approved by the CTC, if such an approved program is available. If such an induction program is not available to a teacher, the state allows for a contingency option for the teacher to complete a university Clear Credential program that has been approved by the CTC. Clear Credential programs have been referred to as "light" induction programs because they provide less intense mentoring, support, and guidance, and are significantly limited in availability.

Upon receiving the preliminary credential, a new teacher has five years to earn the clear credential. The requirement for completion of teacher induction is the result of teacher preparation legislation enacted in 1998, SB 2042 (Alpert), Chapter 548, Statutes of 1998, and 2004 AB 2210 (Liu), Chapter 343, Statutes of 2004.

Several years earlier, in 1992, the state created the Beginning Teacher Support and Assessment Induction Program (BTSA) to provide an effective transition for all beginning elementary and secondary teachers into teaching. Subsequent legislation enacted in 1998 and 2004 significantly expanded and changed the BTSA program. Specifically, the state established that the completion of a BTSA induction program is the preferred route for a new teacher to obtain a clear teaching credential.

<u>Background on BTSA Induction Programs</u>
The BTSA Induction Program provides beginning teachers, during their first two years of teaching, with standards-based, individualized advice and assistance that combines the application of theory learned in the preliminary teacher preparation program with mentor-based support and formative assessment. Historically, the program has been jointly administered by the CTC and the California Department of Education (CDE); however, CDE's infrastructure for supporting the program was eliminated in 2009 when the program underwent changes to state funding.

California Education Code 44279.1 establishes the following statutory purposes of the BTSA Induction Program:

- Provide an effective transition into teaching for first-year and second-year teachers in California.
- Improve the education performance of pupils through improved training, information, and assistance for new teachers.
- Enable beginning teachers to be effective in teaching pupils who are culturally, linguistically, and academically diverse.
- Ensure the professional success and retention of new teachers.
- Ensure that a support provider provides intensive individualized support and assistance for each participating beginning teacher.
- Improve the rigor and consistency of individual teacher performance assessment results and the usefulness of assessment results to teachers and decision makers.
- Establish an effective, coherent system of performance assessments that is based on the *California Standards for the Teaching Profession (CSTP)* adopted by the Commission in 1997.
- Examine alternative ways in which the general public and the educational profession may be assured that new teachers who remain in teaching have attained acceptable levels of professional competence.
- Ensure that an individual induction plan is in place for each participating new teacher and is based on an ongoing assessment of the development of the beginning teacher.
- Ensure continuous, ongoing program improvement through research, development, and evaluation.

Induction programs must meet state standards. To become a BTSA induction program, a local program must be approved by the CTC and comply with the Standards of Quality and Effectiveness for Teacher Induction Programs, which the CTC established in 2002, and last revised in 2013.

Under these state standards, formative assessment is a cornerstone of BTSA induction. The standards require the participating teacher and the support provider to collaboratively collect, analyze, and act upon evidence of the teacher's practice. BTSA Induction programs may use the no-cost state-developed formative assessment system known as the Formative Assessment for California Teachers (FACT) or a locally developed formative assessment system that meets the state standards.

Since 2009, BTSA induction programs have been part of the CTC's accreditation system. Through that process, BTSA programs must verify that they continue to comply with the state induction program standards.

Induction Programs are generally operated by Local Education Agencies (LEAs). Local BTSA induction programs may be offered by school districts, county offices of education, and institutions of higher education (IHEs). Historically, nearly all of the programs have been operated by individual school districts and county offices of education or consortia of LEAs. However, recently some IHEs have created induction programs, which may be indicative of a belief in the field that LEAs will discontinue or change their induction programs now that they have more discretion whether to spend resources on induction or other programs.

Presently, there are 156 approved BTSA induction programs across the state, including 152 programs offered by individual LEAs or consortia of LEAs and four programs offered by IHEs (including one operated by the University of California, Los Angeles and three operated by private colleges and universities). There are three additional IHE-sponsored programs in the CTC initial review process at this time.

As comparison, during 2008-09 (before LEAs received flexibility to redirect state funding for BTSA programs to other educational purposes), there were 169 approved BTSA induction programs statewide. During the last few years, a total of 13 LEA-sponsored induction programs have ceased operation (including 11 programs that were declared inactive and two programs that were withdrawn).

The CTC does not have reliable data on the number of school districts and charter schools that do not participate in BTSA Induction programs. Of the local agencies that are known not to participate in BTSA Induction programs, the majority are Regional Occupational Centers and Programs, and the remainder are very small school districts and charter schools.

Local programs are organized into clusters around the state that are supported by Cluster Region Directors. This regional infrastructure provides technical assistance to local BTSA programs, facilitates local program consortia, and helps facilitate accreditation site visits to local programs, among other activities. In the past, state funding was allocated for this regional support network, but that is no longer the case due to changes in state funding for the program.

<u>Teacher Retention</u>

Teacher retention is the primary measure that the state uses in assessing the impact of BTSA. Approved BTSA programs are required to submit data on teacher retention to the CTC annually. The teacher retention data reported in 2008 showed that about nine out of every ten teachers (87 percent) who had been in a BTSA program were still teaching five years later. However, data from 2010 showed a lower five-year retention rate at about three out of every four teachers (74.7 percent). This decline could be the result of many factors, including lay-offs of beginning teachers in recent years due to education budget cuts.

In 2012, the Educator Excellence Task Force, which was convened by Superintendent of Public Instruction Tom Torklakson, issued its report that addressed teacher induction, among other areas of teacher development and support. The task force report described BTSA as "one of the first well-designed programs in the nation for providing mentoring to beginning teachers, found to improve effectiveness and dramatically reduce turnover for novice teachers." However, it also indicated that, in recent times, the program has been negatively impacted by state budget cuts, and currently there is an uneven quality of programs across the state.

<u>State Funding for BTSA Induction Programs</u>
For many years, the state provided dedicated funding for BTSA programs as part of the Teacher Credentialing Block Grant, and this funding was distributed to LEA programs based on a per-participating teacher allocation. To receive this state funding, LEAs were required to make a local in-kind contribution. The in-kind contribution was $2,000 per participating teacher. (IHEs were not eligible for this funding.) In 2008-09, state funding provided more than $4,000 per participating teacher. At that level of dedicated funding, school districts and county offices of education offered induction programs to beginning teachers at no charge to the teacher. Since 2009-10, however, there have been major changes to state funding for BTSA programs.

First, as part of the 2009-10 state budget SB 4 X3 (Ducheny), Chapter 12, Statutes of 2009, the state provided LEAs with certain spending flexibility to help them manage their budgets during difficult fiscal times. This flexibility was later extended through 2012-13. Under this flexibility, LEAs were allowed to use funds from about 40 categorical programs, including the Teacher Credentialing Block Grant (which funds BTSA programs), to implement those categorical programs or redirect the funds to any other educational purpose. Thus, during those four years, LEAs had discretion whether to fund BTSA induction programs or use the funds intended for those programs for other educational services.

As part of that flexibility provision, the state specified that funding allocations for those categorical programs would be based on 2008-09 LEA funding levels rather than the previous factors used to allocate the funds. As a result, from 2009-10 through 2012-13, LEAs received allocations for BTSA programs based on their funding allocation in 2008-09, rather than the number of teachers that participated in induction programs during those years. At this time, the state also ended the requirement for the local in-kind contribution as a match to the state funding.

In 2012, the Legislative Analyst's Office (LAO) surveyed school districts about how they had used the categorical funding flexibility. Of the 470 school districts that responded to the survey, more than half of those districts used this flexibility to shift some amount of funding away from BTSA programs. In addition, the CTC reported that the funding shift away from BTSA programs has caused some erosion of the state-level and regional-level infrastructure that supports BTSA.

In the 2013-14 budget, the state eliminated the separate funding streams for the majority of K-12 categorical education programs, including the Teacher Credentialing Block Grant, in order to redirect those monies for allocation to LEAs under the new Local Control Funding Formula (LCFF) and its accountability framework. Under that framework, LEAs will have much greater flexibility to spend their funding allocations in support of state and local educational priorities than they did when the funds were restricted through categorical programs. There is no requirement for LEAs to spend LCFF funds on BTSA programs.

The table below shows the amount of state funding that has been provided for BTSA programs annually since 1995-96 and the number of teachers who have participated in these programs during the same time-period.

As shown in the table, the program was in expansion from 1995-96 until 2007-08 when both state funding for the program ($128 million) and the number of participating teachers (28,264 teachers) both reached a peak. During the next few years, the number of participating teachers declined significantly through 2010-11 (to 13,300 teachers) and then began to increase again.

Year	**BTSA Induction**	
	Number of Teachers Participating	**State Funding (in millions)**
1995–1996	1,800	$5.5
1996–1997	2,500	$7.5
1997–1998	5,200	$17.5
1998–1999	12,410	$66.0
1999–2000	23,500	$72.0
2000–2001	24,500	$87.4
2001–2002	22,253	$84.6
2002–2003	21,735	$88.1
2003–2004	21,064	$88.1
2004–2005	20,339	$85.9
2005–2006	25,810	$81.9
2006–2007	28,264	$103.0
2007–2008	30,118	$128.7
2008–2009	27,280	$108.9
2009–2010	17,982	$90.4*
2010–2011	13,300	$90.4*
2011–2012	14,689	$90.4*
2012–2013	16,354	$90.4*
2013–2014	18,591	--

*From 2009-10 to 2012-13, the Teacher Credentialing Block Grant was among the many categorical education programs for which the state funding was made flexible and allowed to be used for the purpose of that categorical program or any other educational purpose. Thus, LEAs were not required to spend these funds for teacher induction programs during those years. In 2013-14, the state eliminated the Teacher Credentialing Block Grant and many other categorical programs in order to redirect the monies associated with those programs into the new Local Control Funding Formula (LCFF). The LCFF funding, in 2013-14, includes $90.4 million that previously was provided for the BTSA Induction program.

Source: Commission on Teacher Credentialing

<u>Current Status of Teacher Induction</u>

During the CTC's meeting in February 2014, the Commission received a staff report about the status of BTSA induction programs, based on information that was gathered from programs during fall 2013. This report indicated that overall, local programs are currently in flux as program sponsors determine how induction programs should function in the new era under the LCFF. For instance, in the current year, some programs are not enrolling or supporting first year teachers.

The report raised concerns regarding the continuing availability of induction programs in some areas of the state, the continuing quality of programs given changes in funding, and the impact on beginning teacher ability to access CTC-approved induction programs to clear their credentials.

The report noted that many local programs are developing fee structures in order to charge teachers for participating in an induction program. The four programs sponsored by IHEs already charge participating teachers tuition.

According to the report, the current outlook for local induction programs in 2014-15 reflects a range of plans to:

- Continue to operate programs as in the past without charging participating teachers
- Continue to operate but planning to charge participating teachers
- Continue to operate consortium programs but not serve all the same district partners
- Close programs

The report highlights the following options as being presently available to teachers whose employers are not sponsoring or partnering to offer an induction program:

- Enroll in an induction program offered by a college or university
- Enroll in an induction program sponsored by a neighboring district or a county office of education if the program accepts such participants
- Enroll in an on-line induction program
- Complete a Clear Credential program, if the teacher's employer verifies that induction is not available to that teacher or the teacher must satisfy certain requirements under the federal No Child Left Behind Act of 2001 (Currently there are 21 CTC-approved clear credential programs that are operated by universities, not LEAs)

The report identifies both (a) short-term actions the CTC could take to help inform teachers about their options for earning a clear credential and (b) long-term options the CTC could consider to reform components of teacher preparation in order to ensure the quality of teacher induction.

<u>Superintendent's Educator Excellence Task Force</u>
In September 2012, the Educator Excellence Task Force, which was convened by Superintendent of Public Instruction Tom Torlakson, issued a report entitled "Greatness by Design: Supporting Outstanding Teaching to Sustain a Golden State." In that report, the task force indicated the following:

"Mentoring for beginners is decreasing. California once led the nation in the design and funding of beginning teacher induction through the Beginning Teacher Support and Assessment (BTSA) program. Its early successes demonstrated that attrition can be reduced and competence increased for novices who receive skillful mentoring in their first years on the job. However, these funds are no longer protected for this mission. As a result, fewer and fewer teachers receive the benefits of high-quality mentoring in the state. Novice school leaders rarely receive mentoring in California, unlike states that have developed policies to provide it."

Among the task force's recommendations is that the state strengthen and reinvest in BTSA programs.

Staff Comments. In light of this information, the Legislature may want to consider legislative options (such as dedicated funding for teacher induction and other approaches) to support teachers' access to high-quality teacher induction programs.

Subcommittee Questions

1. **Program Quality.**
    a. At one time California was considered a leader for its high-quality teacher induction programs, is that still the case today?

2. **Program Access.**
    a. Are there areas of the state where BTSA Induction programs are not available? If so, what options are available to teachers in those areas to clear their credentials?

3. **Program Fees**.
    a. How widespread is the intention of LEAs to charge fees for teacher induction programs?

4. **Meeting Local Needs.**
    a. What, if any, are the differences between induction programs sponsored by LEAs versus programs sponsored by colleges and universities?

5. **Alternatives to Induction Programs**. Is the contingency option that allows teachers to complete a Clear Credential program a realistic alternative to an induction program for most teachers? Are the Clear Credential programs widely available across the state?

6. **Program Infrastructure**.
    a. How has the state and regional infrastructure for the BTSA program been impacted by changes in state funding for the program?
    b. What infrastructure is critical to supporting high quality induction programs? What would it take to create and maintain this infrastructure?

Staff Recommendation. Staff recommends the subcommittee request that the CTC continue to update the Legislature about significant developments or changes affecting the status of teacher induction programs.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, March 20, 2014
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191

Consultants: Jennifer Troia, Jody Martin, and Mark Ibele

Proposed Discussion / Vote Calendar

6110 Department of Education **Page**

Issue 1 Common Core Standards Implementation 2
No Action. Informational Item.

Issue 2 Student Assessment Proposals (Informational Item) 9
No Action. Budget request and BBL held open.

6360 Commission on Teacher Credentialing

Issue 1 Accreditation Fee Proposal 16
Adopted placeholder TBL allowing CTC to adopt accreditation fees for standard costs.

Issue 2 Inter-account Fund Transfers (Discus 18
Adopted placeholder TBL authorizing CTC inter-fund transfers for Immediate funding needs.

Issue 3 Teacher Induction Programs 25
No Action. Informational Item.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, March 27, 2014
9:30 a.m.
Room 3191, State Capitol

Consultant: Joe Stephenshaw

Item	Department
6440	**University of California**
6600	**Hastings College of the Law**
6610	**California State University**
6870	**California Community Colleges**

Vote Only Item

Item 1	CSU Capital Outlay Equipment Proposals	Page 2

Discussion Items

Item 1	Multi-Year Funding and Sustainability Plans	Page 7
Item 2	Innovation Awards	Page 12
Item 3	CSU Capital Outlay Process	Page 16

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Vote Only

Issue 1	CSU Capital Outlay Equipment Proposals

Governor's Budget. The Governor's budget includes $5.8 million, from the balance of the 2004 Higher Educational Capital Bond, to fund the equipment phases for the following projects:

- **Monterey Bay (Academic Building II)** - $1.97 million
- **CSU, Chico (Taylor II Replacement Building** - $2.74 million
- **CSU, East Bay (Warren Hall Replacement Building)** - $1.06 million.

Background. This proposal would provide funding for the equipment phases of projects that have previously been approved by the Legislature. Specifically, this proposal will provide equipment for: 1) instructional program support space for the School of Information Technology and Communications Design and the School of Business in the new facility at Monterey Bay (funding for the project was initially included in the 2009 budget): 2) The College of Humanities and Fine Arts in the new facility at Chico (funding for the project was initially included in the 2010 budget); and, 3) 113 administrative and faculty offices in the new office building at East Bay (funding for this project was originally included in the 2011 budget).

Staff Comment. This is the final phase of these three projects that have previously been approved by the Legislature. Staff does not raise any concerns.

Recommendation. Approve as budgeted.

Items to be Heard

Background	UC, CSU, and Hastings

University of California. The 1960 Master Plan for Higher Education designates the University of California (UC) as the primary state-supported academic agency for research. In addition, the UC serves students at all levels of higher education and is the public segment primarily responsible for awarding the doctorate and several professional degrees, including in medicine and law. Joint doctoral degrees may also be awarded with the California State University (CSU).

There are ten campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. Nine of these are general campuses and offer undergraduate, graduate, and professional education. The San Francisco campus is devoted exclusively to the health sciences. The UC operates five teaching hospitals in Los Angeles, San Francisco, Sacramento, San Diego, and Orange counties. The UC has more than 800 research centers, institutes, laboratories, and programs in all parts of the state. The UC also provides oversight of one United States Department of Energy laboratory and is in partnerships with private industry to manage two additional Department of Energy laboratories.

The UC is governed by the Regents, which under Article IX, Section 9 of the California Constitution has "full powers of organization and governance," subject only to very specific areas of legislative control. The article states that "the university shall be entirely independent of all political and sectarian influence and kept free therefrom in the appointment of its Regents and in the administration of its affairs." The Board consists of 26 members, as defined in Article IX, Section 9, all of whom have a vote (in addition, two faculty members — the chair and vice chair of the Academic Council — sit on the board as non-voting members):

- 18 regents are appointed by the governor for 12-year terms.
- One is a student appointed by the Regents to a one-year term.
- Seven are ex officio members — the Governor, Lieutenant Governor, Speaker of the Assembly, Superintendent of Public Instruction, president and vice president of the Alumni Associations of UC and the UC president.

The Governor is officially the president of the Board of Regents; however, in practice the presiding officer of the Regents is the Chairman of the Board, elected from among its body for a one-year term, beginning July 1. The Regents also appoint Officers of The Regents: the General Counsel; the Chief Investment Officer; the Secretary and Chief of Staff; and the Chief Compliance and Audit Officer.

The following table displays the budgeted expenditures and positions for the UC, as proposed in the Governor's budget. Of the amounts displayed in the table, $2.4 billion in 2012-13, $2.8 billion in 2013-14, and $3.0 billion in 2014-15 are supported by the General Fund. The remainder of funding comes from tuition and fee revenue and various special and federal fund sources.

Dollars in Millions

Governor's Budget - UC Budgeted Expenditures and Positions			
	2012-13	**2013-14**	**2014-15**
Personal Services	$9,769	$9,969	$10,116
Operating Expenses and Equipment	$8,847	$9,804	$10,125
Total Expenditures	**$18,616**	**$19,773**	**$20,241**
Positions	**89,528.9**	**89,790.2**	**89,790.2**

Budgeted expenditures for the UC do not include funding for extramural programs, which are $6.2 million in 2012-13, $6.1 million in 2013-14, and $6.0 million in 2014-15.

California State University. The CSU system is comprised of 23 campuses, including 22 university campuses and the California Maritime Academy. The California State Colleges were brought together as a system by the Donahoe Higher Education Act of 1960. In 1972, the system became the California State University and Colleges; the name of the system was changed to the California State University in January 1982. The oldest campus, San Jose State University, was founded in 1857 and became the first institution of public higher education in California. The program goals of the CSU are:

- To provide instruction in the liberal arts and sciences, the professions, applied fields that require more than two years of college education, and teacher education to undergraduate students and graduate students through the master's degree.
- To provide public services to the people of the state of California.
- To provide services to students enrolled in the University.
- To support the primary functions of instruction, research, public services, and student services in the University and to ensure legal obligations related to executive and business affairs are met.
- To prepare administrative leaders for California public elementary and secondary schools and community colleges with the knowledge and skills needed to be effective leaders by awarding the doctorate degree in education.
- To prepare physical therapists to provide health care services by awarding the doctorate degree in physical therapy.
- To prepare faculty to teach in postsecondary nursing programs and, in so doing, help address California's nursing shortage by awarding the doctorate degree in nursing practice.

The Board of Trustees is responsible for the oversight of the CSU. The Board adopts rules, regulations, and policies governing the CSU. The Board has authority over curricular development, use of property, development of facilities, and fiscal and human resources management. The 25-member Board of Trustees meets six times per year. Board meetings allow for communication among the trustees, chancellor, campus presidents, executive committee members of the statewide Academic Senate, representatives of the California State Student Association, and officers of the statewide Alumni Council. The Trustees appoint the chancellor, who is the chief executive officer of the system, and the presidents, who are the chief executive officers of the respective campuses.

The following table displays the budgeted expenditures and positions for the CSU as proposed in the Governor's budget. Of the amounts displayed in the table, $2.1 billion in 2012-13, $2.3 billion in 2013-14, and $2.7 billion in 2014-15 are supported by the General Fund. The remainder of funding comes from tuition and fee revenue and various special and federal fund sources.

Dollars in Millions

Governor's Budget - CSU Budgeted Expenditures and Positions			
	2012-13	**2013-14**	**2014-15**
Personal Services	$3,774	$3,776	$3,776
Operating Expenses and Equipment	$3,999	$4,111	$4,512
Total Expenditures	**$7,773**	**$7,887**	**$8,288**
Positions	**43,762.6**	**43,031.1**	**43,031.1**

Hastings College of the Law. Hastings College of the Law (Hastings) was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the State of California. On March 26, 1878, the Legislature provided for affiliation with the University of California. Hastings is the oldest law school and one of the largest public law schools in the western United States. Policy for the college is established by the Board of Directors and is carried out by the chancellor and dean and other officers of the college. The Board has 11 directors: one is an heir or representative of S.C. Hastings and the other 10 are appointed by the Governor and approved by a majority of the Senate. Directors serve for 12-year terms. Hastings is a charter member of the Association of American Law Schools and is fully accredited by the American Bar Association. The Juris Doctor degree is granted by The Regents of the University of California and is signed by the President of the University of California and the Chancellor and Dean of Hastings College of the Law.

The mission of Hastings is to provide an academic program of the highest quality, based upon scholarship, teaching, and research, to a diverse student body and to ensure that its graduates have a comprehensive understanding and appreciation of the law and are well-trained for the multiplicity of roles they will play in a society and profession that are subject to continually changing demands and needs.

The following table displays the budgeted expenditures and positions for Hastings as proposed in the Governor's budget. Of the amounts displayed in the table, $7.8 million in 2012-13, $8.4 million in 2013-14, and $9.6 million in 2014-15 are supported by the General Fund.

Dollars in Millions

Governor's Budget – Hastings' Budgeted Expenditures and Positions			
	2012-13	**2013-14**	**2014-15**
Personal Services	$32	$33	$34
Operating Expenses and Equipment	$9	$11	$10
Special Items of Expense (Financial Aid)	$14	$13	$12
Total Expenditures	**$55**	**$57**	**$56**
Positions	**242.8**	**246.8**	**246.8**

Issue 1 UC, CSU, and Hastings Multi-Year Funding and Sustainability Plans

Governor's Budget Proposals.

Multi-Year Funding Plan. The Governor's budget includes $142.2 million General Fund, each, for the UC and CSU, and $1.3 million for Hastings to support the Administration's four-year investment plan in higher education that started in 2013-14, which assumes additional General Fund support for the UC, the CSU, CCCs, and Hastings.

The multi-year plan assumes a five percent increase for UC and CSU in 2014-15 and a four percent increase in each of the subsequent two years. The continuation of the multi-year plan is predicated on the UC Regents and the CSU Board of Trustees adopting three-year sustainability plans, described below, and the expectation that the universities maintain current tuition and fee levels through 2016-17.

Sustainability Plans. The Governor's budget includes budget bill language that requires the UC Regents and the CSU Board of Trustees to adopt three-year sustainability plans, by November 30, 2014, for fiscal years 2015-16, 2016-17, and 2017-18. Specifically, the Governor proposes that the sustainability plans include:

- Projections of available resources (General Fund and tuition and fees) in each fiscal year, using assumptions for General Fund and tuition and fee revenue provided by the Department of Finance (DOF).
- Projections of expenditures in each fiscal year and descriptions of any changes necessary to ensure that expenditures in each of the fiscal years are not greater than the available resources.
- Projections of enrollment (resident and non-resident) for each academic year within the three-year period.
- The University's goals for each of the performance measures, as specified in Education Code (detailed below), for each academic year within the three-year period.

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

With regard to earmarks, typically the annual budget act included a number of conditions on UC's and CSU's General Fund appropriations. These earmarks have varied over the years in keeping with the Legislature's and Governor's particular concerns at the time. Due to the Governor's vetoes, earmarks for the UC and CSU were essentially eliminated from the Budget Acts of 2012 and 2013.

With regard to enrollment targets, historically UC's and CSU's budgets have been tied to a specified enrollment target. To the extent that the segments failed to meet those targets, the state funding associated with the missing enrollment reverted to the General Fund. The Legislature adopted budget bill language setting enrollment targets for the UC and CSU for the current budget year that would maintain 2012-13 enrollment levels. The Governor vetoed the budget bill language, thus eliminating enrollment targets for the current year, noting that the Administration would rather give the UC and CSU greater flexibility to manage its resources to meet obligations, operate its instructional programs more effectively, and avoid tuition and fee increases.

AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, put into place a framework for measuring performance at the UC and CSU. Specifically, Education Code Sections 89295, subdivision (b), and 92675, subdivision (b), require the UC and CSU to report the following information annually, with 2012-13 data starting in March 2014, as follows:

- Number/Proportion of Transfers.
- Number/Proportion of Low-Income Students.
- 4-year Graduation Rates for both UC and CSU and 6-year Graduation Rates for CSU (disaggregated by freshman entrants, transfers, graduate students, and low-income status)
- Degree Completions (disaggregated by freshman entrants, transfers, graduate students, and low-income status).
- First-Years On Track to Degree (i.e., what percent of first years earned a specified number of units).
- Spending Per Degree (Core Funds).
- Units Per Degree.
- Number of Science, Technology, Engineering and Mathematics (STEM) Degrees.

AB 94 also requires the UC and CSU to report biennially to the Legislature and DOF, beginning October 1, 2014, on the total costs of education, on both a system-wide and a campus-by-campus basis, segregated by undergraduate instruction, graduate instruction, and research activities. Further, the costs must be reported by fund source, including: 1) state General Fund; 2) system-wide tuition and fees; 3) nonresident tuition and fees and other student fees; and 4) all other sources of income.

In addition to reporting requirements, SB 195 (Liu), Chapter 367, Statutes of 2013, set three broad state goals for higher education: 1) improving student access and success; 2) better aligning degrees and credentials with the state's economic, workforce, and civic needs; and, 3) ensuring the effective and efficient use of resources.

Legislative Analyst's Office (LAO). Similar to last year, the LAO has raised serious concerns about the Governor's overall budgetary approach for the universities and recommends the Legislature reject it. The LAO finds most troubling that the Governor's budget does not link university funding to state priorities. Although the Governor enumerates several higher education priorities in his budget summary (for example, reducing the cost of education and improving affordability, timely completion rates, and program quality), his funding plan includes large unallocated increases tied only to maintaining flat tuition levels. The budget requires the universities to set performance goals, but does not establish state performance expectations or link the universities' funding to meeting these expectations.

The LAO recommends that the Legislature build the universities' budgets based on enrollment growth, inflation, targeted set-asides, and capital outlay, while assuming that cost increases are shared by students and the state. The LAO also recommends the Legislature incorporate performance measures into its future budget decisions. Following is a table from the LAO that compares their recommendations the Governor's budget proposals for the UC and CSU.

Comparison of Governor's Budget and LAO Alternative for UC and CSU

2014-15

	UC	CSU
Governor's Budget		
Unallocated base increases	$142	$142
Retiree health	—	24
Pensions	—	16
Debt service	—	9
Totals	**$142**	**$191**
Student share	—	—
State share	$142	$191
LAO Alternative Budget		
Enrollment growth	—	$76
Inflation[a]	$118	85
Retiree health	4	24
Pensions	64	16
Debt service	—	9
Totals	**$186**	**$209**
Student share[b]	$78[c]	$84[c]
State share[b]	108	125
Difference in General Fund From Governor's Budget	**-$35**	**-$66**

[a] Inflation adjustment applied to debt-service funding for UC only.
[b] Assumes state and student shares same as in 2013-14.
[c] Equates to tuition increases of 2.5 percent at UC and 3.3 percent at CSU—in line with inflation. (If the universities wanted to redirect tuition revenues to institutional financial aid programs consistent with past practice, the tuition increases would be 3.8 percent at UC and 5 percent at CSU.)

Segment's Budgets. Although generally supportive of the Governor's proposal for additional funding, both the UC Board of Regents and the CSU board of trustees have adopted budgets for the 2014-15 fiscal year that assume a higher level of General Fund support.

The CSU's planned budget for 2014-15 would require $237.6 million in General Fund support, which is $95.4 million more than the Governor's budget. The CSU's budget plan also assumes $96.6 million from tuition and fee revenue increases, primarily driven by enrollment growth of five percent and changes in enrollment patterns (resident vs. nonresident). The CSU's budget funds the following components:

- **Mandatory Cost Increases** - $13.7 million – Health benefits and operations and maintenance of new space.
- **Three percent Compensation Increase** - $91.6 million – Funds a three percent employee compensation pool, subject to bargaining with employee groups.
- **Student Success and Completion** - $50 million – Used for: tenure-track faculty hiring, enhanced advising, augment bottleneck solutions initiative, high-impact practices for student retention, data-driven decision making.
- **Five percent Enrollment Growth** - $163.8 million – based on 16,828 FTES

- **Maintenance and Infrastructure** - $15 million – Initial year of three-year investment to build a $45 million base to fund annual debt service allowing the CSU to finance $750 million to $800 million in deferred maintenance and replace basic infrastructure.
- **Center for California Studies** - $200,000 – Operational cost increases.

The UC's budget plan proposes $120.9 million in additional state funding, above the Governor's five percent base budget adjustment, as follows:

- **State Share of Employer Contributions to the University's Retirement Program** - $64.1 million in state funding beyond the five percent base budget adjustment to cover the state's share of the incremental increase in pension costs consistent with what the state already provides for employees in the California Community Colleges and the California State University.
- **Enrollment Growth** - The budget plan seeks $21.8 million in additional state support for a one percent increase in funded enrollments. This will permit continued growth at the Merced campus and provide support for growth in California resident enrollment to allow the University to continue to meet its obligation under the Master Plan, as well as to address unfunded enrollments that currently exist on the general campuses and in health sciences programs.
- **Reinvestment in Academic Quality** - The plan indicates a need to invest an initial increment of $35 million in what will necessarily be a multi-year reinvestment in the quality of UC's core academic programs.

Staff Comment. Although the sustainability plans are a step in the right direction, the only concrete outcome resulting from the additional funding proposed to be provided to the UC and CSU in the first two years of the Administration's four-year investment plan (the 2013 budget provided $125.1 million for each segment) is the maintenance of current tuition and fee levels. The proposed sustainability plans will not be adopted until nearly half-way into the budget year and it is unclear how these plans may interact or conflict with annual fiscal plans that are currently adopted by the UC Regents and CSU Board of Trustees.

Coming out of the recession, California's universities face numerous critical issues that impact our state's ability to meet educational and workforce demands. The Governor's budget overview recognizes some of these issues by pointing out the high-cost structure of the UC and the low completion rates of the CSU. However, while the Governor notes that the Administration's long-term plan moves away from funding higher education based on the traditional model of enrollment targets, as previously mentioned, his budget does not explicitly tie funding to performance or specific outcome measures other than the maintenance of current tuition and fee levels.

As the state continues to reinvest in our universities, the Legislature may wish to consider how these investments address current and long-term education needs. This is particularly critical in light of a report from the Public Policy Institute of California (PPIC) regarding California's workforce demands that found that by 2025 California will face a shortfall of one million college graduates required to meet our state's skilled workforce needs. In addition, while there may be merit in moving from a funding model based on enrollment targets, the Legislature may wish to consider an eligibility study to assess how many otherwise eligible students are being denied admission to California's universities based on a lack of space. The CSU reported that, in the fall of 2013, they had to deny admission to over 26,000 eligible students due to lack of funding. A severe lack of available space in our universities for eligible students could result in costs to the system from students taking unnecessary community college courses, financial aid, taking longer to graduate, or students discontinuing their education altogether.

In recent years, many states have been implementing funding models that incorporate performance outcome measures. Similar to examples provided to the subcommittee, during last month's hearing on higher education accountability that was held jointly with the Senate Education Committee, the PPIC points out that other states have moved to incentivizing outcome measures, shifting from funding access to funding success, due to concerns surrounding the cost of higher education. According to the PPIC, types of measures that other states are incorporating include:

- Completion (graduation rates, transfer rates, certificate rates).
- Progression (course completion, successful remediation, reaching credit milestones).
- Efficiency/Productivity (time to progression/completion, expenditures per completion, tuition, and debt).
- Graduation Outcomes (jobs, wages, grad school).

While California does not predicate funding on performance outcomes, the PPIC does point out that our segments do currently incorporate measures of performance, such as: student success scorecards and the salary surfer utilized by CCCs and accountability reports utilized by the UC and CSU. In addition, as previously mentioned, AB 94 established reporting requirements focused on completion, low income students, and costs. The LAO suggests that California could connect university funding with state priorities in a variety of ways, including the use of the performance results the universities are required to report, pursuant to AB 94.

Recommendation. Hold open.

Issue 2 UC, CSU, and CCC Innovation Awards

Governor's Proposal. The Governor's budget proposes $50 million General Fund, on a one-time basis, to create the Awards for Innovation in Higher Education program. The Governor proposes that applications for awards can be submitted by a UC, CSU, community college, or a group of any of these entities. These incentive awards are proposed to encourage and recognize models of innovation in higher education that focus on the following priorities:

1. Significantly increase the number of individuals in the state who earn bachelor's degrees;
2. Allow students to earn bachelor's degrees that can be completed within four years of enrollment in higher education; and,
3. Ease transfer through the state's education system, including by recognizing learning that has occurred across the state's education segments or elsewhere.

The Governor proposes that awards will be selected based on the extent to which an application proposes an innovative model that: 1) advances the state's priorities at a lower cost than existing instructional delivery models and without requiring that students pay increased tuition or fees; 2) includes broad participation by the segments and local educational entities in a manner that can have a statewide impact if expanded; and, 3) is likely to be implemented effectively and sustainably. The Administration anticipates that the awards process would be completed in the spring of 2015 and will be managed by a committee composed of:

1. The Director of Finance or his designee, either of whom shall serve as the chairperson of the committee.
2. A member of the State Board of Education selected by the Governor.
3. A member of the Board of Governors of the CCCs selected by the Governor.
4. A CSU trustee selected by the Governor.
5. A UC regent selected by the Governor.
6. An appointment of the Senate Committee on Rules.
7. An appointment of the Speaker of the Assembly.

Upon notification by the Director of Finance that it has been selected for an award, it is proposed that an entity or group shall submit a report to the Director of Finance indicating how the awarded funds will be used and commit to reporting, on January 1, 2018 and again on January 1, 2020, an evaluation of the effectiveness of the model of higher education innovation in achieving the identified priorities and the number of bachelor degrees awarded through the model.

The Administration has expressed that this incentive awards program builds on their 2013-14 request to expand the use of technology to remove course bottlenecks and reduce the costs of education. The Administration expects that the segments will continue to implement plans to expand investments in technology that lower costs at each segment and allow students to complete their degrees sooner.

Background. In the 2013-14 Governor's budget, the Governor proposed budget bill language that designated $10 million, from each of the $125.1 million increases provided to the UC and

CSU, for each segment to use for purposes of expanding the availability of high-demand courses through the use of technology. Ultimately, the Governor vetoed this budget bill language, consistent with the Administration's policy of not earmarking UC and CSU funds. However, the UC and CSU have nonetheless undertaken efforts to enhance online educational capabilities in the current budget year, as follows:

- **UC Online Efforts.** Through the Innovative Learning Technology Initiative, an effort that uses online education to expand access to high-demand classes and help undergraduate students complete their degrees in a timely manner, the UC recently launched a pilot that allows for cross-campus online course enrollment that is open to undergraduates at seven UC campuses (UC San Diego and UC Santa Barbara are resolving logistical issues and will be added to the program once those are resolved). The goal of the pilot is to give students more enrollment options for high-demand courses that fill quickly and can be subject to long waitlists. Available courses include introductory classes in subjects such as statistics and pre-calculus, along with a few more specialized offerings, including American cyber cultures and global climate change.
- **CSU Online Efforts.** CSU has reported that in the current year it is focusing on addressing bottlenecks (anything that limits a CSU student's ability to make progress toward a degree and graduate in a timely manner). The CSU is addressing bottlenecks through enhancements and use of online advising (eAdvising), course redesign utilizing technology, and increased availability of online courses. The four types of bottlenecks being addressed are:

    1. **Student Readiness and Curricular Bottlenecks.** A student's lack of readiness combined with current course curriculum often lead to high rates of failure or incompletes, resulting in students retaking courses to graduate. The bottlenecks are created by the enrollment demands of both new students and students repeating courses.
    2. **Place-bound Bottlenecks.** Students are often place-bound and have to wait for their campuses to schedule particular courses. These bottlenecks can be especially significant for students at smaller CSU campuses where diversity of course requirements compete for significantly limited resources.
    3. **Facilities Bottlenecks.** Campus facilities can create bottlenecks for a number of courses. In particular, introductory STEM (Science, Technology, Engineering and Mathematics) courses have laboratory requirements that have restricted the number of students who can take lab sections in safe and properly equipped facilities.
    4. **Advising and Scheduling Bottlenecks.** Frequently, students are not aware of the wider range of course and program options they have to complete their general education and major requirements. The bottlenecks are created when students do not receive the most-timely and informative advice about their academic pathways and course schedules.

CCC Online Efforts. The CCC Technology Center facilitates governance, planning, and provides project leadership and administration for system-wide technology. System-wide technology efforts include:

- **CCCApply** - Common application for admission.
- **eTranscript** - California eTranscript exchange.
- **California Virtual Campus -** Distance education catalog.

The 2013 Budget Act includes $16.9 million Proposition 98 General Fund for the CCCs to expand online education and expand the availability of high-demand courses through the use of technology. Budget bill language associated with this funding requires that for online-only courses, the chancellor should, to the extent possible, ensure that courses selected can be articulated across all community college districts, ensure that courses are granted transfer credit, and be made available for enrollment for all students system-wide. The chancellor is required to provide a report to the Joint Legislative Budget Committee by March 1, 2014, regarding use of these funds. One initiative that the CCCs are pursuing with these funds involves a partnership between Foothill/De Anza and Butte colleges to develop a common course management system, an online course exchange, expand the catalog of online courses, and ease cross school enrollment.

Legislative Analyst's Office (LAO). The LAO has expressed three main concerns with the Governor's innovation awards proposal and, therefore, recommends that the Legislature reject the proposal. The LAO's concerns are:

- **Sends Wrong Message.** The LAO's most significant concern is that the new program sends a poor message. By earmarking a relatively small amount of one-time funding for individual campuses or groups of campuses to address state priorities (including those relating to student success and institutional cost-effectiveness), the state seems to be implying this is somehow different from how the segments should be using the remainder of their funding. Presumably, the state intends for the segments' entire core budgets to be dedicated to meeting core public priorities through appropriate, cost-effective means (including new means discovered through ongoing exploration and innovation in teaching strategies and technologies).
- **Fragments Improvement Efforts.** Whereas the state adopted three broad higher education goals last year, the Governor's award proposal independently establishes program priorities without regard to those goals. Most notably, SB 195 set forth goals relating to student access and success, institutional effectiveness and efficiency, and alignment of degrees to workforce and civic needs. SB 195 called for the state to adopt at least six but no more than 12 metrics to measure progress in meeting these goals. It also called for the state to consider the corresponding performance results as part of the annual state budget process. The Governor's proposal sidesteps this approach and fragments improvement efforts by empowering a small group to make award decisions based on the Administration's expressed priorities.
- **Poor Timing.** The Governor indicates the new program is intended to build on last year's efforts to expand the use of technology to remove course bottlenecks and reduce the costs of education. The results of those efforts, however, are not yet clear. Expanding in this area before giving the existing efforts time to show results would be premature.

Staff Comment. The Administration expects the segments to use the proposed innovation awards to expand technology to remove course bottlenecks, reduce the cost of education at each segment, and allow students to complete their degrees sooner. Although the UC, CSU, and CCCs are using funds in the current budget to expand use of technology, as discussed earlier, use of technology, including online education, by California's higher education segments has been going on for many years. Further, ongoing and recent efforts to expand the use of online classes raise questions of whether effective online courses are less expensive than traditional models of teaching or whether certain bottleneck courses are appropriate for an online teaching model.

The Governor's proposal to convene a committee of stakeholders, most of whom are proposed to be appointed by the Governor, raises a number of questions in regards to assurance that state and legislative priorities are appropriately considered in the decisions of the committee, as well as whether it would not be more appropriate for the state to have a higher education coordinating entity to oversee and provide advice on statewide higher education policy. Such an entity may also be more appropriate to make decisions on funding of statewide initiatives, such as the Governor's innovation award proposal.

In 2011, the Governor eliminated the California Postsecondary Education Commission (CPEC), through a line-item veto that zeroed out its budget. CPEC was charged with working with the higher education segments, the Governor, and the Legislature in providing analysis of, and recommendations on, statewide higher education policy and fiscal priorities. CPEC was intended to be objective, independent, and nonpartisan; however, over time there was a growing perception that it was not maintaining its objectivity, which led to an erosion of trust and confidence. However, questions remain regarding whether eliminating CPEC altogether, rather than addressing the issues the organization faced, was the most appropriate course.

A recent report by California Competes, Charting a Course for California's Colleges, points out that today California stands out as one of only two states nationwide (the other is Michigan) without comprehensive oversight or coordination of higher education. CCCs are governed by 72 locally-elected boards of trustees, with coordination by a relatively small central office. The 23-campus CSU and the ten-campus UC have their gubernatorially-appointed trustees and regents, respectively. And there is no state mechanism for bringing private colleges into planning or strategizing to address state and student needs. The report surmises that, by not articulating the state's needs as they relate to higher education, California is missing an opportunity to better serve its residents, institutions, and economy well.

Recommendation. Hold open.

Issue 3 CSU Capital Outlay Process

Governor's Budget. The Governor proposes to shift General Obligation (GO) and Lease-Revenue (LR) bond-debt service payments into CSU's main appropriation. Moving forward, CSU would be responsible for funding debt service from within this main appropriation. Under the proposal, the University would issue its own revenue bonds for various types of capital projects and could restructure its existing LR bond debt. To use its new authority, the University would be required to submit project proposals to the Joint Legislative Budget Committee (JLBC) and Department of Finance (DOF) for approval. The CSU's capital projects no longer would be reviewed as part of the regular budget process.

The Governor's proposal includes trailer bill language necessary to implement this proposal as well as trailer bill language making, primarily, technical changes to similar authority granted to the UC in the current fiscal year.

Background. For the 2013-14 budget, the Administration proposed similar proposals for the UC, CSU, and Hastings. These proposals were rejected by the subcommittee. However, the proposal for the UC was ultimately included in the final budget adopted by the Legislature.

The UC now has statutory authority to use up to 15 percent of its General Fund support appropriation, less the amount required to fund general obligation bond payments and State Public Works Board rental payments to support capital outlay projects. This proposal would provide similar authority for the CSU; however, they would be limited to up to 12 percent of their General Fund support appropriation. The CSU would also be authorized to use this authority to finance deferred maintenance projects, which was not included in the UC's authority.

Under current law, the Administration is required to identify statewide infrastructure needs and develop proposals for their funding. Historically, the state has provided infrastructure funding for the segments' core academic missions. For CSU, this core funding is limited primarily to instructional and administrative space. The Legislative Analyst's Office (LAO) has reported that, over a recent ten year period, the state spent an estimated $10.1 billion on higher education infrastructure for UC, CSU, and the California Community Colleges. Eighty percent of that support came from GO bonds and an additional 19 percent from LR bonds. Associated higher education debt-service costs more than doubled during this same time period, from about $516 million in 2000-01 to an estimated $1.1 billion in 2010-11. Most of the GO bond spending was from bonds approved by the voters in 1998, 2002, 2004, and 2006. In general, the state provides less funding for higher education projects when the balance of GO bonds is exhausted. In the case of UC and CSU, the state has typically offset some of this reduction by funding some projects with LR bonds. The Legislature has direct control over state-funded projects, whether from GO or LR bonds, because each project is funded through an appropriation in the annual budget act.

Legislative Analyst's Office. In its assessment of this proposal last year, the LAO noted that the Administration indicated the motivation for combining the universities' support and capital budgets is to provide the universities with increased flexibility, given limited state funding.

However, the Administration did not identify specific problems associated with the current process used to budget the segments' capital projects, nor identified any specific benefits the state might obtain from the proposal.

The LAO found that, given the lack of a compelling policy rationale for the proposal, along with serious concerns regarding the loss of the Legislature's ability to plan and oversee infrastructure projects, the Legislature should reject the Governor's proposal, which was done in respect to the current proposal.

Staff Comment. Last year, staff pointed out that the Governor's approach is a dramatic departure from how UC and CSU (as well as Hastings) capital outlay has been historically addressed. This change was being proposed without any analysis of ongoing needs, not only for capital outlay, but also for deferred maintenance for building stock constructed primarily in the 1940s, 1950s, and 1960s at existing campuses, and for campuses that might be needed in the future. Similarly, the current proposal simply presumes the amount of debt service funding related to one fiscal year (2014-15) is an appropriate amount upon which to base CSU's ongoing needs.

To this point, a "point-in-time" approach does not address potential inequities in current debt service funding levels between UC and CSU. Under the Administration's current proposal, CSU would have $297 million ($188 GO bond and $99 million LR bond debt service) shifted into its GF appropriation, while UC received $400 million for the same purposes in the current budget. Although, CSU has twice as many campuses and students as compared to UC, under the Administration's proposal, both UC and CSU are treated the same going forward.

Staff would also note that there appears to be some confusion regarding whether or not the intent is that, under the current proposal and the already enacted UC proposal, the segments will not be included in future state GO bonds sales.

Adjustments to the CSU General Fund base budget are expected to be made in the future to accommodate changes in the State Publics Works Board (SPWB) debt service. This would result in the annual SPWB debt service amount increasing from $99 million in 2014-2015 to about $117 million by 2017-2018 (an $18 million increase).

Staff Recommendation. Reject the proposal to shift general obligation and lease-revenue bond-debt service payments into CSU's main appropriation and the associated trailer bill language. However, do not reduce the CSU's budget by $10 million, which the Administration has assumed is associated with this proposal. Approve the trailer bill language proposing technical changes to the UC's capital outlay project authority.

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, March 27, 2014
9:30 a.m.
Room 3191, State Capitol

Consultant: Joe Stephenshaw

OUTCOMES

Item	Department
6440	**University of California**
6600	**Hastings College of the Law**
6610	**California State University**
6870	**California Community Colleges**

Vote Only Item

Item 1 CSU Capital Outlay Equipment Proposals (Approved 2-0, Wyland No Vote)

Discussion Items

Item 1	Multi-Year Funding and Sustainability Plans	(Held Open)
Item 2	Innovation Awards	(Held Open)
Item 3	CSU Capital Outlay Process	(Held Open)

Public Comment

Vote Only

Issue 1 CSU Capital Outlay Equipment Proposals

Governor's Budget. The Governor's budget includes $5.8 million, from the balance of the 2004 Higher Educational Capital Bond, to fund the equipment phases for the following projects:

- **Monterey Bay (Academic Building II)** - $1.97 million
- **CSU, Chico (Taylor II Replacement Building** - $2.74 million
- **CSU, East Bay (Warren Hall Replacement Building)** - $1.06 million.

Background. This proposal would provide funding for the equipment phases of projects that have previously been approved by the Legislature. Specifically, this proposal will provide equipment for: 1) instructional program support space for the School of Information Technology and Communications Design and the School of Business in the new facility at Monterey Bay (funding for the project was initially included in the 2009 budget): 2) The College of Humanities and Fine Arts in the new facility at Chico (funding for the project was initially included in the 2010 budget); and, 3) 113 administrative and faculty offices in the new office building at East Bay (funding for this project was originally included in the 2011 budget).

Staff Comment. This is the final phase of these three projects that have previously been approved by the Legislature. Staff does not raise any concerns.

Recommendation. Approve as budgeted.

Items to be Heard

Background	**UC, CSU, and Hastings**

Issue 1	**UC, CSU, and Hastings Multi-Year Funding and Sustainability Plans**

Governor's Budget Proposals.

Multi-Year Funding Plan. The Governor's budget includes $142.2 million General Fund, each, for the UC and CSU, and $1.3 million for Hastings to support the Administration's four-year investment plan in higher education that started in 2013-14, which assumes additional General Fund support for the UC, the CSU, CCCs, and Hastings.

The multi-year plan assumes a five percent increase for UC and CSU in 2014-15 and a four percent increase in each of the subsequent two years. The continuation of the multi-year plan is predicated on the UC Regents and the CSU Board of Trustees adopting three-year sustainability plans, described below, and the expectation that the universities maintain current tuition and fee levels through 2016-17.

Sustainability Plans. The Governor's budget includes budget bill language that requires the UC Regents and the CSU Board of Trustees to adopt three-year sustainability plans, by November 30, 2014, for fiscal years 2015-16, 2016-17, and 2017-18. Specifically, the Governor proposes that the sustainability plans include:

- Projections of available resources (General Fund and tuition and fees) in each fiscal year, using assumptions for General Fund and tuition and fee revenue provided by the Department of Finance (DOF).
- Projections of expenditures in each fiscal year and descriptions of any changes necessary to ensure that expenditures in each of the fiscal years are not greater than the available resources.
- Projections of enrollment (resident and non-resident) for each academic year within the three-year period.
- The University's goals for each of the performance measures, as specified in Education Code (detailed below), for each academic year within the three-year period.

Recommendation. Hold open.

Issue 2 UC, CSU, and CCC Innovation Awards

Governor's Proposal. The Governor's budget proposes $50 million General Fund, on a one-time basis, to create the Awards for Innovation in Higher Education program. The Governor proposes that applications for awards can be submitted by a UC, CSU, community college, or a group of any of these entities. These incentive awards are proposed to encourage and recognize models of innovation in higher education that focus on the following priorities:

1. Significantly increase the number of individuals in the state who earn bachelor's degrees;
2. Allow students to earn bachelor's degrees that can be completed within four years of enrollment in higher education; and,
3. Ease transfer through the state's education system, including by recognizing learning that has occurred across the state's education segments or elsewhere.

The Governor proposes that awards will be selected based on the extent to which an application proposes an innovative model that: 1) advances the state's priorities at a lower cost than existing instructional delivery models and without requiring that students pay increased tuition or fees; 2) includes broad participation by the segments and local educational entities in a manner that can have a statewide impact if expanded; and, 3) is likely to be implemented effectively and sustainably. The Administration anticipates that the awards process would be completed in the spring of 2015 and will be managed by a committee composed of:

1. The Director of Finance or his designee, either of whom shall serve as the chairperson of the committee.
2. A member of the State Board of Education selected by the Governor.
3. A member of the Board of Governors of the CCCs selected by the Governor.
4. A CSU trustee selected by the Governor.
5. A UC regent selected by the Governor.
6. An appointment of the Senate Committee on Rules.
7. An appointment of the Speaker of the Assembly.

Upon notification by the Director of Finance that it has been selected for an award, it is proposed that an entity or group shall submit a report to the Director of Finance indicating how the awarded funds will be used and commit to reporting, on January 1, 2018 and again on January 1, 2020, an evaluation of the effectiveness of the model of higher education innovation in achieving the identified priorities and the number of bachelor degrees awarded through the model.

The Administration has expressed that this incentive awards program builds on their 2013-14 request to expand the use of technology to remove course bottlenecks and reduce the costs of education. The Administration expects that the segments will continue to implement plans to expand investments in technology that lower costs at each segment and allow students to complete their degrees sooner.

Recommendation. Hold open.

Issue 3 CSU Capital Outlay Process

Governor's Budget. The Governor proposes to shift General Obligation (GO) and Lease-Revenue (LR) bond-debt service payments into CSU's main appropriation. Moving forward, CSU would be responsible for funding debt service from within this main appropriation. Under the proposal, the University would issue its own revenue bonds for various types of capital projects and could restructure its existing LR bond debt. To use its new authority, the University would be required to submit project proposals to the Joint Legislative Budget Committee (JLBC) and Department of Finance (DOF) for approval. The CSU's capital projects no longer would be reviewed as part of the regular budget process.

The Governor's proposal includes trailer bill language necessary to implement this proposal as well as trailer bill language making, primarily, technical changes to similar authority granted to the UC in the current fiscal year.

Staff Recommendation. Reject the proposal to shift general obligation and lease-revenue bond-debt service payments into CSU's main appropriation and the associated trailer bill language. However, do not reduce the CSU's budget by $10 million, which the Administration has assumed is associated with this proposal. Approve the trailer bill language proposing technical changes to the UC's capital outlay project authority.

SUBCOMMITTEES No. 1 and 3
Education and Health & Human Services

Chair, Senator Marty Block | **Chair, Senator Ellen Corbett**

Senator Mark Wyland
Senator Carol Liu

Senator Mimi Walters
Senator Bill Monning

Joint Hearing

April 10, 2014
9:30 a.m. or Upon Adjournment of Session
Room 4203, State Capitol

AGENDA

Consultant: Samantha Lui

Informational		**Page**
I.	Early Childhood Education and Poverty Dr. Jill Cannon, Policy Researcher, RAND Corporation	2
II.	Overview of California's Child Care and Development System Ryan Woolsey, Legislative Analyst's Office Carolyn Chu, Legislative Analyst's Office	4
Item	**Department**	
5180	Department of Social Services	14
	1. Parent-Child Engagement Pilot Project	14
Public Comment		
6110	Department of Education, Child Care	19
	1. Overview of the Governor's Budget	19
	2. Transitional Kindergarten	22
	3. California State Preschool Program (CSPP)	25
	4. CSPP Family Fees	29
	5. LAO Restructure Proposal	31
Public Comment		

PLEASE NOTE. Only those items contained in this agenda will be discussed at this hearing. Please see the Senate Daily File for dates and times of subsequent hearings. Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-651-1505. Requests should be made one week in advance whenever possible. Thank you.

California's Child Care and Development System

Context Setting

BACKGROUND

The period from birth through age five is a critical time for a child to develop physical, emotional, social, and cognitive skills.[1] Early childhood interventions have demonstrated consistent positive effects for a child's long-term health and well-being, including better health outcomes, higher cognitive skills, higher school attainment, and lower rates of delinquency and crime.[2] Some academic literature finds that investing in quality early childhood education can produce future budget saving. For example, James Heckman, a University of Chicago Nobel Laureate economist, found that quality preschool investments generate seven to ten cents per year on every dollar invested.[3] To provide context for the subcommittees' consideration of the Governor's budget proposal on child care and early childhood education and of the Department of Social Services' Parent-Child Engagement Pilot Project, the following sections will: (1) present the impact of poverty on child development; (2) discuss the importance of early childhood education and development programs; and, (3) provide an overview of California's child care and early education programs.

<u>Impact of Poverty on Child Development</u>. Both cognition and character can determine future social and economic status. On average, children from poor families score below peers from higher-income families in early vocabulary and literacy development, in early math, and in the social skills needed to get along in classrooms.[4,5] For example, children from low-income families hear around 13 million words by age 4, compared to middle-class families, where children hear about 26 million words by age 4. In upper-income families, children hear 46 million words. Vocabulary development and exposure is a critical tool in the formation, gathering, and analysis of information. Also, character traits, like perseverance, motivation, self-esteem, self-control, and conscientiousness, are proven to be as powerful a predictor of the same health and behavioral outcomes.[6] However, children from low-income families, or in chronically stressed environments, may be exposed to factors that challenge social skill development. Specifically, chronic distress affects brain development, reduces attention control, boosts impulsivity, and impairs working memory.[7] Further, poverty can effect classroom engagement. Children

---

[1] U.S. Department of Health and Human Services (2003, June). *Strengthening Head Start: What the evidence shows* http://aspe.hhs.gov/hsp/StrengthenHeadStart03/index.htm

[2] A. Reynolds, J. Temple, S. Ou, D. Robertson. J. Mersky, J. Topitzes, and M. Niles (2007) *Effects of a School-Based, Early Childhood Intervention on Adult Health and Well-being: A 19-year follow-up of low-income families.* ArchPediatrics Adolescent Med/Vol. 161 (No. 8), pp.730-739.

[3] J. Heckman (2011). "The Economic of Inequality: The value of early childhood education." *American Educator*, pp.31-47.

[4] V. Lee, and D. Burkham (2002). *Inequality at the starting gate: Social background differences in achievement as children begin school.* Washington, DC: Economic Policy Institute.

[5] C. Lamy. (2013, May). How Preschool Fights Poverty. *Faces of Poverty*, pp. 32-36.

[6] J. Heckman (2011). "The Economic of Inequality: The value of early childhood education." *American Educator*, pp.31-47.

[7] E. Jensen (2013, May). How Poverty Affects Classroom Engagement. *Faces of Poverty,* 70(8).

who grow up in poor families are likely to be exposed to food with lower nutritional value, which can affect gray matter mass in children's brains.[8]

In 2013, Stanford University researcher, Sean Reardon, found that the "income achievement gap" or "school readiness gap" -- defined as the gap between how students from low- and high-income families fare in standardized test scores, grades, high school completion rates, and college enrollment and completion dates -- is already large when children enter kindergarten. This finding suggests that the primary cause of the gap is not unequal school quality but other factors that occur from birth to kindergarten-age. Further, his research finds that the gap does not grow significantly as children progress through school, but could actually narrow based on a child's involvement with school.

Value of Early Childhood Education and Development. High-quality child care experiences can mitigate the negative effects of poverty on children's academic achievement. For example, low-income children, including linguistically isolated children, participating in center-based care may experience greater gains in school readiness skills than those in home-based settings or parent-only care.[9]Also, children who had greater numbers of experiences in high-quality childcare from six- to 54- months tended to show higher levels of reading and math achievement (averaged) across the elementary-school years. However, some quality experiences remain limited to socio-economic factors. High-income families now spend nearly seven times as much on children's development as low-income families.[10]

Family engagement in a child's early education also contributes to the child's school readiness and later academic success.[11] Unlike past models that focused on parent involvement (i.e., fundraising activities, attending school events or activities, volunteering in the classroom), a strong family-program partnership is culturally sensitive, recognizing that all family members -- grandparents, aunts, uncles, siblings -- contribute in significant ways to a child's education and development. Other positive family-program connections have been linked to greater academic motivation, grade promotion, and socio-emotional skills.[12,13]

The National Association for the Education of Young Children conducted an academic literature review, which identified the value and impact of home visits:

> Home visits provide opportunities for teachers and families to connect in an informal setting, [and] to expand the teacher's knowledge of students' home life and cultural backgrounds. [14,15] Home visits have

[8] *Id.*

[9] J. Cannon, A. Jacknowitz, and L. Karoly (2012, May). Preschool and School Readiness: Experiences of children with non-English speaking parents. Public Policy Institute of California.

[10] S. Kornrich, and F. Furstenberg (2013). Investing in children: Changes in parental spending on children, 1972 to 2007. *Demography*, 50(1), 1-23.

[11] L. Halgunseth, A. Peterson, D. Stark, and S. Moodie (2009). Family Engagement, Diverse Families, and Early Childhood Education Programs: An Integrated Review of the Literature. National Association for the Education of Young Children and Pre-K Now.

[12] S.L. Christenson (2000). Families and schools: Rights, responsibilities, resources, and relationships. In R.C. Pianta & M.J. Cox (Eds.), The Transition to kindergarten (pp. 143-77). Baltimore, MD: Paul H. Brookes Publishing Co.

[13] P. Mantzicopoulos (2003). Flunking kindergarten after Head Start: An inquiry into the contribution of contextual and individual variables. *Journal of Educational Psychology*, 95(2), 268-278.

[14] G.B. Ginsberg (2007). Lessons at the kitchen table. *Educational Leadership*, 64(6) 56-61.

been associated with higher scores for children in math, reading, and classroom adaptation.[16] Children who receive home-visits are also found to have greater engagement in literacy activities and are more likely to choose and participate in group activities.[17] Furthermore, kindergarten through second grade teachers who participated in home visits reported that home visits led to improved communication with parents, enhanced understanding of the child, and a greater insight on how the home environment influences school performance.[18]

OVERVIEW OF CALIFORNIA'S CHILD CARE AND DEVELOPMENT SYSTEM

Programs in the early care and education system have two objectives: to support parental work participation and to support child development. This section will provide an overview of California's child care and early childhood education programs.

<u>Eligibility and access</u>. Subsidized child care is generally designed for low-income, working families. Families' incomes must be below 70 percent of the state median income ($42,000 for a family of three); parents must be working or participating in an education or training program; and children must be under the age of 13. California has, traditionally, guaranteed subsidized child care through a variety of programs, including child care for families that are currently participating in the California Work Opportunity and Responsibility to Kids (CalWORKs) program. The state subsidizes child care for several years, with Stage 1 care provided for families seeking employment; Stage 2 for families who have been deemed "stable" or are transitioning off of cash assistance; and Stage 3, for families who have been off cash assistance for at least two years. Families that formerly participated in CalWORKs are typically guaranteed subsidized child care services, as long as they continue to meet specified income requirements. However, only a portion of non-CalWORKs families receive subsidized child care, and waiting lists are common.

---

[15] C.D. Delgado-Gaitan (2004). *Involving Latino families in schools: Raising Student Achievement through home-school partnerships*. Thousand Oaks, CA: Corwin Press.

[16] C. Kagitcibas, D. Sunar, and S. Beckman (2001). Long-term effects of early intervention: Turkish low-income mothers and children. *Applied Developmental Psychology*, 22, 333-361.

[17] E. Logan and A. Feiler (2006). Forging links between parents and schools: a new role for Teaching Assistants? *Support for Learning*, 21(3), 115-120.

[18] J.A. Meyer and M.B. Mann (2006). Teachers' perceptions of the benefits of home visits for early elementary children. *Early Childhood Education Journal*, 34(1), 93-97.

Table 1: Summary of California's Child Care and Development Program

Program	Description	Proposed Slots 2014-15
CalWORKs		
Stage 1	Provides cash aid and services to eligible families. Begins when a participant enters the CalWORKs program.	42,719
Stage 2[19]	When the county deems a family "stable." Participation in Stage 1 and/or Stage 2 is limited to two years after an adult transitions off cash aid.	55,943
Stage 3	When a family expends time limit in Stage 2, and as long as family remains otherwise eligible.	30,830
Non-CalWORKs		
General Child Care	State and federally funded care for low-income working families not affiliated with CalWORKs program. Serves children from birth to 12 years old.	48,431
Alternative Payment	State and federally funded care for low-income working families not affiliated with CalWORKs program. Helps families arrange and make payment for services directly to child care provider, as selected by family.	29,803
Migrant Child Care	Serves children of agricultural workers while parents work.	2,595
Severely Handicapped Program	Provides supervision, therapy, and parental counseling for eligible children and young adults until 21 years old.[20]	145
State Preschool	Part-day and full-day care for 3 and 4-year old children from low-income families.	136,755

According to data from CDE, the aggregate number of children served by program type has fluctuated by year. From 2008-2009 to 2012-13, the total unduplicated number of children served across programs has decreased from 503,670 to 396,711. The General Child Care Program saw the largest decrease -- from 2008-08 to 2012-13, 89,790 less children were served. For more specifics of number of children by program type, please see Table 2 below.

[19] Average cost per case for CalWORKs Stage 2 is $542; average cost per case for Stage 3 is $502.
[20] Recipients must have an individualized education plan (IEP) or individualized family service plan (IFSP) issued through special education programs.

Table 2: Aggregate Number of Children Served by Program Type (2008-09 to 2012-13)

	2008-09	2009-10	2010-11	2011-12	2012-13
General Child Care	145,353	71,004	68,386	60,3175	55,563
CalWORKs Stage 2	115,242	107,505	109,495	110,033	104,890
CalWORKs Stage 3	81,035	76,247	67,128	40,391	42,332
Alternative Payment	54,678	58,226	56,937	51,000	39,768
California State Preschool Program*	N/A	201,630	213,931	200,426	181,052
General Migrant Care	4,906	4,393	4,845	4,474	4,069
Severely Handicapped	178	229	235	245	235

* Part-day and Full-day Preschool Programs, and Pre-K Literacy Part-day and Full-day Programs were incorporated into CSPP, pursuant to AB 2759 (Jones), Chapter 308, Statutes of 2007.
Source: CD-801A Monthly Child Care Report. Data summarized represent unduplicated count of children by program type who received subsidized child care and developmental services any time during fiscal year. A child may be counted more than once if he or she receives services within multiple program types during the year.

Administration and funding. The Department of Social Services (DSS) administers CalWORKs Stage 1, while the California Department of Education (CDE) administers all other programs. The programs are also funded by a combination of both state and federal funds.

In 2013-14, around $947 million was allocated for CalWORKs Child Care, $678 million for non-CalWORKs Child Care, and $507 million for State Preschool. These programs were funded with non-Proposition 98 General Fund ($776 million), Proposition 98 ($507 million), and federal funds ($924 million).

According to the LAO, since 2008, the state's overall child care and development funding has decreased by $985 million, or 31 percent. Until the 2011-12 fiscal year, the majority of these programs were funded from within the Proposition 98 guarantee for K-14 education. Additionally, California also receives funding from the federal Child Care and Development Fund (CCDF), which is comprised of federal funding for child care under the Child Care and Development Block Grant (CCDBG) Act and the Social Security Act, which is used to help families with incomes below 85 percent of the state median income level. Four percent of the federal block grant must be spent on improving the quality of child care.

Payments to providers. The state pays for child care services based on how services are delivered -- by voucher or by direct contract.

- Vouchers. First, care provided through CalWORKs Stage 1, Stage 2, and Stage 3 child care, and the Alternative Payment Program, is reimbursed through vouchers. Reimbursement rates vary by county, and are based on a Regional Market Rate (RMR). Currently, the RMR is set to the 85th percentile of the 2005 RMR survey. The RMR represents the maximum the state will pay for care. Alternative Payment Agencies (APs), which issue vouchers to eligible families, are paid through the "administrative rate", which provides them with 17.5 percent of total contract amounts. As the state cut the number of child care slots, APs issued fewer vouchers, which generated less funding for programs. If a family chooses a child care provider who charges more than the maximum amount of the voucher, then a family must pay the difference, called a co-payment. The maximum monthly RMR for full-day care of a four-year-old ranges from $643 (Sutter County) to $1,100 (Marin County).

Typically, a “Title 22” program serves families who receive vouchers. Title 22 regulations require that a licensed provider meet basic health and safety standards, as monitored by the Department of Social Services’ (DSS) Community Care Licensing Division. DSS funds CalWORKs Stage 1, and county welfare departments locally administer the program. The California Department of Education (CDE) funds the remaining voucher programs, which are administered locally by 76 Alternative Payment (AP) agencies statewide.

- Contracts. Second, care provided through General Child Care, Migrant and Handicapped child care, and State Preschool is reimbursed through contracts with CDE. These programs, known as “Title 5” centers for their compliance with Title 5 of the California Code of Regulations, must meet additional requirements, such as development assessments for children, rating scales, and staff development. Providers are reimbursed based upon the number of children they serve, and reimbursements are based on a Standard Reimbursement Rate (SRR). All Title 5 programs receive the same reimbursement rate (depending on the age of the child), no matter where in the state the program is located. Since 2007, the standard reimbursement rate (SRR) has been $34.38 per child, per day of enrollment. The monthly SRR for full-day care for a four-year-old is $716. Over the past few years, small and medium-sized providers have increasingly gone out of business and have been absorbed by larger providers that have greater economies of scale. This is one indication that the SRR may not be sufficient for small and medium-sized providers to operate.

Settings and standards. State subsidized child care is provided in centers, family child care homes (FCCHs), or through license-exempt providers. Each child care program must meet specified requirements pertaining to staffing ratio, staff qualifications, and monitoring, according to Title 5 or Title 22 regulations.

Table 3: Child Care Settings and Standards, by Program

Standards for Child Care Providers

Preschool-Age Children[a]

	License-Exempt Providers	Title 22 FCCHs	Title 22 Centers	Title 5 Centers[b]
Staff Qualifications	None.	15 hours of health and safety training.	Child Development Associate Credential or 12 units in ECE/CD.[c]	Child Development Teacher Permit (24 units of ECE/CD plus 16 general education units).[d]
Staffing Ratios	None.	1:6 adult-child ratio.	1:12 teacher-child ratio or 1 teacher and 1 aide per 15 children.	1:24 teacher-child and 1:8 adult-child ratio.
Health and Safety Standards	Criminal background check. Self-certification of certain health and safety standards.	Staff and volunteers are finger printed. Subject to health and safety standards.	Same as Title 22 FCCHs.	Same as Title 22 FCCHs.
Content Standards	None.	None.	None.	Requires developmentally appropriate activities.
Monitoring	None.	Unannounced visits by CCL every five years or more frequently under special circumstances.	Same as Title 22 FCCHs.	Same as Title 22 FCCHs, but also onsite reviews by CDE every three years (or as resources allow) and annual outcome reports.
Applicable Programs	CalWORKs, AP Program	CalWORKs, AP Program	CalWORKs, AP Program	General Child Care, Migrant Child Care, State Preschool

[a] Standards for children of other ages similar to those displayed here.
[b] Same standards apply to Title 5 family child care network homes.
[c] The Child Development Associate Credential is issued by the National Credentialing Program of the Council for Professional Recognition.
[d] The Child Development Teacher Permit is issued by California's Commission on Teacher Credentialing.
FCCHs = family child care homes; ECE/CD = Early Childhood Education/Child Development; CCL = Community Care Licensing; CDE = California Department of Education; and AP = Alternative Payment.

Table 3: Legislative Analyst's Office (2014, April). "Restructuring California's Child Care and Development System." http://www.lao.ca.gov/reports/2014/education/child-care/restructuring-child-care system-040414.pdf

Impact of the Recession. Between 2008-09 and 2012-13, child care and preschool programs experienced significant reductions. Specifically, overall funding for programs decreased by around $984 million (31 percent), and about one-quarter of all slots were eliminated (110,000 across all programs). In addition, the following policies impacted child care and preschool programs:

- Maintaining the RMR and SRR at 2005 and 2007 levels, respectively.
- Lowering income eligibility thresholds from 75 percent to 70 percent of the state median income.
- Reducing payments to administrative agencies from 19 percent to 17.5 percent of total contract amounts.
- Reducing or eliminating several of the state's quality improvement projects.
- Implementing parent fees for part-day State Preschool.
- Reducing nutrition funding for some private child care centers and homes.

<u>Other programs and funding support</u>. Programs, such as Head Start and California First 5, and other funding sources, such as the Race to the Top grant, local school districts, and community college districts, also support child development and early education programs.

Head Start. Head Start is a national program, administered by the U.S. Department of Health and Human Services Administration on Children, Youth, and Families, which aims to serve preschool-age children and their families in Head Start programs around the state. Head Start programs offer a variety of service models, depending on the needs of the local community. Many Head Start programs also provide Early Head Start, which serves infants, toddlers, pregnant women, and their families who have incomes below the federal poverty level. Programs may be based in:

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

According to CDE, in 2012, over 111,000 children were served by Head Start with a program budget of over $965 million. California's Head Start programs are administered through a system of 74 grantees and 88 delegate agencies. A majority of these agencies also have contracts with the CDE to administer general child care and/or State Preschool programs. CDE indicates that it has over 1,316 contracts, through approximately 718 public and private agencies, providing services to approximately 400,000 children.

California First 5 and County First 5 Commissions. In 1998, voters approved Proposition 10, the California Children and Families First Act, which created the California Children and Families Program, also known as First 5. There are 58 county First 5 commissions, as well as the State California and Families Commission (State Commission), which provide and direct early development programs for children through age five. A cigarette tax (50 cent per pack) is the primary funding mechanism, of which about 80 percent is allocated to the county commissions and 20 percent is allocated to the State Commission. According to the Legislative Analyst's Office, the tax generates approximately $400 million annually.

According to the 2011 First 5 California Annual Report[21], the State Commission has invested in the following:

- <u>Power of Preschool</u> - $15.2 million to fund Power of Preschool demonstration projects in certain counties. Power of Preschool provides free, voluntary, high-quality, part-day preschool to assist three- and four-year old children in becoming effective learners with a focus on developing preschool in underserved and high-priority communities.
- <u>School Readiness</u> - $51.7 million to counties for the School Readiness Program that strives to improve the ability of families, schools, and communities to prepare children to enter school ready to learn. Services are provided to focus on family functioning, child development, child

[21] http://www.ccfc.ca.gov/pdf/annual_report_pdfs/Annual_Report_11-12.pdf

health, and systems of care with a specific target to children and their families in schools with an Academic Performance Index score in the lowest three deciles.

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

After School Education and Safety Program. In 2002, California voters approved Proposition 49, which expanded and renamed the "Before and After School Learning and Safe Neighborhood Partnerships Program" to the "After School Education and Safety (ASES) Program." The ASES Program funds after school education and enrichment programs, created in partnerships between schools and community resources for students in kindergarten through ninth grade. After school programs must have (1) an educational and literacy element, such as tutoring and/or homework assistance, and (2) an educational enrichment element, such as music, performing arts, or community-service learning. ASES grantees must operate programs a minimum of 15 hours a week, and at least until 6:00 p.m. every regular school day during the regular school year. Currently, the ASES program is funded at $550 million.

Race to the Top -- Early Learning Challenge (RTT-ELC).[22] In 2012, California was one of nine states awarded a Race to the Top -- Early Learning Challenge grant, which aims to improve the quality of early learning programs and to close the achievement gap for children from birth to age five. California's grant totals $52.6 million over four years (January 2012 to December 2015). State agencies, including the State Board of Education, DSS, Department of Public Health, Department of Developmental Services, and First 5 California, work with a voluntary network of 17 Regional Leadership Consortia (Consortia)[23] to operate or develop a local Quality Rating and Improvement System (QRIS). The grant is also making one-time investments in state capacity, such as teacher/provider training and professional development, kindergarten readiness, home visitation, and developmental screenings

Around 74 percent of California's grant is spent in 16 counties[24] to support a voluntary network of early learning programs. CDE estimates that nearly 1.9 million children, or 70 percent of children under five, can benefit from this grant.

Local School Districts. Local school districts have also made considerable investments in early childhood education. Many elementary schools have preschool programs and child care programs on site, such as Head Start, First 5 funded programs, or State Preschool. However, some programs are funded directly by school districts using other funds, including local property tax and parent fees. School

[22] For more information on California' Race to the Top -- Early Learning Challenge Grant, please see the May 2013 Report to the Governor, the Legislature, and the Legislative Analyst's Office at http://www.cde.ca.gov/sp/cd/rt/documents/rttelc2012legrpt.pdf

[23] The Consortia includes the counties of Alameda, Contra Costa, El Dorado, Fresno, Los Angeles, Merced, Orange, Sacramento, San Diego, San Francisco, San Joaquin, Santa Barbara, Santa Clara, Santa Cruz, Ventura, and Yolo.

[24] The Consortia includes 17 members in the counties of Alameda, Contra Costa, El Dorado, Fresno, Los Angeles, Merced, Orange, Sacramento, San Diego, San Francisco, San Joaquin, Santa Barbara, Santa Clara, Santa Cruz, Ventura, and Yolo.

districts have flexibility to use their funding streams on early childhood education. There are various funding mechanisms that can also be used to support early childhood education, such as:

- Title I federal funding, which is dedicated to improving the academic achievement of the disadvantaged;
- Federal special education funding; and,
- California School Age Families Education (CalSAFE) that provided money specifically for child care and other supports for parenting students. This program was added to categorical flexibility in 2008-09, and the funds allocated to districts are no longer restricted to the CalSAFE program.

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

- CalWORKs $9.2 million for subsidized child care for children of CalWORKs recipients.
- Cooperative Agencies Resources for Education (CARE) - Administered by the state Chancellor's Office, CARE uses Proposition 98 funds to operate 113 CARE programs. For fiscal year 2013-14, the program was allocated $9.3 million to provide eligible students with supplemental support services designed to assist low-income single parents to succeed in college.[25]
- Child Care Tax Bailout - This program was first established in 1978 to mitigate the effect of Proposition 13 on 25 community colleges that had previously dedicated local taxes to child care and development centers. This program was included in the categorical flex item with funding of $3.4 million in the 2009-10 budget, but there has been no change to this program since that time.

ISSUES TO CONSIDER

The Legislature may wish to consider the following issues when considering the child care and early childhood education proposals.

Statewide "stability" standard for CalWORKs Stages. Before a family moves from CalWORKs Child Care Stage 1 to Stage 2, a county must determine the family to be in "stable" condition. However, there is no statewide definition of what constitutes "stable." Because funding for these programs rely heavily on caseload projections and estimates, unpredictable shifts from Stage 1 to Stage 2 could undermine the ability for resources to be allocated accordingly. The Legislature may choose to define "stable" for purposes of determining eligibility to be transferred from Stage 1 to Stage 2 of CalWORKs Child Care.

Regional Market Rate and Standard Reimbursement Rate. For child care, CDE conducts its RMR survey every two years, but state law does not require that California adopt the rate. The RMR is currently at the 85th percentile of the 2005 survey. Over the past few years, providers increasingly have been charging the maximum of what the state will pay for vouchers. In some counties, this is more

[25] The Chancellor's Office temporarily suspended the Board of Governors-approved CARE allocations' funding formula, so each CARE program is awarded the same allocation received in the past four years. For more information about CARE's final allocations, please see http://extranet.cccco.edu/Divisions/StudentServices/CARE/Allocations.aspx

pronounced than in others. If child care providers charge too high a price, families may be unwilling or unable to pay. In communities with large numbers of low-income families who do not receive subsidies, the families' ability to pay may be more limited than what the providers could otherwise charge if all families had subsidies. However, if most families were subsidized, the provider could charge closer to the RMR cap without affecting the families' ability to pay. Similarly, the state has held the Standard Reimbursement Rate at the 2007 level. The Legislature may wish to discuss whether updating the RMR, based on a more recent survey, and the SRR, is appropriate and helpful for families determining where to access care.

Updating quality measures.[26] Four percent of the Child Care and Development Block Grant (CCDBG) must be spent on improving the quality of child care. The Child Care and Development Fund (CCDF), which is comprised of federal funding for child care under the CCDBG Act and the Social Security Act. Examples of uses for quality funds include technical assistance and training, Resource & Referral services, and grants and loans to providers for start-up costs. In 2012-13, the state budgeted $72 million for 27 distinct projects, including professional development, stipends for providers, and activities related to health and safety. The Legislature may wish to examine more closely how those quality measure funds are being used and identify if there are better ways to allocate the quality funding measures.

Child Care and Development Block Grant. On March 13, 2014, the U.S. Senate voted to approve (96-2) a reauthorization for the federal child care program, the Child Care and Development Block Grant (CCDBG).[27] The original law was designed to primarily provide low-income parents a way to re-enter the work force, and was last authorized in 1996. The bill's provisions, among others, would:

- Require that states phase in higher levels of quality set-aside dollars until they reach 10 percent of funds in 2018 and every year thereafter.
- Increase, from two to three years, the period that a state child care and development plan must cover.
    - Revise plan requirements to include compliance with child abuse reporting requirements and protection for working parents; and, prescribes early learning and developmental guidelines.
- Require that states conduct background checks for all providers, and annual unannounced health, safety, and fire inspections.
- Make ineligible a licensed, regulated, or registered child care provider if he or she (1) refuses to consent to a criminal background check, (2) knowingly falsifies information on a background check, (3) is registered on a state sex offender or National Sex Offender registry, or (4) has been convicted of one or more specified felonies.
- Limit child to provider ratio in programs, as identified by the age group of children served;
- Require that state early learning guidelines be aligned with state K-3 standards; and,
- Prioritize access to early childhood education in high-poverty and high-unemployment areas.

The bill is currently in the House of Representatives.

[26] Every two years, California must prepare and submit to the federal government a plan detailing how its CCDF funds are allocated and expended. http://www.cde.ca.gov/sp/cd/re/stateplan.asp

[27] S. 1086 -- 113th Congress (Mikulski, 2013). For full text of the bill, please see: http://www.gpo.gov/fdsys/pkg/BILLS-113s1086is/pdf/BILLS-113s1086is.pdf

Demographics of young, low-income children. According to 2011 data from the National Center for Children in Poverty at the Columbia University, Mailman School of Public Health, nearly 1.4 million young children in California live in low-income families, defined as income below 200 percent of the federal poverty level (FPL).[28] In 2011, the FPL for a family of four with two children was $22,350. Nearly 44 percent of young children in low-income families in California have at least one parent employed full-time, year-round. Around 47 percent of those young children in low-income families live with a single parent, and 86 percent of young children have parents who do not have a high-school degree.

Reviewing current Transitional Kindergarten (TK) system. The current TK framework may deserve additional review and discussion. First, the current TK program provides an additional year of public school, regardless of need, to children born between September and December. However, it is unclear why this subset of children, simply based on birth date, should receive the benefit. Second, current law allows parents of children, who are born after the cutoff, to request a waiver to have their children begin kindergarten early. In addition, districts have much flexibility in providing waivers, creating classrooms, and modifying kindergarten curriculum for TK. The Legislature may be interested in issuing a statewide standard or learning foundation to ensure that quality education is provided to all children, regardless of geographic location. Lastly, there are a number of legislative proposals that affect early childhood education and development awaiting consideration.

Coordination in patchwork system. Some families, despite similar characteristics, are provided different funding and educational opportunities. The Legislature may want to examine how current child care services and early education programs are administered and delivered, so that these efforts and programs can best maximize the use of available funding, deliver quality services, and meet the needs of California's families.

[28] National Center for Children in Poverty (2013, May) ."California: Demographics of Young, Low-Income Children." http://www.nccp.org/profiles/state_profile.php?state=CA&id=8

5180 Department of Social Services

1. Parent-Child Engagement Pilot Project

<u>Budget Issue</u>. The budget proposes a three-year, six-county pilot project to serve 2,000 low-income families, and to connect 3,200 preschool-age children between the ages of two and five with licensed child care. Pilot counties would be selected through an application process. A selected pilot county will identify participant cohorts of CalWORKs children and families through an initial assessment and screening. Under the pilot, child care will be provided in a stable environment, and parents must work with their child for an average of ten hours per week for at least six months. Child care providers will work directly with parents through mentoring. The proposal assumes the first cohort of families to enroll in March 2015 and the second cohort in 2016.

The budget projects a $9.9 million General Fund (GF) cost in 2014-15, and a total of $115.4 million GF over three years.

Full-time child care will be provided throughout the entire project, if the parent completes the parental involvement component. However, the Administration assumes that ten percent of participants will not meet the parental component requirements within three months. If the parent does not complete the component, but does continue to participate in welfare-to-work (WTW) activities, the child will receive part-time care for the duration of the project. Based on the weighted statewide average of monthly preschool age in a child care center at the 85th percentile of the 2005 RMR survey, full-time and part-time care cost per case is $873.40 and $732.31, respectively. Monthly cost per case for parental involvement is $335.

The budget includes an accompanying trailer bill, which contains the following provisions:

1. Expresses the Legislature's intent in authorizing a three-year pilot project, in up to six counties, to demonstrate improved outcomes for CalWORKs hardest-to-serve families, including sanctioned families and their preschool aged children;
2. Sets forth information that a county must include in its proposal, prior to being selected as a project site, such as:
    a. How the county plans to attain the project goals.
    b. The basis of its project plan (e.g., Child-Parent evidence-based model, or an alternate model).
3. Requires participating counties to prepare and submit progress reports, annual reports, and a final report, on a schedule determined by DSS;
4. Requires counties to measure the program's success based on the following outcomes:
    a. Regular child care attendance;
    b. Continuity of parental involvement for at least the first six months of a family's participation;
    c. Reduce barriers to achieving self-sufficiency, including improved parental employment history, as determined by caseworker review; and,
    d. Improved school readiness of participating children, as assessed using a standardized tool to measure cognitive, emotional, and social skill development.

5. Authorizes the Department of Social Services (DSS) to terminate any, or all, of the pilot projects after six months of operation, if DSS receives information that the project is not cost-effective or adversely impacts recipients.
6. Authorizes DSS to waive specific statutory requirements, regulations, and standards, by formal order of the director, for the purpose and duration of the project.
7. Authorizes a participating county to dis-enroll children from the project who have unsatisfactory child care attendance, after project representatives have actively attempted on multiple occasions to engage the family, to allow the child care slot to be utilized by a new participant.
8. Authorizes the department to implement and administer the pilot project through all-county letters or a similar mechanism.

Panelists: Will Lightbourne, Director, Department of Social Services
Todd Bland, Deputy Director of WTW Division, Department of Social Services
Ryan Woolsey, Legislative Analyst's Office
Department of Finance

Background on CalWORKs. The CalWORKs program provides temporary cash assistance and welfare-to-work services to low-income families with children. Over the last several years, the program has sustained very significant reductions, including a decrease from 60 to 48 months in the amount of time adults can receive assistance in a lifetime, and additional restrictions that will result in some adults losing all assistance after 24 months. The Governor proposes an overall 2014-15 budget of $5.5 billion in federal, state, and local funds for the program and estimates a caseload of 529,000 families (a decrease of four percent).

As a condition of reviving aid, families receiving CalWORKs must be employed or participate in welfare-to-work (WTW) activities. Adults that fail to comply with the work requirement without good cause are "sanctioned," meaning the adult portion is removed from the calculation of the family's grant (resulting in decreased assistance, usually around $125). Many CalWORKs recipients face barriers to employment, such as low-educational attainment, low English proficiency, responsible of caring for children or parents with disabilities, lack of child care, substance abuse, prior criminal convictions, and others. The CalWORKs program seeks to provide services to address those barriers, including English as a Second Language services, subsidized child care, and mental health and substance abuse treatment.

In 2013, the Legislature enacted AB 74 (Budget Committee), Chapter 21, Statutes of 2013, which created three "early engagement" strategies to assist CalWORKs recipients in addressing barriers to employment. The strategies include:

- Subsidized employment for CalWORKs recipients.

- Family stabilization services, such as intensive case management and specialized services, to adults and children in CalWORKs families that face certain immediate, destabilizing needs.

- Statewide WTW appraisal tool for new WTW participants. The Online CalWORKs Appraisal Tool (OCAT) is expected to be available to all counties by July 2014.

<u>Background on the Parent-Child Model</u>.[29] The Chicago Child-Parent Center (CPC) program provides school-based educational enrichment and comprehensive family services from preschool to third grade, or ages three to nine years old. The intervention served around 1,500 children born in 1979 or 1980. Beginning in preschool, the program emphasizes acquisition of basic skills in language arts and math. Major elements of the intervention include low child-to-staff ratios in preschool (17:2), kindergarten (25:2), and primary grades (25:2). Parents are expected to participate up to half a day per week through a variety of activities. Preschool is three hours a day, five days a week, and also usually includes a six-week summer program.

Researchers conducted a follow-up analysis on 1,539 low-income participants who enrolled in a CPC program in 20 sites or kindergarten intervention of a group at aged 24 – around 19 years after the initial intervention. The academic literature analyzing the effects of the Chicago Longitudinal Study for the CPC program finds that CPC preschool participants, compared to the comparison group, had higher rates of school completion and attendance in four-year colleges; are more likely to have health insurance coverage; lower rates of felony arrests, convictions, incarceration, depressive symptoms, and out of home placements; and, higher rates of full-time employment.

<u>Justification</u>. According to the Administration, studies have shown that parental involvement at school has a significant impact on long-term school achievement, yet there remains a lack of access to high-quality child care for CalWORKs families, primarily, sanctioned families, and their preschool aged children.

The Administration states that the goals of the Parent-Child Engagement Pilot Project's goals are to:

1. Connect vulnerable children with stable, high-quality child care;
2. Engage parents with their children in the child care setting;
3. Enhance parenting and life skills; and,
4. Provide an educational preparatory platform for achieving eventual self-sufficiency.

Parents must work in their child's classroom, an average of ten hour per week, for at least six months. In doing so, parents will learn parenting techniques, how to nurture positive relationships with their children, understand their role in their child's learning, and learn about available community resources.

<u>LAO Comments</u>. The LAO makes the following comments and recommendations:

- <u>Reject Governor's proposal</u>. On balance, the LAO recommends rejecting the proposal, due to several issues:
    - <u>Duplicative services</u>. Certain aspects of the proposal pilot would duplicate services already available in the CalWORKs program, particularly given recent significant statutory changes that are still partially under implementation. As part of the CalWORKs program, families that are employed or participating in WTW activities are already guaranteed access to subsidized child care. This pilot would not provide anything

[29] A. Reynolds, J. Temple, S. Ou, D. Robertson. J. Mersky, J. Topitzes, and M. Niles (2007) *Effects of a School-Based, Early Childhood Intervention on Adult Health and Well-being: A 19-year follow-up of low-income families.* ArchPediatrics Adolescent Med/Vol. 161 (No. 8), pp.730-739.

substantially different in addressing adult work-readiness and employment outcomes than what is currently available.

- A pilot for proven outcomes? The state currently funds child care programs with an educational focus for similar low-income children, so a new pilot may not be necessary to demonstrate the impact of these programs on child outcomes. However, CalWORKs families historically have had a difficult time accessing these programs because of the way the state structures services.

- Unknown impact of parental involvement on employment outcomes. Lastly, there is little evidence to suggest that parental involvement activities would directly improve employment outcomes. The pilot's cost ($115 million over three years) may not justify the value of testing the impact of parental involvement activities.

- Explore ways to address inconsistencies in child care standards**.** The LAO recommends the Legislature explore alternative ways to provide CalWORKs families access to educationally-focused childcare programs.

Staff Comments and Recommendation. Hold open. It is recommended to keep this item open for further discussion and review.

Questions for DSS

1. Please briefly summarize the proposal, including the implementation process, parental engagement component, and expected outcomes.

2. What are some of the barriers current CalWORKs families face when selecting a child care program? How does this pilot project address those barriers?

3. According to the Administration, the projected cost per case for parental case management is $361.43, compared to family stabilization/barrier removal ($143.93). What components of the pilot project's parental case management are different from the intensive case management, otherwise offered under family stabilization?

4. Has the department identified potential counties and project sites to participate in the pilot?

5. According to the Administration, an additional $335/per month, per case will pay for "additional, qualified staff in centers" that will provide services for parents. What additional training will center staff receive prior to enrolling parents and their children? Will the newly-hired staff positions focus specifically on engaging the parents, or also provide services to their children?

6. In addition to TrustLine and tuberculosis testing, what other screenings must a parent fulfill before entering a child care center? Will a parent be denied from participating in the pilot if he or she has an arrest or conviction record?

7. Proposed trailer bill language states that a county must use a standardized tool to measure a participating child's cognitive, emotional, and social skill development. Is this a standardized tool that is currently in use? If not, please describe the development of this tool.

8. Proposed trailer bill language authorizes a county participating in a pilot to dis-enroll a child. Please explain the due process afforded to a family to prevent a child from dis-enrollment.

9. If the department terminates any of the projects, will another county be able to apply for the pilot and take its place? What happens to the participating families and children in the pilot county?

10. When does the department intend to release the pilot's comprehensive final report?

11. What is the current stakeholder process? Has the department received any feedback?

6110 Department of Education

1. Overview of Governor's Proposal

Budget Issue. The budget proposes few substantive changes for child care and preschool funding. Overall funding across all programs decreases by $3 million (less than one percent change since last year). The budget includes the following proposals:

- **Increases CalWORKs Stage 2 and Stage 3 funding to reflect increased cost-of-care.** The budget proposes an increase in $6.3 million and $2.8 million non-Proposition 98 General Fund for CalWORKs Stage 2 and Stage 3 recipients, respectively.

- **Reflects decreases in federal funds.** The budget reflects a net decrease of $9.1 million federal funds to reflect a reduction of $3.2 million carryover funds, and a decrease of $5.9 million to the base grant.

Tables 4 and 5 (below) provide information on proposed funding and slots for CCD programs, including State Preschool.

Table 4: Legislative Analyst's Office, Budget Summary

(Dollars in Millions)

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	$289	$406	$385	-$22	-5%
Stage 2	419	358	364	6	2
Stage 3	162	183	186	3	2
Subtotals	**($870)**	**($947)**	**($935)**	**(-$12)**	**(-1%)**
Non-CalWORKs Child Care					
General Child Care	$465	$473[a]	$479[b]	$6	1%
Alternative Payment	174	177[a]	179[b]	2	1
Other child care[c]	28	28[a]	28[b]	—	1
Subtotals	**($666)**	**($678)**	**($687)**	**($9)**	**(1%)**
Support Programs	$76	$74	$73	-$2	-2%
Totals	**$1,612**	**$1,699**	**$1,694**	**-$5**	**—**
Funding					
State Non-Proposition 98 General Fund	$779	$776	$783	$8	1%
Other state funds	14	—	—	—	—
Federal CCDF	549	541[a]	556[b]	15	3
Federal TANF	372	383	355	-28	-7
State Preschool (Proposition 98)	**$481**	**$507**	**$509**	**$2**	**—**

[a] Differs from administration's estimate due to reflecting the federal sequestration cut and the associated General Fund backfill.
[b] Does not include potential federal sequestration reduction, as estimates are still pending.
[c] Includes Migrant Child Care program and Handicapped Child Care program.
CCDF = Child Care and Development Fund and TANF = Temporary Assistance for Needy Families.
Posted January 2014.

Table 4: Child Care Budget Summary. Legislative Analyst's Office: EdBudget Tables, 2014 <http://www.lao.ca.gov/sections/education/ed-budget/Child-Care-Budget-Summary.pdf >

Table 5: Child Care and Preschool Subsidized Slots

Summary of Child Care and Preschool Subsidized Slots[a]

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
CalWORKs Stage 1	34,849	45,532	42,719	-2,813	-6%
CalWORKs Stage 2	63,379	56,593	55,943	-650	-1
CalWORKs Stage 3	25,448	32,784	30,830	-1,954	-6
General Child Care	46,036	48,968	48,431	-537	-1
Alternative Payment	24,854	30,132	29,803	-329	-1
Migrant	2,491	2,534	2,595	61	2
Handicapped	143	144	145	1	1
Total Child Care	**197,200**	**216,687**	**210,466**	**-6,221**	**-3%**
State Preschool	**129,511**	**136,182**	**136,755**	**573**	**—**[b]

[a] Reflects average monthly slots. For 2012-13, reflects actual caseloads. For 2013-14 and 2014-15, reflects administration's caseload estimates for all programs other than Migrant and Handicapped. Caseloads for these two programs reflect LAO estimates, as administration's estimates historically have been higher than actuals.

[b] Less than 1 percent.

Posted January 2014.

Table 5: Child Care and Preschool Subsidized Slots. Legislative Analyst's Office: EdBudget Tables, 2014
http://www.lao.ca.gov/sections/education/ed-budget/Summary-of-Child-Care-and-Preschool-Subsidized-Slots.pdf

Panelists: Jessica Holmes, Department of Finance
Carolyn Chu, Legislative Analyst's Office

Background. The child care and early childhood education programs funded by the State are generally capped programs. This means that funding is not provided for every qualifying family or child, but instead funding is provided for a fixed amount of slots or vouchers. The exception is the CalWORKs child care program (Stages 1 and 2), which are entitlement programs in statute. Stage 2 child care is approximately $542 per case, while Stage 3 child care is around $502 per case.

In general, Stage 1 child care is provided to families on cash assistance until they are "stabilized". After families are stabilized, they are transferred to Stage 2, where they are entitled to child care while on aid and for two additional years after they leave aid. Stage 3 has been for those families that have exhausted their Stage 2 entitlement.

Historically, caseload projections have generally been funded for Stages 1, 2, and 3 in their entirety – even though, technically speaking, Stage 3 is not an entitlement or caseload-driven program. There has been considerable turmoil in the Stage 3 program since Governor Schwarzenegger first vetoed all of the funding for Stage 3 in 2010. In 2011, the program was effectively capped and the California Department of Education (CDE) was required to provide instructions to the field on how to dis-enroll families. In 2012-13, the State Assembly has provided $13.5 million from their administrative budget to ensure all eligible families are covered in the Stage 3 program.

In 2012, funding for the State Preschool program and the General Child Care Programs were consolidated so that all funding for the part-day/part-year state preschool program is now budgeted under the State Preschool program, which is funded from within the Proposition 98 guarantee. The remaining funding in the General Child Care program supports the wrap-around care required for working parents.

Also in 2012, the Governor proposed a significant consolidation and realignment of the vast majority of the child care programs to the counties. This reorganization was not approved.

LAO Comment and Recommendation. The LAO makes the following comments and recommendations:

- Governor Likely Overestimates CalWORKs Stage 2 Caseload. The LAO estimates that the Stage 2 caseload will be around 3,000 cases lower than the Governor's estimates for two reasons:
    - First, existing Stage 2 caseload are almost 2,000 cases below the administration's caseload estimate for the budget year.
    - Second, data suggests that a large number of families will reach the end of Stage 2 eligibility, and will transition to Stage 3 in the budget year.

- Governor Likely Underestimates Per-Child Costs for CalWORKs Stages 2 and 3. The LAO notes that the budget's per-child cost estimates for Stages 2 and 3 programs are too low. Specifically, 2013-14 per-child costs are averaging about four percent higher in Stage 2, and about two percent higher in Stage 3, compared to the Governor's estimates for 2014-15. The LAO expects these current-year increases in per-child costs will likely continue into 2014-15.

- Budget Currently Looks Short but Better Estimates Available in late April. Data from the first three-quarters of 2013-14 are released and will be available in late April. More data will enable the Legislature to develop more accurate caseload and cost estimates for child care programs.

Staff Comment and Recommendation. Hold open. It is recommended to keep the item open for further discussion.

Questions

1. To DOF: Please briefly summarize the Governor's proposal.

2. To LAO: Why might the per-child cost for CalWORKs Stages 2 and 3 be higher than expected? Has there been a trend in individuals selecting licensed care or license-exempt care?

2. Transitional Kindergarten (TK) - Overview

Panelists: Department of Education
Carolyn Chu, Legislative Analyst's Office
Department of Finance

WHO IS ELIGIBLE FOR TK?

A child is eligible if he or she has her fifth birthday between:

- For the 2013-14 school year, October 2 and December 2.
- For the 2014-15 school year and each school year thereafter, September 2 and December 2.

Background. SB 1381 (Simitian), Chapter 705, Statutes of 2010, enacted the "Kindergarten Readiness Act," which changed the required birthday for admission to kindergarten and first grade, and established a TK program, beginning in 2012-13, for children who turn five between September 1 and December 1. The program calls for a modified kindergarten curriculum that is age and developmentally appropriate. While state law requires school for six-year-olds, TK, like kindergarten, is not compulsory for a child.

Each elementary or unified school district must offer TK and kindergarten for all eligible children. TK programs must also have 36,000 minutes per year, or 180 minutes per school day, of instructional teaching. According to CDE, there is no state-mandated curriculum for TK, so Local Educational Agencies (LEAs) must modify current kindergarten curriculum to make it appropriate. Also, LEAs may determine the standards, or learning foundations, for TK.[30] Similar to kindergarten, the maximum teacher-to-student ratio will be 1:24 upon full implementation of the Local Control Funding Formula, and teachers must be credentialed.

Funding. TK is entirely funded through Average Daily Attendance (ADA), so a local district receives the same ADA funding rate as kindergarten students. During the Local Control Funding Formula[31] phase-in, it is not yet possible to determine the statewide rate for TK; however, based on the current level of funding, CDE estimates average cost per child in TK to range from $5,118 per pupil to $7,676, depending on whether a pupil receives a supplemental grant amount.

Enrollment and Program Information. All districts report TK information via the California Longitudinal Pupil Achievement Data System (CALPADS), which is a data system that includes information on student demographics, staff assignments, and course data for state and federal reporting. CALPADS was created to meet federal requirements in the No Child Left Behind Act of 2001, and provides LEAs with data and reports on student achievement over time. The 2013-14 school year is the first year in which CALPADS will collect TK program data that will provide solid enrollment information. That data will

[30] CDE suggests that in implementing TK locally, districts may consult California's Preschool Learning Foundations, California Preschool Curriculum Frameworks, California Academic Content Standards, and the Common Core State Standards for English Language Art and Mathematics.

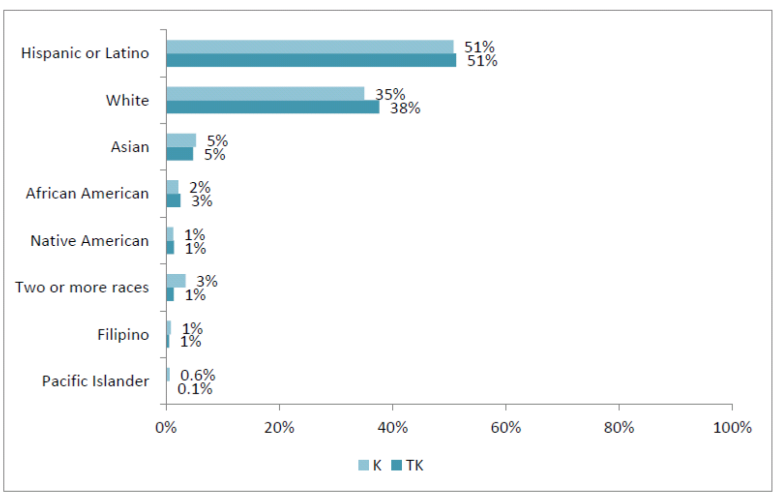
[31] For more information on LCFF, please see the Senate Budget and Fiscal Review Committee's Overview on Education: http://sbud.senate.ca.gov/sites/sbud.senate.ca.gov/files/overview/Overview2014_15BudgetBillSB851.pdf Nothing about LCFF requires specified funding for specified programs. Districts can identify money as supplemental/concentration funds, or for another use.

be submitted by school districts in late May and reported by the department in mid-summer, following data quality review.

American Institute for Research (AIR) Survey. AIR is conducting the Study of California's Transitional Kindergarten Program, which will investigate the planning for and implementation of TK in the 2012-13 school year. The study includes a survey of California school districts and an analysis of the survey responses.[32] The full study will be released in late April, but preliminary findings include the following:

- 89 percent of districts reported providing TK in 2012–13, and an additional seven percent reported they had no students enroll. The remaining four percent of districts cited a variety of reasons for not implementing TK, including having too few students to warrant establishing a program and a lack of resources or uncertainty about funding for the program.
- 58 percent of districts reported offering full-day TK, and 41 percent reported offering half-day TK.
- The vast majority of TK teachers had early education teaching experience, with 87 percent reporting they had taught kindergarten, and 29 percent reporting prior experience as preschool teachers.
- The demographic characteristics of students enrolled in TK largely mirrored the characteristics of kindergarten students enrolled in the same district. Characteristics examined included gender, ethnicity, eligibility for free or reduced price lunch, and English learner status.

Figure 1: Comparisons of TK and Kindergarten Enrollment by Race/Ethnicity, 2012-13 School Year



Note: Differences are not statistically significant unless noted.
Sources: In-depth district survey (n = 75), California Department of Education

Figure 1: American Institutes of Research (2014, April). "Comparisons of TK and Kindergarten Enrollment by Race/Ethnicity, 2012-13 School Year."

32 Funding for the study was provided by the Heising-Simons Foundation and The David and Lucile Packard Foundation. AIR surveyed administrators in all California districts with kindergarten enrollment (n=868). Surveys were administered electronically. The research team conducted intensive follow-up to obtain responses from a random subsample of non-respondents. These responses were used to create survey weights that correct for non-response bias, providing a weighted analysis that is intended to be representative of the state. The survey had a final response rate of 72 percent (n=629).

Related Legislation: During this legislative session, there are policy bills, introduced in both houses, which address issues, such as enhanced funding for infant and toddler education and care; removal of State Preschool Program family fees; TK revision and expansion; dual eligibility for four-year olds in TK and the State Preschool Program; mandatory kindergarten; and, full-day kindergarten.

Staff Comment and Recommendation. This item is informational, and no action is required.

Questions

1. To CDE: What are some of the biggest challenges faced by school districts as they implement the existing TK program?
2. To CDE or LAO: Should TK have its own learning standards, distinct from kindergarten? Is 1:24 an appropriate teacher-to-child ratio for four-year olds?
3. To CDE or LAO: What does research tell us about the most effective Pre-K programs?

3. California State Preschool Program - Overview

Panelists. Department of Education
Legislative Analyst's Office
Department of Finance

Background. AB 2759 (Jones), Chapter 308, Statutes of 2008, consolidated funding for State Preschool, Pre-kindergarten and Family Literacy, and General Child Care center-based programs to create the California State Preschool Program (CSPP). CSPP provides both child care and early education, and serves eligible three- and four-year old children, with priority given to four-year olds who meet one of the following criteria:

- The family is on aid,
- The family is income eligible (family income may not exceed 70 percent of the state median income, as adjusted for family size),
- The family is homeless, or
- The child is a recipient of protective services or has been identified as being abused, neglected, or exploited, or at risk of being abused, neglected, or exploited.

CSPP may also serve families that have incomes up to 15 percent above the eligibility threshold. Parents do not have to be working to enroll their child in part-day preschool. State Preschool can be offered at a child care center, family child care network home, school district, or county office of education. Around 324 LEAs serve approximately two-thirds of all children enrolled in State Preschool.

Administration. CSPP, which is administered by Local Educational Agencies (LEAs), colleges, community-action agencies, and private nonprofits, provides both part-day and full-day services with developmentally appropriate curriculum. The Department of Education (CDE) administers CSPP through direct state contracts with local providers. Often, program slots are bundled with other programs to allow for extended or full-day care.

Funding. According to CDE, state preschool programs with no child care costs are around $21.22 per child per day, approximately $3,820 per pupil for a 180-day program. For full-day state preschool programs with child care, the average cost is $34.48 per child per day, or $8,595 per pupil for 250 days. Family fees, or the cost a family must pay for child care if their income is above a certain level, are based on a sliding scale. In general, a family pays a family fee if their income is above 50 percent of the state median income (more information about the family fee to follow). Additionally, AB 2759 (Jones), Chapter 308, Statutes of 2008, authorizes contractors to blend state part-day preschool funds and General Child Care programs to provide three- and four-year-olds with State Preschool and wrap-around child care needed to help support working parents.

Evaluation. Contractors must develop and implement an annual evaluation process, which includes a parent survey assessment, an agency self-evaluation, and an analysis of categorical program monitoring/contract monitoring review (CPM/CMR) findings.

Characteristics of CSPP families. For part-day CSPP, there were 66,532 families that were 40 percent or less than the state median income (SMI); 24,894 families were between the 40 percent to 70 percent of SMI; and, 1,538 families were 70 percent or above the SMI. For full-day CSPP, 26,005 families were 40 percent or less than the SMI; 13,145 were between 40 percent to 70 percent of SMI; and 76 families were 70 percent or above the SMI. The table below compares the SMI ranges of families served in CSPP, full-day and part-day care, in October 2010 and October 2013.

California State Preschool (CSPP)

	Oct. 2010			Oct. 2013		
SMI % Range	**Full Day**	**Part Day**	**Total**	**Full Day**	**Part Day**	**Total**
0-5%	1,399	4,011	5,410	1,194	3,852	5,046
6-10%	1,733	5,856	7,589	1,378	7,105	8,483
11-15%	3,611	10,670	14,281	2,626	9,662	12,288
16-20%	3,617	8,129	11,746	2,563	7,688	10,251
21-25%	5,161	9,952	15,113	3,773	9,695	13,468
26-30%	6,351	10,199	16,550	4,828	10,060	14,888
31-35%	6,012	9,408	15,420	4,982	9,749	14,731
36-40%	5,544	7,640	13,184	4,673	8,730	13,403
41-45%	3,973	6,707	10,680	3,368	6,431	9,799
46-50%	3,347	5,792	9,139	3,012	5,284	8,296
51-55%	2,615	5,256	7,871	2,368	4,371	6,739
56-60%	1,858	4,656	6,514	1,914	3,658	5,572
61-65%	1,359	4,015	5,374	1,399	2,897	4,296
66-70%	1,058	3,438	4,496	1,075	2,249	3,324
Over 70%	669	5,407	6,076	73	1,533	1,606
Total	48,307	101,136	149,443	39,226	92,964	132,190

Source: CD-801 Monthly Child Care Report, October 2010 and October 2013 (archived data).
Note: Data represent a "point-in-time" and do not reflect annual aggregate figures.
Missing/Unknown family monthly income and family size are excluded.

According to data from CDE, families participate in CSPP for different reasons, such as vocational or college training or employment.

Reasons for Extended Care			
REASON FOR CHILD CARE	Care		
	Full Day	Part Day	Total
CPS	402	83	485
Incapacity of Parent	666	6	672
Employment	31,525	174	31,699
Vocational or College Training/Education	2,859	30	2,889
Both Employment and Training/Education	2,070	24	2,094
Seeking Employment	1,622	25	1,647
Homeless or Seeking Housing	82	14	96
None (Child Attends State Preschool)	0	92,608	92,608
Total	39,226	92,964	132,190

Around 51 percent (67,515 families) of all 132,190 families in CSPP have identified a primary language other than English. Specifically, 17,593 families of 39,226 families (44.9 percent) in full-day CSPP, and 40,398 families of 92,964 families (43.5 percent) in part-day CSPP, identified Spanish as their primary language. Vietnamese (1,650 families), Armenian (1,598 families), and Cantonese (1,467 families) were the next highest languages indicated.

Lastly, of the 132,190 families in CSPP, 39,403 families (29.8 percent) are a family of four. 11,644 of 39,226 families (29.7 percent) in full-day care were a family of three.

CSPP Family Size			
Family Size	Care		
	Full Day	Part Day	Total
1	461	747	1,208
2	9,930	10,801	20,731
3	11,644	20,616	32,260
4	9,756	29,647	39,403
5	5,121	19,832	24,953
6	1,725	8,031	9,756
7	438	2,286	2,724
8	120	722	842
9	21	200	221
10	8	56	64
11	1	10	11
12	1	16	17
Total	39,226	92,964	132,190

Staff Comment and Recommendation. This item is informational, and no action is required.

Questions

1. To CDE: Please provide an overview of the CSPP program.

3. California State Preschool Program - Family Fees

Panelists. Department of Education
Legislative Analyst's Office
Department of Finance

Background. Effective July 1, 2012, SB 1016 (Budget and Fiscal Review Committee), Chapter 38, Statutes of 2012, required agencies to assess family fees for families receiving part-day CSPP services, who were previously exempt from family fees, according to the most current family fee schedule (see Table 6 on next page).

For families certified for part-day CSPP services, the family fee will be assessed at the time of certification and remain effective for the remainder of the program year, as long as the child remains enrolled and receives part-day CSPP services. A family may request a reduction to their family fee when there are changes to family income, size, or other specified factors listed in state law that would support a reduction to the family fee.[33] Families whose eligibility is based on a child(ren) receiving child protective services, or are at risk of being abused, neglected, or exploited, will not be assessed a family fee when the referral from a legal, medical, or social service agency indicates that the fee should be waived. Additionally, families receiving CalWORKs cash aid are exempt from paying family fees.

Family fees are based on a sliding scale for income and family size. For example, a family of three with an adjusted monthly income of $2,100 is assessed a part-time daily fee of $1.25; a family of four with adjusted monthly income of $2,400 is assessed a part-time daily fee of $1.50. Only 11 percent of the families with children in preschool had high enough incomes to be impacted when the program was initiated. However, in the first six months of the program's implementation, about five percent of the total enrollment withdrew from preschool and an addition 2,757 children did not enroll in the program after their parents were informed of the fee.

According to CDE, in fiscal year 2013-14, through the second quarter, the state received around $5.4 million in family fees for part-day CSPP and $6.5 million for full-day CSPP.

[33] California Code of Regulation, Title 5 (5 *CCR*), Section 18109

Table 6: Current Family Fee Schedule

Family Fee Schedule												
Part-time Daily Fee	Full-time Daily Fee	Family Size 1 or 2	Family Size 3	Family Size 4	Family Size 5	Family Size 6	Family Size 7	Family Size 8	Family Size 9	Family Size 10	Family Size 11	Family Size 12
$ 1.00	$ 2.00	1,820	1,950	2,167	2,513	2,860	2,925	2,990	3,055	3,120	3,185	3,250
$ 1.25	$ 2.50	1,893	2,028	2,253	2,614	2,974	3,042	3,109	3,177	3,245	3,312	3,380
$ 1.50	$ 3.00	1,965	2,106	2,340	2,714	3,089	3,159	3,229	3,299	3,369	3,440	3,510
$ 1.75	$ 3.50	2,038	2,184	2,426	2,815	3,203	3,276	3,349	3,421	3,494	3,567	3,640
$ 2.00	$ 4.00	2,111	2,262	2,513	2,915	3,317	3,393	3,468	3,544	3,619	3,694	3,770
$ 2.25	$ 4.50	2,184	2,340	2,600	3,016	3,432	3,510	3,588	3,666	3,744	3,822	3,900
$ 2.65	$ 5.30	2,257	2,418	2,686	3,116	3,546	3,627	3,707	3,788	3,869	3,949	4,030
$ 3.05	$ 6.10	2,329	2,496	2,773	3,217	3,661	3,744	3,827	3,910	3,993	4,076	4,160
$ 3.45	$ 6.90	2,402	2,574	2,860	3,317	3,775	3,861	3,946	4,032	4,118	4,204	4,290
$ 3.85	$ 7.70	2,475	2,652	2,946	3,418	3,889	3,978	4,066	4,154	4,243	4,331	4,420
$ 4.25	$ 8.50	2,548	2,730	3,033	3,518	4,004	4,095	4,186	4,277	4,368	4,459	4,550
$ 4.65	$ 9.30	2,621	2,808	3,120	3,619	4,118	4,212	4,305	4,399	4,492	4,586	4,680
$ 5.05	$ 10.10	2,693	2,886	3,206	3,719	4,232	4,329	4,425	4,521	4,617	4,713	4,810
$ 5.45	$ 10.90	2,766	2,964	3,293	3,820	4,347	4,446	4,544	4,643	4,742	4,841	4,940
$ 5.85	$ 11.70	2,839	3,042	3,380	3,920	4,461	4,563	4,664	4,765	4,867	4,968	5,070
$ 6.25	$ 12.50	2,912	3,120	3,466	4,021	4,576	4,680	4,784	4,888	4,992	5,096	5,200
$ 6.65	$ 13.30	2,985	3,198	3,553	4,122	4,690	4,797	4,903	5,010	5,116	5,223	5,330
$ 7.05	$ 14.10	3,057	3,276	3,640	4,222	4,804	4,914	5,023	5,132	5,241	5,350	5,460
$ 7.45	$ 14.90	3,130	3,354	3,726	4,323	4,919	5,031	5,142	5,254	5,366	5,478	5,590
$ 7.60	$ 15.20	3,203	3,374	3,749	4,348	4,948	5,061	5,173	5,286	5,398	5,510	5,623
$ 7.75	$ 15.50	3,283	3,393	3,770	4,373	4,976	5,089	5,202	5,315	5,428	5,541	5,655
$ 7.90	$ 15.80		3,413	3,792	4,399	5,006	5,120	5,233	5,347	5,461	5,575	5,688
$ 8.05	$ 16.10		3,432	3,813	4,423	5,033	5,148	5,262	5,376	5,491	5,605	5,720
$ 8.23	$ 16.45		3,518	3,835	4,448	5,062	5,177	5,292	5,407	5,522	5,637	5,752
$ 8.43	$ 16.85			3,856	4,473	5,090	5,206	5,322	5,437	5,553	5,669	5,785
$ 8.63	$ 17.25			3,880	4,500	5,121	5,237	5,354	5,470	5,586	5,703	5,819
$ 8.88	$ 17.75			3,908	4,534	5,159	5,276	5,394	5,511	5,628	5,745	5,863
Monthly Income Ceilings		**3,283**	**3,518**	**3,908**	**4,534**	**5,159**	**5,276**	**5,394**	**5,511**	**5,628**	**5,745**	**5,863**

Table 6: California Department of Education. "Management Bulletin 11-26: Early Education and Support Division." http://www.cde.ca.gov/sp/cd/ci/documents/famfeeschedule1112v002.pdf

Staff Comment and Recommendation. This item is informational, and no action is required.

Questions

1. To LAO: Please provide a brief history of the CSPP family fee. Have enrollment figures in CSPP declined due to the family fee? After the family fee was put in place, has there been a change in the income-distribution of families who participate in CSPP?

2. To CDE: Please provide a summary of the feedback received from centers regarding the collection and notice practices.

3. To CDE: Please provide an update on the proposed family fee structure.

5. LAO - Restructuring Proposal[34]

Budget Issue. The LAO recommends the Legislature consider restructuring California's child care and development system, according to a specified five-year roadmap. The timeline, as summarized below, assumes no additional resources are provided for the restructured system.

- Year 1. The Legislature updates the reimbursement rates based on current data, and determines time limit for services. Direct CDE to modify standards for programs serving children birth through age four and to develop regulations for regional monitoring of developmental standards.

- Year 2. The Legislature adopts new standards for programs serving children, birth through age four. Wait until year four to require all providers meet the new standards. Consolidate CalWORKs Stage 1 and Stage 2, and shift all CalWORKs childcare to DSS. Determine how to align reimbursement rates with new standards.

- Year 3. Begin converting reimbursements for former Title 5 private providers from direct contracts to vouchers.

- Year 4: The Legislature requires all providers serving children birth through age four to meet standards. Adjust reimbursement rates to reflect new standards.

- Year 5: Finalize conversion of former Title 5 providers from contracts to vouchers. Families can now access subsidized child care through vouchers, with the exception of LEA preschool programs.

Panelists. Carolyn Chu, Legislative Analyst's Office

Background. California's child care and development system is a complex patchwork of providers and policies. To qualify for subsidized child care, families, generally, meet three criteria: (1) parents must demonstrate "need" for care (parents either working or participating in an education or training program); (2) family income must be below 70 percent of the state median income (SMI), as calculated in 2007-08 (for a family of three, the SMI cap is $42,216); and (3) children must be under the age of 13.

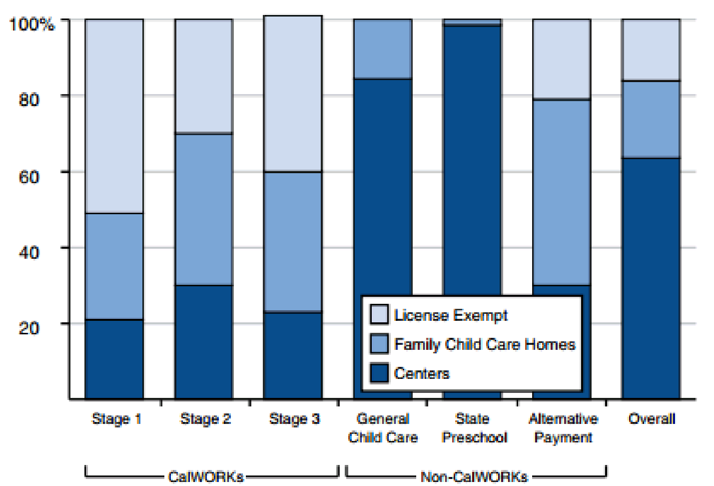
CalWORKs families are statutorily guaranteed subsidized care during Stage 1 (when a family first enters CalWORKs) and Stage 2 (when a county deems the family "stable"). Stage 3 is not treated as an entitlement, but historically, the Legislature has funded all eligible families. Non-CalWORKs families with the lowest income are prioritized over families with relatively higher incomes. Once a CalWORKs or non-CalWORKs family accesses a subsidy, the family may continue receiving the subsidy as long as it continues to meet the program's eligibility criteria.

Slots and participation, by program and setting. In 2012-13 data, non-CalWORKs programs comprised 62 percent of all slots, whereas CalWORKs child care comprised 38 percent of all slots.[35] State

[34] For the entire LAO report, "Restructuring California's Child Care and Development System," please see http://www.lao.ca.gov/reports/2014/education/child-care/restructuring-child-care-system-040414.aspx

Preschool makes up the largest program, with 40 percent of all slots. In 2012-13, 25 percent of children served in the state's subsidized child care system were infants and toddlers (birth to age three); 34 percent were preschool-aged children, and 41 percent were school-aged children. Also, reliance on particular child care settings differs across programs. For example, 64 percent of children are served in centers, and 20 percent of children are served in family child care homes (FCCHs) (see figure above).

Participation in Child Care Programs by Setting



Reimbursement rate structures vary. Title 5 providers are paid a Standard Reimbursement Rate (SRR) that is set in the Education Code and the annual budget act. The SRR is higher for Title 5 centers than for Title 5 FCCHs. The SRR is adjusted for characteristics of the child served, such as age, having a disability, or being limited English proficient. In contrast, providers that meet Title 22 standards are reimbursed according to the Regional Market Rates (RMR), which varies based on the county in which the child is served. Like the SRR, the RMR is adjusted based on the age of the child and if the child has a disability. The SRR and the statewide average RMR for full-day care of a preschool-aged child is $716 per month and $714 per month, respectively. The state held the RMR and SRR at 2005 and 2007 levels, respectively.

The state reimburses license-exempt providers at a percentage of the county's maximum RMR or their actual costs, whichever is lower. Currently, the reimbursement rate for license-exempt providers is set at 60 percent of each county's maximum RMR.

Further, actual reimbursements vary based on what the provider charges. If a family selects a provider that charges above the RMR of a county, the family must pay the difference, known as a co-pay. The state requires that providers charge subsidized families and non-subsidized families the same price.

Family fees. Families not receiving CalWORKs cash assistance must also pay fees for child care. Fees are based on family size, income, and whether the family receives part-day or full-day care (six hours or more of care). All fees are collected to offset the state GF cost of the programs. In 2012-13, the state collected around $54 million in fees across all child care programs.

Administration and oversight. The Department of Social Services (DSS) administers the CalWORKs program and Stage 1 child care. CDE administers the funding for families in CalWORKs Stages 2 and 3. CDE also administers all other non-CalWORKs child care programs.

DSS' Community Care Licensing Division processes applications for child care licensees, inspects applicants, and must visit a licensed facility at least once every five years. CCL monitors Title 5

[35] In 2012-13, CalWorks Stage 2 comprises 20 percent of all slots.

providers for health and safety standards, while CDE monitors Title 5 for developmental standards. License-exempt providers are not actively monitored by a state agency.

State-by-state context. All 50 states have subsidized child care for low-income families. 22 states, including California, guarantee child care subsidies for welfare-to-work families. 19 states, including California, guarantee subsidized child care to families transitioning off cash assistance. 21 states, including California, have stricter health and safety licensing standards for child care providers. California also exceeds federal regulations by requiring providers to have training in child development.

California differs from other states in how it provides child care and the duration of benefit. First, in contrast with the majority of states that use vouchers as a primary means of providing subsidized child care, California uses both vouchers and direct contracts. Second, unlike other states that limit eligibility to subsidized child care to those participating in Temporary Assistance to Needy Families (time limits associated with TANF programs also act as time limits for child care), California guarantees child care for former recipients as long as they meet work requirements, income requirements, and have a child(ren) younger than 13 years old.

LAO Comments and Recommendations. California's child care system exhibits two main strengths: (1) families have a choice in selecting among an array of providers, and (2) there are some programs with developmentally appropriate care. However, according to the LAO, no subsidized program exhibits both of these strengths concurrently. This section will detail some of the child care and development system's design flaws and the consequences of those flaws, as well as identify recommendations to restructure the system.

Assessment. Critical design flaws treat similar families differently. Specifically, the LAO finds:

- Similar families have different levels of access. The prioritization of families, in or formerly in, CalWORKs over otherwise similar non-CalWORKs families results in different access to services. As a result, if a family formerly on CalWORKs remains eligible for child care, the family can receive up to 13 years of child care, whereas a similar low-income family may not receive the same level of benefits.

- Similar families have differing amounts of choice in selecting care. Families receiving a contract slot can result in match issues, because the slot may not meet the parent's needs due to location of the center, or the slot does not fit the hours of care a family requires. This issue is prevalent for State Preschool Programs, since a majority of the programs only offer part-day care.

- Similar families are provided different standards of care. Families receiving vouchers are guaranteed providers that meet Title 22 health and safety standards, while families that have contract slots can receive care that meets health, safety, and developmental standards under Title 5.

- State has higher reimbursement rate for lower standard of care. The RMR is used to pay Title 22 providers, which are subject to health and safety standards, whereas the SRR is used to pay Title 5 providers, which are subject to health, safety, and developmental standards. In 19 counties, the RMR is higher than the SRR for preschool-age children, based only monthly reimbursements.

- Resources not always used the most strategically. The existing system does not target resources to low-income children to promote school readiness. Also, the state pays a higher rate – nearly 50 percent more – for non-need based TK than need-based preschool.

- Service levels vary across the state. The number of working parents with low-income children eligible for subsidized child care is unknown. However, data is available on low-income children by county, compared with total number of subsidized slots by county. The highest share of children served through subsidized child care is in Modoc County (with 30 percent of low-income children served). Kern County serves the lowest proportion of low-income children. Almost all counties, however, serve a relatively small proportion of children, with 54 counties serving less than 20 percent of low-income children.

Recommendation. The LAO finds that families have different levels of access to programs that offer different choices among providers that meet different standards of care, and are reimbursed at different rate levels. In response, the LAO recommends the following:

- Continue to prioritize families new to CalWORKs, which would help families overcome a barrier to employment.

- Set a six to eight year time limit for child care subsidies. The time limit would apply to both CalWORKs and non-CalWORKs families. Providing child care for six to eight years still represents at least a $40,000 investment per child. Capping the number of years a family could receive care would allow the state to serve more low-income families. Further, after six to eight years of child care, many families' children would be school age, and could then access before- and after-school care.

- Continue to contract with LEAs for State Preschool. Without direct contracts, LEAs could be less likely to provide preschool programs. Collocating CSPP with LEAs could help children transition into kindergarten and could utilize LEAs' resources, like counselors and nurses.

- Provide similar levels of service of access across the state. The Legislature could serve the same share of families in each county (e.g., serve 10 percent of all eligible families in each county). Alternatively, the Legislature could serve families based on statewide median income (e.g., all families under 50 percent of SMI).

- Require programs serving four-year-olds to focus on school readiness. Not all four-year-olds in subsidized child care have access to programs required to provide educational components. The Legislature may wish to direct CDE to develop standards that are similar to existing Title 5, but modified to reduce some programmatic restrictions, like flexibility in teacher ratios or classroom configuration.

- Apply development standards to part of the day. The Legislature may wish to consider requiring programs that serve children birth through age four to meet new developmental standards for three hours per day, consistent with the state's current approach for CSPP, TK, and kindergarten. For the other portion, providers could meet only Title 22 health and safety standards.

- Do not require educational component for child care programs serving school-age children. School age children already receive several hours of instruction from certified teachers. The Legislature may wish to consider repealing the Title 5 requirement to free up additional resources to support developmentally appropriate activities for children birth through aged four.

- Reimburse vouchers based on high-, medium-, and low-cost areas. The LAO recommends the Legislature provide all eligible families similar levels of choice by providing subsidies primarily through vouchers, which would eliminate the "match" issue some families currently experience. Further, the LAO recommends reimbursing vouchers based on a three-tiered system – high cost area, medium cost area, and low-cost area. Urban and coastal counties tend to be high-cost; lowest-cost counties tend to be located in the rural northern part of the state and in the Central Valley. San Bernardino and Sacramento are examples of medium cost counties. The figure (right) shows what rate would be under the proposed, simplified rate structure, assuming current funding levels.

A New, Greatly Simplified Rate Structure

	2014-15 Rate[a]
High-Cost Counties	
Infants	$1,342
Preschool	902
School-age	601
Medium-Cost Counties	
Infants	$1,077
Preschool	719
School-age	479
Low-Cost Counties	
Infants	$836
Preschool	594
School-age	396

[a] Reflects reimbursement per month for full-time child care.

- Provide higher subsidy for programs with higher cognitive and development standards. For LEAs, the LAO recommends that the Legislature continue to use a standard reimbursement rate, as LEAs receive a standard rate for nearly all other K-12 services.

- As a starting point, set reimbursements at 70th percentile of most recent survey. Setting the initial reimbursement rates at the 70th percentile of the 2012 RMR survey would serve the same number of children without additional cost. The state would still need to ensure that the reimbursement rate is adequate enough that low-income families can access child care providers that meet required standards without undue burden.

- Merge CalWORKs Stage 1 and Stage 2 into one program. Shift all CalWORKs administration to DSS, as DSS already administers other aspects of the CalWORKs program.

- Merge CalWORKs Stage 3 and non-CalWORKs child care programs. CDE would administer the merged programs. Stage 3 families, which have been off CalWORKs cash aid for more than two years, and non-CalWORKs families would be treated in the same manner, if the Legislature were to make changes to the non-CalWORKs child care program.

- Direct CDE to conduct inspections based on risk reviews from regional monitoring agencies. Resources currently used to oversee Title 5 providers could be redirected for risk reviews and inspections.

- Re-establish Centralized Eligibility Lists. Restarting the CELs would cost between $5 million and $10 million annually.

Staff Comment and Recommendation. This item is informational, and no action is required.

Questions

1. What are some of the strengths and weaknesses of the state's current child care and development system? Please present the LAO's report and recommendations for restructuring.

2. The report states that levels of service to low-income children vary across counties. What are possible explanations for this experience?

3. Please explain briefly the tiered reimbursement rate structure.

SUBCOMMITTEES No. 1 and 3
Education and Health & Human Services

Chair, Senator Marty Block

Senator Mark Wyland
Senator Carol Liu

Chair, Senator Ellen Corbett

Senator Mimi Walters
Senator Bill Monning

Joint Hearing

April 10, 2014
9:30 a.m. or Upon Adjournment of Session
Room 4203, State Capitol

Consultant: Samantha Lui

OUTCOMES

Informational		
I.	Early Childhood Education and Poverty Dr. Jill Cannon, Policy Researcher, RAND Corporation	Informational item.
II.	Overview of California's Child Care and Development System Ryan Woolsey, Legislative Analyst's Office Carolyn Chu, Legislative Analyst's Office	Informational item.
Item	**Department**	
5180	Department of Social Services	
	1. Parent-Child Engagement Pilot Project	Held open.
Public Comment		
6110	Department of Education, Child Care	
	1. Overview of the Governor's Budget	Held open.
	2. Transitional Kindergarten	Informational item.
	3. California State Preschool Program (CSPP)	Informational item.
	4. CSPP Family Fees	Informational item.
	5. LAO Restructure Proposal	Informational item.
Public Comment		

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Tuesday, April 29, 2014
1:30 p.m.
Room 3191, State Capitol

Consultant: Mark Ibele, Joe Stephenshaw

Item	Department
6110	**Department of Education**
6120	**California State Library**
6870	**California Community Colleges**

Vote Only Item

Item 1	Library and Courts Building Reappropriation	Page 2
Item 2	Community College Capital Outlay Proposals	Page 2
Item 3	Redevelopment Agency Funding Backfill	Page 3

Discussion Items

Item 1	Local Library Internet Speeds	Page 6
Item 2	Career Technical Education (Information Only)	Page 10
Item 3	Career Pathways Trust (Information Only)	Page 20
Item 4	Specialized Secondary Education Programs and Agricultural Education Grants	Page 23
Item 5	Student Success and Statewide Performance Strategies	Page 28
Item 6	Community College Growth Funding	Page 33
Item 7	Deferred Maintenance and Equipment Funding	Page 35
Item 8	Deferral Elimination	Page 36

Public Comment

Items Proposed for Vote Only

6120 CALIFORNIA STATE LIBRARY
6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Issue 1: Library and Courts Building Reappropriation

Governor's Proposal. A Spring Finance Letter proposes a reappropriation of $1 million of the funds to support costs associated with relocating California State Library (State Library) staff and materials back to the recently-renovated Library and Courts Building.

Background. The 2013 Budget Act provided $1.5 million General Fund to support one-time relocation costs for the State Library as it moved back into the renovated Library and Courts Building. The relocation was expected to be completed by May 2014. Due to delays in installing new shelving in the building, authority for the relocation funds needs to be extended into the next fiscal year.

Staff Recommendation. Approve as proposed.

Issue 2: Community College Capital Outlay Proposals

Governor's Proposal. The Governor's budget and a Spring Finance Letter propose funding for the following eight community college capital outlay projects.

CCC Governor's Budget Capital Outlay Proposals				
College	**Project**	**Phase**	**Amount**	**Fund Source**
College of the Redwoods	Utility Infrastructure Replacement/Seismic Strengthening	Preliminary Plans and Working Drawings	$3.4 Million	2006 California Community College Capital Outlay Bond Fund
Solano College	Theater Renovation	Construction	$12.6 Million	2006 California Community College Capital Outlay Bond Fund
Santa Barbara City College	Campus Center Seismic and Code Upgrades	Preliminary Plans and Working Drawings	$1.6 Million	2006 California Community College Capital Outlay Bond Fund
El Camino College, Compton Center	Instructional Building 1 Replacement	Preliminary Plans and Working Drawings	$782,000	2006 California Community College Capital Outlay Bond Fund

Mt. San Jacinto College	Fire Alarm System	Preliminary Plans and Working Drawings	$413,000	2004 Higher Education Capital Outlay Bond Fund
Los Rios Community College District, Davis Center	Davis Center Phase 2	Preliminary Plans and Working Drawings	$207,000	2006 California Community College Capital Outlay Bond Fund
Citrus College	Hayden Hall #12 Renovation	Preliminary Plans and Working Drawings	$147,000	2004 Higher Education Capital Outlay Bond Fund
Rio Hondo College	L Tower Seismic and Code Upgrades	Preliminary Plans and Working Drawings	$1.8 million	2006 California Community College Capital Outlay Bond Fund

Staff Recommendation. Approve as budgeted.

Issue 3: Redevelopment Agency Funding Backfill

The Governor's budget proposes $38.4 million Proposition 98 General Fund in the current year and $35.6 million Proposition 98 General Fund in the budget year to shift a portion of the redevelopment agency revenues that are scheduled to be received in the final months of the fiscal year to the following fiscal year.

Additionally, the Governor proposes trailer bill language that would move up the timing upon which the Department of Finance annually bases funding for the backfill process. Under the proposal, Proposition 98 General Fund would be used to backfill the difference between estimated total fiscal year redevelopment agency revenues and the amount California Community Colleges (CCCs) receive through April 15th. This change will allow districts to have more certainty when preparing their fiscal plans.

Staff Recommendation. Approve as budgeted.

Items Proposed for Discussion/Vote

6120 CALIFORNIA STATE LIBRARY

Overview

The California State Library is the state's information hub, preserving California's cultural heritage and connecting people, libraries, and government to the resources and tools they need to succeed and to build a strong California. Founded in 1850, the California State Library is the oldest and most continuous cultural agency in the State of California.

Decades before there was a university system or a public library system, there was the California State Library. The California State Library has responsibility to:

- Collect, preserve, and connect Californians to our history and culture.
- Support a transparent government by collecting, preserving, and ensuring access to California state government publications, federal government information, and patent and trademark resources.
- Ensure access to books and information for Californians who are visually impaired or have a disability and are unable to read standard print.
- Support the capacity of policy leaders to make informed decisions by providing specialized research to the Governor's Office and the Cabinet, the Legislature, and constitutional officers.
- Provide services that enable state government employees to have the information resources and training they need to be effective, efficient, and successful.
- Lead and promote innovative library services by providing and managing state and federal funding programs to ensure all Californians have access, via their libraries, to the information and educational resources they need to be successful.
- Develop and support programs that help Californians (from birth through adulthood) acquire the literacy skills they need to thrive in the 21st Century.

The following table displays the budgeted expenditures and positions for the State Library as proposed in the Governor's budget. Of the amounts displayed in the table, $19.1 million in 2012-13, $24.0 million in 2013-14, and $23.6 million in 2014-15 are supported by the General Fund. The remainder of funding comes from federal funds and various special funds.

Dollars in Millions

Governor's Budget – State Library Budgeted Expenditures and Positions			
	2012-13	**2013-14**	**2014-15**
Personal Services	$10	$12	$12
Operating Expenses and Equipment	$12	$17	$12
Local Assistance	$14	$19	$20
Total Expenditures	**$36**	**$48**	**$44**
Positions	**129.2**	**138.8**	**135.8**

Issue 1: Local Library Internet Speeds

Governor's Proposal. The Governor's budget proposes $3.3 million General Fund ($2.25 million ongoing) for the State Library to increase internet speeds at local libraries. Of the amount proposed, $2.25 million would pay for half of a $4.5 million annual contract with Corporation for Education Network Initiatives in California (CENIC) for access to its high-speed internet backbone and related services. The Governor's budget includes budget bill language directing the State Library or local libraries to secure additional non-General Fund resources, as necessary, to ensure that public libraries have access to a high-speed network. Although not explicitly specified, the Governor assumes the remaining CENIC contract costs would be paid from the California Teleconnect Fund (CTF). Lastly, the Governor proposes to spend $1 million, on a one-time basis, in 2014-15 to purchase networking equipment for libraries.

Background. Like many state and local programs, General Fund support for the State Library and local libraries has diminished significantly in recent years. For example, state funding for local programs, including adult literacy classes and technology services, was $48.5 million in 2006-07; the amount appropriated in 2013-14 is $4.7 million.

Based on legislative discussion last year, the 2013 Budget Act directed the State Library to examine internet access at local libraries and develop a spending plan to connect all local libraries to a statewide high-speed internet network. The language specifically required the State Library to: 1) evaluate local libraries' current internet connectivity and expenditures; 2) identify options for connecting all libraries to high-speed internet, including the option of using the CENIC; and, 3) estimate the costs of the identified connectivity options.

The State Library released its report on January 31, 2014. The Legislative Analyst's Office (LAO) provided the following summary of the report:

The State Library surveyed local libraries about their current internet service and received responses from 828 library branches (74 percent of all branches). All respondents reported being connected to the internet.

- About 40 percent of library branches reported they operate at speeds the State Library has defined as very slow—between 1.5 and 10 megabits per second (mbps). This is similar to the speeds of many households.
- Another 40 percent of respondents reported having speeds between 10 and 100 mbps, which the State Library defines as slow.
- The remaining 20 percent of libraries reported operating at speeds between 100 mbps and 1,000 mpbs or higher. The State Library defines these speeds as medium to fast. Typically, these speeds are not available to residential consumers and are used by businesses and governmental organizations.

The survey further found that libraries with the slowest speeds generally are concentrated in rural areas in the northern and inland regions of the state, while libraries with faster speeds are concentrated in urban areas in the southern and coastal regions of the state.

CENIC was created in 1997 by the University of California and several private research universities to develop a high-speed "backbone" network to support university research. The CENIC network currently allows California's education and research communities to leverage their networking resources in order to obtain cost-effective, high-bandwidth networking to support their missions and respond to the needs of their faculty, staff, and students. Currently, the CENIC consortium includes the UC, CSU, California Community Colleges, K12, and private universities (USC, Caltech, Stanford). Through the Charter Associates, over 10,000 education institutions in California are connected to the CENIC network.

The State Library's report suggests CENIC likely would obtain half of the funding needed to cover the contract from the California Teleconnect Fund, which is administered by the Public Utilities Commission (PUC) and provides discounts to qualifying schools and libraries, as well as hospitals, health clinics, and community organizations on telecommunications and internet services. CENIC would submit the State Library's $4.5 million internet services invoice to the Fund, which would then reimburse CENIC for 50 percent of that charge ($2.25 million).

Legislative Analyst's Office. The LAO recommends that the Legislature reject the proposal. They note the following concerns:

- The Governor's proposal would not increase internet speeds for some libraries because local governments may restrict local libraries' ability to purchase faster service, libraries themselves may not choose to purchase faster speeds, and obtaining significantly faster speeds would be impossible for some libraries without costly infrastructure upgrades in their area.
- The $4.5 million requested for the CENIC contract may not reflect the actual cost for libraries to use the CENIC backbone and receive related services.
- The plan does not address how a potential shortfall in funding for the CENIC contract would be addressed if the PUC enacts a different reimbursement structure for California Teleconnect Fund claims. The PUC is currently reviewing this fund and may enact a rate restructuring proposal.
- The proposal lacks sufficient cost data to support the request for equipment funding.
- The plan does not estimate the costs for local libraries to access the CENIC backbone, but available data suggest these costs likely are significant.

Staff Comment. Staff notes that this proposal is consistent with a similar proposal adopted by this subcommittee last year. The final budget package, however, removed the funding approved by the subcommittee and instead required the State Library report.

Public libraries continue to be key access points for individuals that do not have access to the internet and/or computer hardware in their home. The California Library Association reports that local libraries are experiencing record levels of patron attendance, and the pressures on their broadband infrastructure are at an all-time high. As our world continues to be more and more oriented toward on-line interfaces whether it is applying for jobs or a license with the DMV, this leaves low-income households that do not have access to affordable internet service or the hardware necessary to access the internet at a deficit.

- **The current system is inadequate and this proposal will improve internet access at hundreds of public libraries.** The status quo is unacceptable, and this is the least costly solution to improving internet services at libraries. Library officials believe nearly half of public libraries do have the current infrastructure in place to connect to CENIC, and the Governor's proposal provides some funding to allow other libraries to upgrade their systems.
- **The potential benefits far outweigh the potential concerns.** In a letter to the subcommittee supporting the proposal, the California Library Association notes that one library system – the Peninsula Library System in San Mateo County – has joined CENIC in a pilot project, and has enjoyed much faster internet speeds at half the cost of what they were paying. Joining CENIC will allow libraries to act as bulk purchasers, potentially cutting costs. In addition, CENIC officials will help libraries obtain both federal and state discounts, something that requires resources that many local libraries do not have.
- **Libraries – not the General Fund – must come up with the funding to join CENIC.** The LAO is concerned that the proposal may not provide enough money to allow libraries to join CENIC and gain the maximum benefit from CENIC. However, budget bill language clearly states that libraries, not the state, are on the hook for additional funding to make the program work. State Library and Department of Finance officials believe their plan will be adequate.
- **The California Teleconnect Fund was created to help bridge the digital divide – exactly the rationale for this proposal.** The Teleconnect Fund uses a small surcharge on consumers' bills - .59 percent of the bill - to provide discounts for advanced telecommunications services for schools, libraries, public health care providers, and other organizations that provide a public service. Many libraries already receive discounted rates through this program. The 2014-15 budget for this fund projects $118.1 million in revenue and a $10.5 million reserve, which appears sufficient to cover the additional $2.5 million in costs of libraries joining CENIC.

Staff Recommendation. Approve the proposal in order to provide the libraries with a means to significantly improve internet services provided to patrons, many of whom use these services to perform critical tasks. However, given concerns that have been raised by the LAO, consistent with the Assembly's action, adopt budget bill language to require an annual report describing the implementation of this project, including how many libraries are participating, how the participating libraries' technology costs and Internet speeds have changed due to the project, and how the $1 million in grants were used.

6110 DEPARTMENT OF EDUCATION
6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Issue 2: Career Technical Education (Information Only)

Issue: Career technical education (CTE) has attracted increasing amounts of attention and focus in recent years, responding both to the needs of students and the demands of future employers. At the same time, the approach to CTE taken by the state and school districts has shifted in response to policy priorities and new education funding approaches.

K-12 Career Technical Education Programs

Background: High school CTE includes instruction in a number of fields. The California Department of Education (CDE) defines CTE as coursework in one of 15 industry areas. These industries are diverse and broad in scope. The CTE industry sectors include the following: agriculture and natural resources; arts, media, and entertainment; building and construction trades; business and finance; education, child development, and family services; energy, environment, and utilities; engineering and architecture; fashion and interior design; health science and medical technology; hospitality, tourism, and recreation; information and communication technologies; manufacturing and product development; marketing, sales, and service; public services; and transportation. The state has CTE model curriculum standards for grades 7-12 in the 15 identified industry sectors, but there is currently no assessment of career readiness.

Recent Pedagogical Trends. High school CTE traditionally has been thought of as an alternative to a college preparatory pathway. As the Legislative Analyst's Office (LAO) notes, however, in recent years, the differences between the two 'tracks' has become somewhat blurred, as the state has focused more on the policy goal of ensuring that students have both college and career options upon graduating from high school. This has increased the state's emphasis on promoting career pathways, which are sequences of courses that align with postsecondary education and industry needs. In addition, there is growing literature on the benefits of applied learning, in which students are taught math, English, and other subjects in a way that incorporates students' interests in an occupational field. As a result, many CTE courses have become integrated into high school students' regular instructional curriculum—thereby decreasing the traditional distinction between CTE and core instruction. For example, a college-bound student may take high school CTE courses, such as engineering and graphic arts, to satisfy course requirements for admission to four-year university systems, while a student interested in entering the workforce directly after graduation may learn math and science as part of a health occupations course. In other situations, however, the traditional model of distinct vocational programs remains in place, with numerous successful examples in evidence.

Programs and Funding Sources. High schools receive funding for CTE in various forms, including categorical programs, one-time competitive grants, foundation funding, and federal funding. In addition, many high schools fund CTE instruction using their general purpose Local Control Funding Formula (LCFF) monies. The various programs and their funding sources are shown in the figure compiled by the LAO below:

California's High School Career Technical Education (CTE) Programs
2013–14, Unless Otherwise Specified

State–Funded Programs	Description	Funding (In Millions)
Regional Occupational Centers and Programs (ROCP)	Regionally focused CTE offered during the school day, after school, and in the evening at high schools and regional centers. Primarily serves high school students ages 16 through 18.	$384.0[a]
Career Pathways Trust	One–time competitive grants intended to improve linkages between CTE programs at schools, community colleges, and local businesses. Authorizes several types of activities, such as creating new CTE programs and curriculum. These funds are available for expenditure through 2015–16.	250.0
CTE Pathways Initiative	Funding intended to improve linkages between CTE programs at schools, community colleges, universities, and local businesses. This program sunsets at the end of 2014–15. Of these funds, $8.2 million supports California Partnership Academies and $5.2 million supports Linked Learning (both reflected below).	48.0
California Partnership Academies	Small learning cohorts that integrate a career theme with academic education in grades 10 through 12. Considered a form of Linked Learning (see below).	29.6
Linked Learning	One–time funding to support small, career–themed learning cohorts within comprehensive high schools that tie academic coursework to technical content and work–based learning.	5.2[b]
Specialized Secondary Programs	Competitive grants that provide seed money to pilot programs that prepare students for college and careers in specialized fields ($3.4 million). Funding also supports two high schools specializing in math, science, and the arts ($1.5 million).	4.9
Agricultural CTE Incentive Program	Ongoing funding that can be used for the purchase of nonsalary items for agricultural education. Funds are commonly used to purchase equipment and pay for student field trips. Districts are required to provide matching funds.	4.1
Federally Funded Programs		
Carl D. Perkins	Ongoing funding that can be used for a number of CTE purposes, including curriculum and professional development and the acquisition of equipment and supplies for the classroom. Of these monies, 85 percent directly funds local CTE programs and the other 15 percent supports statewide administration and leadership activities.	$56.3
Youth Career Connect Grant	One–time competitive grants available for the 2014–15 school year that are intended to improve career options for high school students by facilitating partnerships with businesses, high schools, and higher education. Grant recipients are required to provide a 25 percent match.	12.0[c]

[a] Due to categorical flexibility allowed between 2008–09 and 2012–13, this amount is likely higher than the actual amount spent by providers on ROCP. In 2013–14 and 2014–15, providers must spend on ROCP at least as much as in 2012–13.

[b] In addition, since 2008, the James Irvine Foundation has contributed more than $100 million to Linked Learning.

[c] Assumes California receives an amount proportional to its population (12 percent). Total federal appropriation is $100 million

Source: Legislative Analyst's Office

The 2013-14 budget package eliminated approximately three-quarters of categorical programs and folded their associated funding into LCFF. The state's largest CTE categorical program, Regional Occupational Centers and Programs (ROCP), was included in this consolidation; however, to ensure ROCP continued to operate during the next few years, the budget package required providers—school districts and County Offices of Education (COEs)—to maintain at least their 2012-13 level of state spending on ROCP in 2013-14 and 2014-15. Funds used to satisfy this maintenance-of-effort (MOE) requirement count toward school districts' LCFF allocations. Under current law, at the end of 2014-15, school districts and COEs will have discretion to spend former ROCP funds as they choose. The 2013-14 budget package took a different approach for three smaller CTE programs. Specifically, Specialized Secondary Programs (SSP), Agricultural Education Grants, and California Partnership Academies (CPA) were retained as stand-alone categorical programs. In signing the 2013-14 Budget Act, however, the Governor expressed his desire to fold SSP and Agricultural Education Grants into LCFF in 2014-15. These various CTE programs are discussed separately below.

Program Descriptions.

- **Regional Occupational Centers and Programs (ROCP).** The largest high school CTE program is the ROCP, which provides regionally-focused CTE in a variety of disciplines. ROCP offers high school students (16 years of age and older) and adult students, with career and technical education so students can (1) enter the workforce with the necessary skills to be successful, (2) pursue advanced training in postsecondary education, or (3) upgrade existing skills and knowledge. ROCPs are operated through county offices of education, school districts, or a consortium of districts through a Joint Powers Authority (JPA). Students receive training at a variety of venues, such as regular classrooms on high school campuses, businesses and industry facilities or regional centers. ROCP courses can be offered during the school day, after school, and in the evenings. Some ROCP programs also offer courses for adult students, typically for a fee. According to CDE, there are approximately 74 ROCPs in California, serving approximately 470,000 students annually.

  Prior to the 2008-09 fiscal year, the state provided dedicated funding for ROCP through a categorical program totaling approximately $486 million. In 2008-09, due to budget cuts, the Legislature provided Local Educational Agency (LEAs) with "categorical flexibility" for many categorical programs (including ROCP), meaning that LEAs could use the categorical funding for any educational purpose. In addition to categorical flexibility, many programs were cut by approximately 20 percent in 2009-10. During this time, LEAs received approximately $384 million in ROCP funding, but were not required to use this funding on ROCPs. The 2013-14 budget consolidated most categorical programs into the base funding within the LCFF, including funding for ROCP. In order to ensure ROCP continues to operate, the 2013-14 budget also required LEAs that operated programs in 2012-13 to continue to spend the same amount of funding in 2013-14 and 2014-15. After the 2014-15 school year, LEAs are not required to offer CTE and can spend this ROCP funding on any purpose.

- **CTE Pathways Initiative.** SB 70 (Scott), Chapter 352, Statutes of 2005, established the CTE Pathways Initiative, which directed the Board of Governors of the California Community Colleges to work with the CDE to improve linkages and career-technical education pathways between high schools and community colleges in order to create opportunities for students in both education systems. This bill allocated $20 million from the community college reversion account to be specifically used for improving CTE at both the community college and secondary level. SB 1070 (Steinberg), Chapter 433, Statutes of 2012, extended funding for this program until the 2014-15 fiscal year.

  The CTE Pathways Initiative has helped build 5,792 partnerships, developed over 1,000 courses, provided trainings or externships to 36,000 staff at high schools and community colleges, and served approximately 750,000 students. In 2013-14, the state allocated $48 million Proposition 98 General Fund for the CTE Pathways Initiative, including approximately $15 million to the CDE and $33 million to be distributed to community college-school district partnerships. The Community College Chancellor’s Office is required to work with CDE annually to develop a spending plan for these funds.

- **California Partnership Academies.** The California Partnership Academies (CPAs) were created through legislation in 1984 in order to encourage the use of career-focused academies in California's high schools. The career academy model integrates core subject areas and CTE, aligned to the academy's career theme. These career themes can be in any of the 15 industry sectors approved by the CDE. CPAs are required to partner with local employers, who help to provide internships and other opportunities for students to gain hands-on experience. Employers also benefit by having a more experienced and knowledgeable workforce upon graduation. Each CPA is required to provide matching funds from the host school district and their employer partner(s) equal to the CPA grant amount from the state. By law, at least 50 percent of the students entering the CPA program must be considered "at risk" of dropping out of school. At risk students must meet certain criteria, such as low test scores, poor attendance, and being economically disadvantaged, among other indicators.

According to data collected by the CDE in 2009-10, students enrolled in CPAs performed above average on statewide tests and were more likely to graduate high school. Data shows that CPA tenth graders scored higher on the California High School Exit Exam (CAHSEE) than the statewide average. Specifically, 82 percent of CPA students passed the English language arts section, compared with 81 percent statewide. On the mathematics portion of the exam, 83 percent of CPA students passed, compared to 81 percent statewide. With respect to graduation rates, 95 percent of academy seniors graduated at the end of the 2009-10 school year, compared with 85 percent statewide. Currently, there are 450 CPAs in California's high schools, which receive funding through the CPA categorical program or the CTE Pathways Initiative. The state provides $29.6 million in CPA categorical funding. Although many other categorical programs were consolidated into the LCFF in 2013-14, CPAs were maintained outside of the LCFF.

- **Linked-Learning Programs.** Linked Learning programs, which include CPAs, use coursework, technical training, and work-based learning to provide real connections between high school and a career. AB 790 (Furutani), Chapter 616, Statutes of 2011, established the Linked Learning Pilot Program to be administered by CDE for the purposes of implementing districtwide Linked Learning pathways (referred to as "multiple pathways" prior to this legislation). This bill was in response to a report released by CDE in 2010 that made recommendations for improving and expanding Linked Learning in California's high schools.

  Funding for Linked Learning programs is provided through a combination of state and private funds. The state originally did not provide funding for AB 790. However, in October 2013, one-time state funding of $5.2 million was directed to the Linked Learning pilot sites from the CTE Pathways Initiative funding. In addition to state funding, the James Irvine Foundation has indicated that they have dedicated $100 million for Linked Learning programs since 2008.

- **Federally-Funded CTE Programs.** The Carl D. Perkins Career Technical Education program provides $113 million in ongoing federal funding for CTE programs, with half going to the K-12 system and half going to community colleges. Of these funds, 85 percent goes directly to LEAs and community colleges to be used for CTE purposes, including curriculum, professional development, and purchasing equipment and supplies. The remaining 15 percent is provided to the CDE and the Community College Chancellor's Office for administration of various CTE programs.

The federal Youth Career Connect Grant program is a one-time competitive grant available to LEAs, public or non-profit local workforce entities, or non-profits with education reform experience for the 2014-15 school year. The program is designed to encourage school districts, institutions of higher education, the workforce investment system, and their partners to scale up evidence-based high school models that combine academic and career-focused curriculum to better prepare students for post-secondary education and the workforce. The U.S. Department of Labor will provide up to $100 million for CTE-related projects. All grantees must demonstrate a partnership with a LEA, a local workforce investment entity, an employer, and an institution of higher education. Grant recipients will also be required to provide a match of 25 percent of the grant award.

- **Other Programs.** Other CTE programs that serve high school students include the California Career Pathways Trust ($250 million in one-time grant funding), Specialized Secondary Programs ($4.9 million), and Agricultural Education Incentive Grants ($4.1 million). These programs are discussed in greater detail in other sections of this agenda.

Accountability Measures. For the past fifteen years, the state's accountability system for public schools has been based almost entirely on student test scores. Based on these test results, schools have received an annual Academic Performance Index (API) score and ranking. Recently, the state has been moving toward a more comprehensive accountability system that includes multiple measures of student performance. Specifically, SB 1458 (Steinberg), Chapter 577, Statutes of 2012, requires the state Superintendent of Public Instruction (SPI), to develop, by 2015-16, a revised API for high schools that takes into account graduation rates and high school students' readiness for college and career. In October 2013, the SPI provided to the Legislature a statutorily-required status report that laid out a number of options under consideration for broadening the API, including assigning points to high schools based on the extent to which their students are deemed college and career ready. Currently, the SPI is gathering feedback on the possible components of the new API.

Staff Comments and Questions: California has made consistent steps toward a more decentralized model for CTE. This can allow for tailoring of programs to fit the needs of individual districts and the requirements of employers. It can also lead to valuable diversification and the development of alternative education and technical training models throughout the state. However, some have raised concerns with retaining the quality, structure and integrity of the program, as well as the ability to maintain adequate funding for CTE overall. It may also be that more generalized career technical education programs should consider not just localized needs and requirements but regional and statewide changes in labor force demands and characteristics. Clearly, local discretion and statewide interests entails a balancing act, and one which the state should bear in mind as it continues to entertain various revisions to the program. In addition, the state is trying to build both college and career readiness indicators into the K-12 accountability system, but appear to have made more progress with the former than the latter.

Suggested Questions for Panel 1:

1. *What have been the impacts on enrollment, thus far, with respect to rolling many of the CTE programs into the LCFF? Is there a means to ensure continued support of enrollment in these programs? What incentives—if any—do local districts have in maintaining CTE programs?*

2. *There is currently an MOE in place to govern the funding of ROCP through the budget year. Has this been written tightly enough to assure compliance without any penalty provisions? Should the MOE be extended? More generally, are MOEs an effective approach for continuing CTE programs?*

3. *Could CDE provide an update on the progress for including college and career readiness indicators in the API and in the Local Control and Accountability Plan (LCAPs)? What is the status of the career readiness measures? Can we rely on the accountability measures without a dedicated funding stream? Could LAO comment?*

4. *Regarding the California Partnership Trust, how can we make sure the program is fully-funded so sites do not lose these programs?*

Suggested Questions for Panel 2:

1. *If the state continues down the road of devolution and decentralization of CTE programs, what role should the state continue to play in the design and the implementation of these programs?*

2. *Last year, the state initiated a new approach for Adult Education, with evaluation set at the end of the budget year. Could this provide a model for CTE programs moving forward? Are there ways to improve upon this approach?*

3. *While LEAs may be more responsive to local needs of students and employers, is there reason to believe there should be a stronger role for the state, in order to track regional and statewide trends in this area?*

Community Colleges Career Technical Education Programs

CTE accounts for approximately 30 percent of total California Community Colleges (CCC) instruction. However, over the past decade, CTE's share of overall system enrollment has declined. This decline came as the state has continued to look for ways to enhance its ability to meet the need for skilled workers in key and emerging regional industries. The decline in CTE course offerings also has implications for California's community college students. New data from the Chancellor's office suggest that median wages of workers five years after award of an associate's degree in a vocational discipline was $66,600, compared to $38,500 for those with non-vocational associate degrees.

According to a recent report by the Institute for Higher Education Leadership & Policy (IHELP), *Workforce Investments: State Strategies to Preserve Higher Cost Career Education Programs in Community and Technical Colleges*, the CCC, through the *Doing What Matters for Jobs and the Economy* initiative (described below), is moving aggressively to set regional priorities and reallocate resources accordingly. But ever-present fiscal constraints, made worse by the great recession, have made it difficult for California's community colleges to support high-cost programs while balancing budgets and meeting enrollment targets.

It has been suggested that CTE programs are disadvantaged in the competition for resources within community colleges. CTE programs often are more expensive to offer than traditional academic (lecture-based) courses, due to the need for equipment, lab facilities and staff, smaller class sizes, and more faculty time spent on updating curriculum and engaging with industry and employers. However, community colleges in California are funded at a constant rate per full-time-equivalent student (FTES) and are accountable for meeting enrollment targets within their allocations. According to the IHELP report, this creates a fiscal disincentive to support high-cost programs because the same dollar allocation stretches across more FTES when used for lower-cost programs.

Doing What Matters for Jobs and the Economy

In an effort to better align CTE and workforce development programs with regional employer needs, the Chancellor's Office has launched an initiative requiring regional collaboration between colleges and industry. Colleges are working to ensure their programs have similar curricula so that employers have a better sense of what skills a graduate has as he or she leaves college. Regions also are required to select from specific industry sectors to focus programs on regional workforce needs. Among the sectors are:

- Advanced Manufacturing
- Advanced Transportation and Renewables
- Agriculture, Water and Environmental Technologies

- Energy Efficiency and Utilities
- Global Trade and Logistics
- Health
- Information and Communication Technologies/Digital Media
- Life Sciences/Biotech
- Retail/Hospitality/Tourism
- Small Business

The 11 economic regions are working to develop plans to better support programs for the sectors they have selected. The Chancellor's Office is hiring "sector navigators" and "deputy sector navigators" to act as a liaison between industry and colleges, as these plans are implemented. In total, there are 10 sector navigators and 66 deputy sector navigators.

Within the Chancellor's Office, the Division of Workforce and Economic Development manages grants for CTE programs across the state. The division manages other sources of CTE funding aside from apportionment funding. Rather than approaching these funding streams and programs in silos, which has been the historical practice, the *Doing What Matters for Jobs and the Economy* initiative proposes that these funds be leveraged to invest in three themes: sectors, regions, and technical assistance to the field. The following table displays funding sources that are leveraged by the Chancellor's Office for the *Doing What Matters for Jobs and the Economy* initiative (some of these were discussed earlier in the K-12 background).

Program	Description
Economic and Workforce Development Program	This is a categorical program that provides grant funding to develop programs aimed at specific workforce needs for regions and supports regional centers, hubs, or advisory bodies, among other things. The Chancellor's Office has recently used this funding to hire statewide and regional experts in specific industries to help improve and coordinate programs to benefit local economies. This program received $22.9 million Proposition 98 General Fund in 2013-14, and the Governor proposes the same amount for 2014-15. At its peak, this categorical program received $46.8 million.
CTE Pathways Initiative	This program requires the community colleges to work with K-12 programs to improve links between high school and community college CTE programs. This program received $48 million in 2013-14 and is proposed to receive the same in 2014-15. About $33 million of this funding goes to community college K-12 partnerships; the other $15 million to the K-12 system.
Carl D. Perkins	The Carl D. Perkins Career Technical Education program provides

Career Technical Education Program	$113 million in ongoing federal funding for CTE programs. Of these funds, 85 percent goes directly to LEAs and community colleges to be used for CTE purposes, including curriculum, professional development, and purchasing equipment and supplies. The remaining 15 percent is provided to the CDE and the Community College Chancellor's Office for administration of various CTE programs.
Nursing Program Support	This is a categorical program that provides grants to colleges to increase nursing program enrollment and completion rates. The grants are distributed on a two-year basis. Funding in 2013-14 was $13.4 million Proposition 98 General Fund and is proposed for the same amount in 2014-15.
Apprenticeship	This is a categorical program that allows apprentices in industries such as firefighting and building trades to receive on-the-job training through an employer and classroom instruction through K-12 or community college partners. State funding is used for industry-approved Related and Supplemental Instruction. The 2013 Budget Act moved the apprenticeship program previously administered by the Department of Education into the community college budget. Thus there are now two apprenticeship categorical programs administered by the Chancellor's Office: one that funds K-12 apprenticeship programs, and one that funds community college apprenticeship systems. Funding in 2013-14 was $7.2 million Proposition 98 General Fund for the community college program and $15.7 million Proposition 98 General Fund for the K-12 program; funding levels are proposed for the same amounts in 2014-15.
Prop 39 Clean Energy Jobs Act	The California Clean Energy Jobs Act, approved by voters as Proposition 39, allocates monies into the Jobs Creation fund for the purpose of supporting projects that create jobs in California to improve energy efficiency and expand clean energy generation. A portion of the funding is allocated to provide for job training and workforce development and public private partnerships for eligible projects. The California Community Colleges Chancellor’s Office is authorized to allocate $6 million during the 2013-14 fiscal year.

6110 DEPARTMENT OF EDUCATION
6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Issue 3: Career Pathways Trust (Information Only)

Background: The 2013-14 budget provided $250 million in one-time Proposition 98 funding to create a "California Career Pathways Trust" (CPT). The primary purpose of the program is to improve linkages between career technical (vocational) programs at schools and community colleges as well as between K-14 education and local businesses. The program authorizes several types of activities, such as creating new technical programs and curriculum. The program is open to school districts, COEs, charter schools, and community colleges. Funds are allocated through a competitive grant process. The state Superintendent of Public Instruction (SPI), in consultation with the CCC Chancellor's Office and interested business organizations, is charged with reviewing grant applications. Grant funds are available for expenditure from 2013-14 through 2015-16. As a condition of receiving a pathway grant, recipients must identify other fund sources (such as commitments from businesses) that will support the ongoing costs of the program. By December 1, 2016, the SPI and grant recipients must report to the Legislature and Governor on program outcomes, such as the number of students making successful transitions to the workforce. Of the amount provided for this program, $250,000 is designated for an independent evaluation. The budget also provided CDE with $459,000 (non-Proposition 98 General Fund) for development of a data repository to track program outcomes and three staff positions.

The CPT is intended to address two identified areas of concern with respect to California's education system:

- **Skills Gap.** California's unemployment rate remains high by historical standards, yet employers in the state face a shortage of skilled workers in occupations requiring scientific, technical, engineering or math (STEM) skills, which are projected to be the fastest growing occupations in the next decade. There is a gap between the skills and capacities acquired in school and those most in need in the workplace.

- **High Dropout Rate.** Statewide, almost a quarter of new ninth-graders drop out before graduating. Many who do finish high school lack the academic and technical readiness to succeed in college and career, and require remedial education in college. Pathway programs that engage students in real-world work have been shown to increase academic success and persistence in school.

Administered by the California Department of Education (CDE), the CPT is intended to improve educational achievement and workplace readiness of California students by placing a greater emphasis on career-based learning as a central mission of public education in California. Many "linked learning" and CTE programs operating in California today have demonstrated improvement in the future prospects of their graduates. These programs, however, have had limited success in attracting meaningful business support, and rely on minimal state appropriations that have experienced sharp cuts in recent years. The CPT provides substantial new incentives to create and strengthen education-business partnerships that provide students with relevant, engaging, applied education, including opportunities for work-based learning (such as an apprenticeship or internship). Eligible grant activities/expenditures include:

- Work-based learning specialists who can act as brokers between businesses and other organizations and schools/colleges seeking placements for students.
- Creation of regional career pathway partnerships involving businesses, schools, and colleges.
- Integration of academic and career-based learning, with a focus on career pathways in job-rich economic sectors.

Interested local educational agencies submitted letters of intent on February 14, 2014, and final applications were submitted on March 28, 2014. The 123 eligible applications requested a total of $709.1 million in grant funding—a little less than three times the available amount of funds. Of the 123 eligible applications, 26 were from community college districts, 16 from county offices of education, 17 from direct-funded charter schools, and 64 from school districts. There are three categories of funding available, based on the size of the program and number of postsecondary and industry partners. These categories and applications consist of:

- 28 applications were for the Regional Consortium Grant, with 10 grants to be awarded for up to $15 million.
- 55 applications were received for the Regional or Local Consortium Grants, with 15 grants to be awarded for up to $6 million.
- 40 applications were received for the Local Consortium Grants, with 15 grants to be awarded for up to $600,000.

The submitted applications are now being assessed and scored by CDE. Additional data from the application process may be available at the time of the hearing.

Staff Comments and Questions: The funding received in the current year was intended to jumpstart new CTE programs in the state and establish new models. While a program evaluation at this time would be premature, the Department and LAO should be able to provide some perspective on the value of continued or renewed funding.

Questions for the Panel:

1. *Have you been able to assess in a preliminary fashion the overall quality and breadth of the applications?*
2. *Are there revisions that you would consider in the application or the application requirements for the program?*

3. *Can you discuss the weighting of considerations and qualities that enter in the evaluative criteria for the program?*

4. *Can you comment on options that participants have for continued funding for programs, given that the grants are one-time?*

Issue 4: Categorical Programs Consolidation—Specialized Secondary Education Programs and Agricultural Education Grants (Budget Proposal)

Proposal: The Governor's budget provides for Specialized Secondary Programs (SSP) and Agricultural Education Grants (AEG) within the Local Control Funding Formula (LCFF). Under the Governor's proposal, school districts receiving funding for these two programs in 2013-14 would have those funds count toward their LCFF targets beginning in 2014-15, with no change made to the LCFF target rates. The currently required categorical activities would be left to each district's discretion. The 2013-14 budget consolidated approximately two-thirds of all categorical programs with the discretionary revenue limit funding to create the LCFF. Currently, 13 categorical programs continue to be funded outside of the LCFF, including SSP and AEG.

Background:

- **Specialized Education Program (SSP).** SSP was created in 1984 with the stated goal of encouraging high schools to create curriculum and pilot programs in specialized fields, such as technology and the performing arts. In 1991-92, SSP's mission was expanded to include base funding for two high schools that are affiliated with the California State University (CSU) system. Of the $4.9 million provided for SSP in the current year, $3.4 million is awarded as "seed" funding for the development of specialized instruction and $1.5 million supports the state's two SSP-funded high schools.

  In the current year, CDE, which administers SSP's competitive grant program, has awarded 67 SSP grants totaling $3.4 million. The SSP funding of $50,000 is distributed in four-year grant cycles. School districts initially apply for a one-year planning grant. Applicants then reapply for three-year implementation grants. Funds are permitted to cover various costs, including equipment and supplies, instructor and staff compensation, and teacher release time to develop curriculum. After the grant cycle is complete, recipients are ineligible to reapply for subsequent SSP grants. The SSP competitive grant program funds various types of instruction. As Figure 12 shows, of the 67 grants awarded in 2013-14, 42 percent are arts programs and 15 percent are science, technology, engineering, or mathematics (STEM) programs. Other industry areas include business and agriculture.

  In addition to competitive grants, SSP provides a total of $1.5 million in annual funding for two high schools operating in conjunction with the CSU system. This amount is split evenly between an arts-themed high school affiliated with CSU Los Angeles and a math- and science-themed high school affiliated with CSU Dominguez Hills. (Unlike virtually all other public schools, students compete for admission to these two schools.) The SSP funds provided to these schools is on top of LCFF monies they receive and are used primarily to pay for teachers. By statute, these teachers do not need to be credentialed.

- **Agricultural Education Grants**. The stated purpose of Agricultural Education Grants is to create an incentive for high schools to offer state-approved agricultural programs. In the current year, CDE has awarded 303 grants to 222 school districts totaling $4.1 million. Funds typically are used by grant recipients for instructional equipment and supplies. Other allowable uses of the funds include paying for field trips and student conferences.

  The CDE administers the grants by distributing available funds based on the number of qualified applicants in a given year. To qualify, grantees must provide matching funds. In addition, the high school program must offer three instructional components: classroom instruction, a supervised agricultural experience program (project-based learning), and student leadership development opportunities. To receive a grant renewal, high schools must agree to be evaluated annually on 12 program quality indicators. (These indicators include curriculum and instruction requirements, leadership development, industry involvement, career guidance, and accountability.) As part of this process, five regional supervisors conduct on-site reviews and provide ongoing technical assistance to grantees.

LAO Perspective: In large measure, the LAO is in agreement with the Governor's proposal. This perspective is consist with its overall favorable view of the LCFF as a means of allowing districts to allocate funding based on student needs and higher costs associated with educating particular cohorts of students. The office notes that categorical programs can be helpful in some circumstances, but should be used sparingly. The shortcomings they note are the inflexibility of categorical programs, their high administrative costs, and their focus on inputs rather than results.

With respect to particular programs, LAO indicates that having a set-aside for SSP implies that innovation and development of new curriculum is a supplemental activity that requires special incentives and a separate funding stream, when in fact, it is a core function for educators and schools. Regarding the SSP-funded high schools, LAO argues these work at direct cross-purposes to the LCFF's focus to construct a rational finance model that significantly reduces historical funding inequities across schools. The LAO argues that for agricultural grants, given the substantial unrestricted resources available and currently being spent for these purposes, no clear rationale exists for providing a small separate appropriation for covering similar costs in one specific discipline such as agricultural education.

Staff Comments and Questions: The LCFF was adopted to give local school districts maximum flexibility. The proposal to continue to consolidate program funding within LCFF, and essentially eliminate guarantees for SSP and AEG, is consistent with this overall philosophy. What is at issue is whether there is something essential about these two remaining programs that warrant their being treated differently than categorical programs previously consolidated within the LCFF funding. One reason for specialized treatment would be if there is a particular base level of funding that would account for regional or statewide interests that might not otherwise be incorporated in local decision-making. An alternative rationale could be that the program is an essential component of educational delivery and the state needs to ensure that this activity is carried out with a guaranteed base-level of spending.

Questions for the Panel:

1. *If the SSP funding were included in the LCFF, what would be the likely effect on the conduct of the related activities within school districts? Should we consider a maintenance of effort requirement for a particular period before we completely 'free-up' the available funding for all types of educational programs?*

2. *Are there specific characteristics associated with the agricultural education program that make this a particularly important stand-alone program that is somehow different from those already included with LCFF?*

3. *If districts are to be responsive to local demands and local needs, should funding be as 'string-free' as possible? Alternatively, are there statewide interests that have not been considered in the basic LCFF funding calculus? If so, what are some of these state interests?*

Staff Recommendation: Reject the Governor's request to include the SSP and AEF programs within the LCFF.

6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Overview

The California Community Colleges (CCCs) is the largest system of community college education in the United States, serving approximately 2.3 million students annually. California's two-year institutions provide primary programs of study and courses, in both credit and noncredit categories, that address its three primary areas of mission: education for university transfer, career technical education, and basic skills. The community colleges also offer a wide range of programs and courses to support economic development, specialized populations, leadership development, and proficiency in co-curricular activities.

As outlined in the Master Plan for Higher Education in 1960, the community colleges were designated to have an open admission policy and bear the most extensive responsibility for lower-division, undergraduate instruction. The community college mission was further revised with the passage of Assembly Bill 1725 (Vasconcellos), Chapter 973, Statutes of 1988, which called for comprehensive reforms in every aspect of community college education and organization. Other legislation established a support framework, including the Matriculation Program, the Disabled Students Programs & Services (DSPS), and the Equal Opportunity Programs & Services (EOPS), to provide categorical funding and special services to help meet the needs of the diverse range of students in the CCCs.

The Board of Governors of the CCCs was established in 1967 to provide statewide leadership to
California's community colleges. The Board has 17 members appointed by the Governor, subject to Senate confirmation. Twelve members are appointed to six-year terms and two student members, two faculty members, and one classified member are appointed to two-year terms. The objectives of the Board are:

- To provide direction, coordination, planning, and leadership to California's community colleges.
- To promote quality education in community colleges.
- To improve district and campus programs through informational and technical services on a statewide basis, while recognizing the community-oriented aspect of California's network of 112 community colleges.
- To seek adequate financial support while ensuring the most prudent use of public funds.

The following table displays the budgeted expenditures and positions for the CCCs as proposed in the Governor's budget. Of the amounts displayed in the table, \$3.9 billion in 2012-13, \$4.0 billion in 2013-14, and \$4.4 billion in 2014-15 are supported by Proposition 98 General Fund. In addition, \$8.6 million in 2012-13, \$9.8 million in 2013-14, and \$10.9 million in 2014-15 are supported by the General Fund. The remainder of funding comes from local property tax revenue, tuition and fee revenue and various special and federal fund sources.

Dollars in Millions

Governor's Budget - CCCs Budgeted Expenditures and Positions			
	2012-13	**2013-14**	**2014-15**
Personal Services	$14	$16	$18
Operating Expenses and Equipment	$4	$6	$5
Local Assistance	$6,818	$6,940	$7,441
Total Expenditures	**$6,836**	**$6,962**	**$7,464**
Positions	**140.6**	**153.7**	**162.7**

Issue 5: Student Success and Statewide Performance Strategies

Governor's Proposal. The Governor's budget proposes $200 million Proposition 98 General Fund to improve and expand student success programs and to strengthen efforts to assist underrepresented students. This includes: 1) $100 million to increase orientation, assessment, placement, counseling, and other education planning services for all matriculated students, and, 2) $100 million to close gaps in access and achievement in underrepresented student groups, as identified in local Student Equity Plans. This funding is intended to allow colleges to better coordinate delivery of existing categorical programs.

For the funding provided to implement activities and goals outlined in student equity plans, the Chancellor of the CCCs is to allocate the funds in a manner that ensures districts with a greater proportion or number of students who are high-need, as determined by the Chancellor's Office, receive greater resources to provide services. In addition, as a condition of receipt of the funds, the districts are required to include in their Student Equity Plan how they will coordinate existing student support services in a manner to better serve their high-need student populations. At a minimum, their plan is to demonstrate an alignment of services funded through allocations for the following programs:

- Student Success for Basic Skills Students
- Student Financial Aid Administration
- Disabled Students
- Special Services for CalWORKs Recipients
- Matriculation
- EOPS
- Fund for Student Success

Lastly, subject to approval by a district's governing board, districts may use up to 25 percent of any of the funds allocated for Student Success for Basic Skills Students, Special Services for CalWORKs Recipients, and EOPS for other federal, state, or local programs that serve high-need student populations as identified in the district's Student Equity Plan.

Implementing Statewide Performance Strategies. The Governor's budget proposes $1.1 million non-Proposition 98 General Fund and nine positions for the Chancellor's Office to develop leading indicators of student success and to monitor districts' performance. In addition, the Governor's budget proposes $2.5 million Proposition 98 General Fund to provide local technical assistance to support implementation of effective practices across all districts, with a focus on underperforming districts.

Background.

Student Success Task Force. In January 2011, the CCC's Board of Governors embarked on a 12-month strategic planning process to improve student success. Pursuant to Senate Bill 1143 (Liu), Chapter 409, Statutes of 2010, the Board of Governors created the Student Success Task Force. The 20-member Task Force was composed of a diverse group of community college leaders, faculty, students, researchers, staff, and external stakeholders. The Task Force worked for seven months to identify best practices for promoting student success and to develop statewide strategies to take these approaches to scale while ensuring that educational opportunity for historically underrepresented students would not just be maintained, but bolstered. The Task Force issued the following recommendations:

1. **Increase Student Readiness for College**
    - Collaborate with K-12 to jointly develop common standards for college and career readiness.
2. **Strengthen Support for Entering Students**
    - Develop and implement common centralized diagnostic assessments.
    - Require students to participate in diagnostic assessment, orientation and the development of an educational plan.
    - Develop and use technology applications to better guide students in educational processes.
    - Require students showing a lack of college readiness to participate in support resources.
    - Require students to declare a program of study early in their academic careers.
3. **Incentivize Successful Student Behaviors**
    - Adopt system-wide enrollment priorities reflecting the core mission of community colleges.
    - Require students receiving Board of Governors Fee Waivers to meet various conditions and requirements.
    - Provide students the opportunity to consider attending full time.
    - Require students to begin addressing basic skills deficiencies in their first year.
4. **Align Course Offerings to Meet Student Needs**
    - Give highest priority for courses advancing student academic progress.
5. **Improve the Education of Basic Skills Students**
    - Support the development of alternative basic skills curriculum.
    - Develop a comprehensive strategy for addressing basic skills education in California.
6. **Revitalize and Re-envision Professional Development**

- Create a continuum of mandatory professional development opportunities.
- Direct professional development resources toward improving basic skills instruction and support services.

7. **Enable Efficient Statewide Leadership and Increase Coordination Among Colleges**
    - Develop and support a strong community college system office.
    - Set local student success goals consistent with statewide goals.
    - Implement a student success scorecard.
    - Develop and support a longitudinal student record system.
8. **Align Resources With Student Success Recommendations**
    - Encourage categorical program streamlining and cooperation.
    - Invest in the new Student Support Initiative.
    - Encourage innovation and flexibility in the delivery of basic skills instruction.
9. **A Review of Outcomes-Based Funding**

According to the Task Force report, which was unanimously adopted by the Board of Governors in January 2012, it was their goal to identify best practices for promoting student success and to develop statewide strategies to take these approaches to scale while ensuring that educational opportunity for historically underrepresented students would not just be maintained, but bolstered. The report noted that while a number of disturbing statistics around student completion reflect the challenges faced by the students they serve, they also clearly demonstrate the need for the system to recommit to finding new and better ways to serve its students.

SB 1456 (Lowenthal), Chapter 624, Statutes of 2013, also known as the Seymour-Campbell Student Success Act of 2012, contained statutory changes necessary for implementation of some of the recommendations of the Task Force and the 2013 budget included $50 million for community college student success efforts.

Staff Comment.

Prioritizing Investments in Student Success Services. While there is substantial merit in investing in Student Success strategies (putting funding generally into matriculation for Student Success efforts would likely allow for implementation of broader solutions that would serve many more students than could be served through a specific categorical program), it is important to note that other categorical programs that target underrepresented or disadvantaged students experienced significant funding reductions during the recent economic downturn. While the CCCs have done a significant amount through the Student Success Taskforce to refocus existing resources on better serving their student population, including students with disabilities and economically disadvantaged students, there are additional supports, beyond those identified in the Student Success and Support categorical program, that are important to the overall success of these students. Although the Governor's proposal allows for greater flexibility in regards to how the funding is used, concerns have been raised regarding the potential impact on other specialized programs. In order to protect current levels of important specialized services, the Legislature may wish to examine the Governor's proposed flexibility for districts to use 25 percent of funds allocated for Student Success for Basic Skills Students, Special Services for CalWORKs Recipients, and EOPS for other purposes.

Providing for broad use of these funds for Student Success efforts may have detrimental consequences for these programs. Specifically, the Student Success for Basic Skills Students addresses one of the most challenging issues that our higher education segments face in remediation, the EOPS program provides tutoring, textbook vouchers, computer loans and other support services outside of traditional counseling to economically disadvantaged students, and the CalWORKs community college program is key to getting folks back into the workforce and towards self-sufficiency.

Will Modified Student Equity Plans Ensure Funds are Used as Intended? In order to promote student success for all students, regardless of race, gender, age, disability, or economic circumstances, the governing board of each community college district is required by regulation to maintain a student equity plan, to for each college in the district, that evaluates gaps for underrepresented student populations and develops and implements plans to address the identified gaps. As previously mentioned, as a condition of receipt of the funds that are proposed to close gaps in access and achievement in underrepresented student groups, districts will be required to include in their Student Equity Plans how they will coordinate existing student support services in a manner to better serve their high-need student populations.

The Student Success Act of 2012 only required coordination with the Student Equity Plans as one of eight items to consider in a funding formula to be developed by the Chancellor's Office for distributing matriculation funds. In addition, requirements for and components of Student Equity Plans are established in the California Code of Regulation, as opposed to statute. Although, the Governor is proposing budget bill language that requires specific modifications to the plans in order to receive the proposed funding, the Legislature may wish to consider the following questions:

- Does the proposed language provide adequate assurance that the funds will ultimately be used as intended?
- Given the ongoing nature of Student Success efforts and in order to ensure legislative objectives are met, is trailer bill language more appropriate?
- Are there appropriate reporting and oversight measure in place?

Reporting On Current Student Success Efforts not Available Until July. As previously mentioned, SB 1456 contained statutory changes necessary to implement some of the recommendations of the Student Success Task Force and the 2013 budget included $50 million in funding. While continuing to invest in Student Success efforts is consistent with recent fiscal and policy priorities of the Legislature in regards to CCCs, the Governor's proposal of $200 million that would be allocated to colleges for Student

Success efforts is four times larger than the current funding level. Given that the Legislative Analyst's Office (LAO) review of the implementation of the Student Success Act (the LAO is examining the impacts of the Student Success Act on student participation, progress, and completion, disaggregated by ethnicity, age, gender, disability, and socioeconomic status) is not scheduled to be submitted to the Legislature until July 1, 2014, the Legislature may wish to consider the feasibility and/or appropriateness of adjusting funding requirements based on the findings contained in the LAO's review.

Staff Recommendation. Hold open.

Issue 6: Community College Growth Funding

Governor's Proposal. The Governor's budget proposes $155.2 million Proposition 98 General Fund to fund three percent enrollment growth for community colleges, which would add about 70,000 students, or about 34,000 Full-Time Equivalent Students (FTES), to the community college system. The Governor's budget also includes budget bill and trailer bill language directing the Board of Governors to change the growth formula to distribute this new funding, beginning in 2014-15.

- Specifically, trailer bill language requires the board to create a new formula that distributes funding based on local needs, including:
- The need for basic skills and remedial education, which could be measured by the level of preparedness for transfer-level coursework of local high school students, the number of adults without high school diplomas, and adults who are English-language learners;
- The need for workforce development and training, which could be measured by the unemployment level and current and future demand for employment;
- The need for preparing students to transfer to four-year universities, which could be measured by the number of adults without bachelor's degrees;
- The age of the population; and,
- Other indicators developed by the Board of Governors.

Background. The proposed funding formula would replace a historical model that has allocated funds based largely on year-to-year changes in local high school graduation rates and adult population rates. The trailer bill language ensures that all districts would be eligible to receive at least some additional growth funding.

Community college enrollment dropped significantly during the Great Recession, as the state slashed funding and colleges were forced to reduce class offerings. Colleges served about 500,000 fewer students in 2012-13 than they did in 2008-09, according to the Chancellor's Office.

The 2013 Budget Act provided $89.4 million in Proposition 98 General Fund to allow colleges to grow by 1.6 percent. Based on initial enrollment figures released in March, 25 of the 72 community college districts were not on track to meet this enrollment growth target. College officials note that after several years of declining enrollment, many are struggling to reverse course and add faculty, classes, and students.

Based on the current numbers, the Chancellor's Office, the Community College League of California, and the Faculty Association of California Community Colleges all have suggested that three percent growth for 2014-15 may be too much. The Legislative Analyst also suggests the proposed growth target may be too high for many colleges. (Colleges that do not meet their growth targets do not receive growth funding.) Some larger, urban districts do support this amount of growth, however, and they believe they can increase enrollment by three percent or even more. More accurate enrollment data for the current school year will be released in May, which may give the subcommittee better information as it determines an appropriate growth level for 2014-15.

Regulations governing growth funding have expired, and the Board of Governors is currently working on new regulations. But the Governor's proposal to implement a new formula beginning July 1 of this year may be difficult to implement, as colleges likely will require more time to understand proposed changes before they can plan their school year.

Both the Chancellor's Office and the LAO suggest implementing a new growth formula for the 2015-16 budget year, in order to allow colleges time to understand the changes heading into a new school year. Additionally, the LAO notes that the Legislature, Administration, and community colleges will be working on changes to the adult education system for 2015-16, including a new funding formula. The LAO believes that a new growth formula and adult education formula may be better implemented at the same time and thus recommends rejecting the proposed language regarding a new growth formula at this time.

The Chancellor's Office also notes that the trailer bill language proposed by the Governor is more overly-prescriptive than may be needed, and would not allow for future changes should demographics or state priorities alter. Others have suggested that growth formulas should incentivize colleges to enroll low-income students, or students from neighborhoods with high needs for postsecondary degrees.

Staff Recommendation. Hold open.

Issue 7: Deferred Maintenance and Equipment Funding

Governor's Proposal. The Governor's budget proposes $175 million Proposition 98 General Fund for the Physical Plant and Instructional Support categorical program. Budget bill language specifies that the funding be used as follows:

- Half of the funding would go to deferred maintenance issues, and be distributed on a per-student basis, as established by the Chancellor's Office, with a minimum amount for smaller districts. Districts would be required to provide a 1:1 funding match.
- Half of the funding would go to replace instructional equipment, including workforce development equipment, and library materials. The funds would be distributed on a per-student basis with a minimum amount established. Districts are required to provide a match of $1 for every $3 in state funding.

Background. Prior to the 2013 Budget Act, when the Legislature provided $30 million for this categorical program, the state had not provided funding for deferred maintenance and instructional materials since 2007-08. Community colleges have identified more than $1 billion in deferred maintenance needs in their five-year capital outlay plans, submitted to the Chancellor's Office. The Chancellor's Office notes that the majority of the colleges' physical plant is more than 30 years old. The Chancellor's Office also notes that, in an era of rapid technological change, colleges need continual funding for instructional materials. This is also an issue in accreditation review.

Finally, staff notes that a continuing issue facing colleges seeking to offer more and improved career technical education classes is the high cost of equipment for these classes. The high cost of CTE classes and equipment is one factor in CTE reductions at colleges during the past 10 years: In 2001-02, about 32 percent of Full-Time Equivalent Students in community colleges were in CTE classes; that number was reduced to about 30 percent in 2010-11, according to data provided by the Chancellor's Office. This categorical program is one way colleges could replenish high-cost instructional equipment for CTE classes.

Staff Recommendation. Hold open.

Issue 8: Deferral Elimination

Governor's Proposal. The Governor's budget proposes to use $592 million Proposition 98 General Fund to eliminate all deferrals accrued during the Great Recession.

Background. Inter-year deferrals of funding, due to community colleges, became common during the recession as the state faced significant cash shortages. Deferred amounts for community colleges reached $961 million in 2011-12. Deferrals caused districts to reduce class offerings or incur substantial borrowing costs. The Governor proposes to use $194 million in 2012-13 funds, $163 million in 2013-14 funds, and $236 million in 2014-15 to eliminate deferral debt to community colleges.

The Governor's proposal is a departure from his 2013-14 budget plan, when he proposed a slower pay down of deferral debt that would have eliminated the debt by 2016-17. While eliminating the debt is a worthy priority, these funds could also be used for other one-time priorities within the community college system, including deferred maintenance and high-cost instructional equipment for career technical education programs.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Tuesday, April 29, 2014
1:30 p.m.
Room 3191, State Capitol

Consultant: Mark Ibele, Joe Stephenshaw

OUTCOMES

Item	Department
6110	**Department of Education**
6120	**California State Library**
6870	**California Community Colleges**

Vote Only Item

Item 1	Library and Courts Building Reappropriation **(Staff Reco Approved 3-0)**	Page 2
Item 2	Community College Capital Outlay Proposals **(Staff Reco Approved 3-0)**	Page 2
Item 3	Redevelopment Agency Funding Backfill **(Staff Reco Approved 3-0)**	Page 3

Discussion Items

Item 1	Local Library Internet Speeds **(Staff Reco Approved 3-0)**	Page 4
Item 2	Career Technical Education **(Information Only)**	Page 4
Item 3	Career Pathways Trust **(Information Only)**	Page 5
Item 4	Specialized Secondary Education Programs and Agricultural Education Grants **(Staff Reco Approved 3-0)**	Page 5
Item 5	Student Success and Statewide Performance Strategies **(Held Open)**	Page 6
Item 6	Community College Growth Funding **(Held Open)**	Page 7
Item 7	Deferred Maintenance and Equipment Funding **(Held Open)**	Page 7
Item 8	Deferral Elimination **(Held Open)**	Page 8
Public Comment		

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Items Proposed for Vote Only

6120 CALIFORNIA STATE LIBRARY
6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Issue 1: Library and Courts Building Reappropriation

Governor's Proposal. A Spring Finance Letter proposes a reappropriation of $1 million of the funds to support costs associated with relocating California State Library (State Library) staff and materials back to the recently-renovated Library and Courts Building.

Background. The 2013 Budget Act provided $1.5 million General Fund to support one-time relocation costs for the State Library as it moved back into the renovated Library and Courts Building. The relocation was expected to be completed by May 2014. Due to delays in installing new shelving in the building, authority for the relocation funds needs to be extended into the next fiscal year.

Staff Recommendation. Approve as proposed.

Issue 2: Community College Capital Outlay Proposals

Governor's Proposal. The Governor's budget and a Spring Finance Letter propose funding for the following eight community college capital outlay projects.

CCC Governor's Budget Capital Outlay Proposals				
College	**Project**	**Phase**	**Amount**	**Fund Source**
College of the Redwoods	Utility Infrastructure Replacement/Seismic Strengthening	Preliminary Plans and Working Drawings	$3.4 Million	2006 California Community College Capital Outlay Bond Fund
Solano College	Theater Renovation	Construction	$12.6 Million	2006 California Community College Capital Outlay Bond Fund
Santa Barbara City College	Campus Center Seismic and Code Upgrades	Preliminary Plans and Working Drawings	$1.6 Million	2006 California Community College Capital Outlay Bond Fund
El Camino College, Compton Center	Instructional Building 1 Replacement	Preliminary Plans and Working Drawings	$782,000	2006 California Community College Capital Outlay Bond Fund

Mt. San Jacinto College	Fire Alarm System	Preliminary Plans and Working Drawings	$413,000	2004 Higher Education Capital Outlay Bond Fund
Los Rios Community College District, Davis Center	Davis Center Phase 2	Preliminary Plans and Working Drawings	$207,000	2006 California Community College Capital Outlay Bond Fund
Citrus College	Hayden Hall #12 Renovation	Preliminary Plans and Working Drawings	$147,000	2004 Higher Education Capital Outlay Bond Fund
Rio Hondo College	L Tower Seismic and Code Upgrades	Preliminary Plans and Working Drawings	$1.8 million	2006 California Community College Capital Outlay Bond Fund

Staff Recommendation. Approve as budgeted.

Issue 3: Redevelopment Agency Funding Backfill

The Governor's budget proposes $38.4 million Proposition 98 General Fund in the current year and $35.6 million Proposition 98 General Fund in the budget year to shift a portion of the redevelopment agency revenues that are scheduled to be received in the final months of the fiscal year to the following fiscal year.

Additionally, the Governor proposes trailer bill language that would move up the timing upon which the Department of Finance annually bases funding for the backfill process. Under the proposal, Proposition 98 General Fund would be used to backfill the difference between estimated total fiscal year redevelopment agency revenues and the amount California Community Colleges (CCCs) receive through April 15th. This change will allow districts to have more certainty when preparing their fiscal plans.

Staff Recommendation. Approve as budgeted.

Items Proposed for Discussion/Vote

6120 CALIFORNIA STATE LIBRARY

Issue 1: Local Library Internet Speeds

Governor's Proposal. The Governor's budget proposes $3.3 million General Fund ($2.25 million ongoing) for the State Library to increase internet speeds at local libraries. Of the amount proposed, $2.25 million would pay for half of a $4.5 million annual contract with Corporation for Education Network Initiatives in California (CENIC) for access to its high-speed internet backbone and related services. The Governor's budget includes budget bill language directing the State Library or local libraries to secure additional non-General Fund resources, as necessary, to ensure that public libraries have access to a high-speed network. Although not explicitly specified, the Governor assumes the remaining CENIC contract costs would be paid from the California Teleconnect Fund (CTF). Lastly, the Governor proposes to spend $1 million, on a one-time basis, in 2014-15 to purchase networking equipment for libraries.

Staff Recommendation. Approve the proposal in order to provide the libraries with a means to significantly improve internet services provided to patrons, many of whom use these services to perform critical tasks. However, given concerns that have been raised by the LAO, consistent with the Assembly's action, adopt budget bill language to require an annual report describing the implementation of this project, including how many libraries are participating, how the participating libraries' technology costs and Internet speeds have changed due to the project, and how the $1 million in grants were used.

6110 DEPARTMENT OF EDUCATION
6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Issue 2: Career Technical Education (Information Only)

Issue: Career technical education (CTE) has attracted increasing amounts of attention and focus in recent years, responding both to the needs of students and the demands of future employers. At the same time, the approach to CTE taken by the state and school districts has shifted in response to policy priorities and new education funding approaches.

6110 DEPARTMENT OF EDUCATION
6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Issue 3: Career Pathways Trust (Information Only)

Background: The 2013-14 budget provided $250 million in one-time Proposition 98 funding to create a "California Career Pathways Trust" (CPT). The primary purpose of the program is to improve linkages between career technical (vocational) programs at schools and community colleges as well as between K-14 education and local businesses. The program authorizes several types of activities, such as creating new technical programs and curriculum. The program is open to school districts, COEs, charter schools, and community colleges. Funds are allocated through a competitive grant process. The state Superintendent of Public Instruction (SPI), in consultation with the CCC Chancellor's Office and interested business organizations, is charged with reviewing grant applications. Grant funds are available for expenditure from 2013-14 through 2015-16. As a condition of receiving a pathway grant, recipients must identify other fund sources (such as commitments from businesses) that will support the ongoing costs of the program. By December 1, 2016, the SPI and grant recipients must report to the Legislature and Governor on program outcomes, such as the number of students making successful transitions to the workforce. Of the amount provided for this program, $250,000 is designated for an independent evaluation. The budget also provided CDE with $459,000 (non-Proposition 98 General Fund) for development of a data repository to track program outcomes and three staff positions.

Issue 4: Categorical Programs Consolidation—Specialized Secondary Education Programs and Agricultural Education Grants (Budget Proposal)

Proposal: The Governor's budget provides for Specialized Secondary Programs (SSP) and Agricultural Education Grants (AEG) within the Local Control Funding Formula (LCFF). Under the Governor's proposal, school districts receiving funding for these two programs in 2013-14 would have those funds count toward their LCFF targets beginning in 2014-15, with no change made to the LCFF target rates. The currently required categorical activities would be left to each district's discretion. The 2013-14 budget consolidated approximately two-thirds of all categorical programs with the discretionary revenue limit funding to create the LCFF. Currently, 13 categorical programs continue to be funded outside of the LCFF, including SSP and AEG.

Staff Recommendation: Reject the Governor's request to include the SSP and AEF programs within the LCFF.

6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Issue 5: Student Success and Statewide Performance Strategies

Governor's Proposal. The Governor's budget proposes $200 million Proposition 98 General Fund to improve and expand student success programs and to strengthen efforts to assist underrepresented students. This includes: 1) $100 million to increase orientation, assessment, placement, counseling, and other education planning services for all matriculated students, and, 2) $100 million to close gaps in access and achievement in underrepresented student groups, as identified in local Student Equity Plans. This funding is intended to allow colleges to better coordinate delivery of existing categorical programs.

For the funding provided to implement activities and goals outlined in student equity plans, the Chancellor of the CCCs is to allocate the funds in a manner that ensures districts with a greater proportion or number of students who are high-need, as determined by the Chancellor's Office, receive greater resources to provide services. In addition, as a condition of receipt of the funds, the districts are required to include in their Student Equity Plan how they will coordinate existing student support services in a manner to better serve their high-need student populations. At a minimum, their plan is to demonstrate an alignment of services funded through allocations for the following programs:

- Student Success for Basic Skills Students
- Student Financial Aid Administration
- Disabled Students
- Special Services for CalWORKs Recipients
- Matriculation
- EOPS
- Fund for Student Success

Lastly, subject to approval by a district's governing board, districts may use up to 25 percent of any of the funds allocated for Student Success for Basic Skills Students, Special Services for CalWORKs Recipients, and EOPS for other federal, state, or local programs that serve high-need student populations as identified in the district's Student Equity Plan.

Implementing Statewide Performance Strategies. The Governor's budget proposes $1.1 million non-Proposition 98 General Fund and nine positions for the Chancellor's Office to develop leading indicators of student success and to monitor districts' performance. In addition, the Governor's budget proposes $2.5 million Proposition 98

General Fund to provide local technical assistance to support implementation of effective practices across all districts, with a focus on underperforming districts.

Staff Recommendation. Hold open.

Issue 6: Community College Growth Funding

Governor's Proposal. The Governor's budget proposes $155.2 million Proposition 98 General Fund to fund three percent enrollment growth for community colleges, which would add about 70,000 students, or about 34,000 Full-Time Equivalent Students (FTES), to the community college system. The Governor's budget also includes budget bill and trailer bill language directing the Board of Governors to change the growth formula to distribute this new funding, beginning in 2014-15.

- Specifically, trailer bill language requires the board to create a new formula that distributes funding based on local needs, including:
- The need for basic skills and remedial education, which could be measured by the level of preparedness for transfer-level coursework of local high school students, the number of adults without high school diplomas, and adults who are English-language learners;
- The need for workforce development and training, which could be measured by the unemployment level and current and future demand for employment;
- The need for preparing students to transfer to four-year universities, which could be measured by the number of adults without bachelor's degrees;
- The age of the population; and,
- Other indicators developed by the Board of Governors.

Staff Recommendation. Hold open.

Issue 7: Deferred Maintenance and Equipment Funding

Governor's Proposal. The Governor's budget proposes $175 million Proposition 98 General Fund for the Physical Plant and Instructional Support categorical program. Budget bill language specifies that the funding be used as follows:

- Half of the funding would go to deferred maintenance issues, and be distributed on a per-student basis, as established by the Chancellor's Office, with a minimum amount for smaller districts. Districts would be required to provide a 1:1 funding match.

- Half of the funding would go to replace instructional equipment, including workforce development equipment, and library materials. The funds would be distributed on a per-student basis with a minimum amount established. Districts are required to provide a match of $1 for every $3 in state funding.

Staff Recommendation. Hold open.

Issue 8: Deferral Elimination

Governor's Proposal. The Governor's budget proposes to use $592 million Proposition 98 General Fund to eliminate all deferrals accrued during the Great Recession.

Staff Recommendation. Hold open.

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, May 1, 2014
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191

Consultants: Jody Martin, Farra Bracht and Mark Ibele

Proposed Vote Only Calendar

6360	**Commission on Teacher Credentialing**	
Issue 1	DOF April Letter: Dual Credential Program	Page 2
6110	**Department of Education**	
Issue 1	Governor's Budget Requests for State Operations	Page 3
Issue 2	DOF April Letter: State Operations and Local Assistance	Page 5

Proposed Discussion/Vote Calendar

6110	**Department of Education**	
Issue 1	Fiscal Status of School Districts (Informational Item)	Page 15
Issue 2	Governor's Budget Requests for State Operations	Page 22
Issue 3	State Special Schools Deferred Maintenance	Page 29
Issue 4	Accessible Instructional Materials	Page 31
Issue 5	State Board of Education Delegation of Charter School Oversight	Page 34
Issue 6	Child Nutrition (Informational Item)	Page 36
	Public Comment	

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Items Proposed for Vote Only

6360 COMMISSION ON TEACHER CREDENTIALING

Issue 1: DOF April Letter: Dual Credential Program

The April Finance Letter for the Commission on Teacher Credentialing (CTC) requests to increase CTC's 2014-15 budget by $175,000 in reimbursements to enable CTC to spend competitive federal grant funds provided for development of a dual Special Education/General Education teacher preparation and credential program. The program would allow teaching candidates to concurrently earn a special education credential and a general education credential. The request also includes a new budget item to schedule the funds and provisional language to denote them as one-time funds.

The funds are part of the total grant award of $200,000 that CTC received from the National Collaboration for Effective Educator Development, Accountability, and Reform (CEEDAR) Center, a federally-funded technical assistance agency focusing on special education. From that award, CTC plans to spend $25,000 in 2013-14 and the remainder in 2014-15. In a letter dated March 7, 2014, Department of Finance (DOF) notified the Joint Legislative Budget Committee of DOF's intent to increase CTC's budget in 2013-14 by $25,000 to reflect this grant.

CTC will use the funds to convene experts from the California Department of Education and various institutions of higher education to develop the dual certification program. The program is intended to enable teacher education programs operated by institutions of higher education to better prepare new teachers to address the instructional needs of students with disabilities.

Staff Recommendation. Staff recommends the subcommittee approve the April Finance Letter request to increase CTC's reimbursements by $175,000 to fund the development of a dual Special Education/General Education teacher preparation and credential program and to add the requested budget item schedule and provisional language.

VOTE:

6110 DEPARTMENT OF EDUCATION

Issue 1: Governor's Budget Requests for State Operations

Proposed California Department of Education (CDE) State Operations Adjustments—General Fund (Non-Proposition 98):

Item 1. Pupil Fee Complaint Process. The Governor's budget requests $114,000 and 1.0 consultant position to implement the appeal requirements of AB 1575 (Lara), Chapter 776, Statutes of 2012. This measure established the Uniform Complaint Procedures process as the required local process for addressing complaints about the imposition of pupil fees. It also authorizes appeals of schools' decisions to be made to CDE, which is required to respond and implement a specific remedy, if appropriate, within 60 days. The 2013-14 budget provided CDE with $109,000 and 1.0 position, beginning in 2013-14, for other aspects of this measure related to CDE monitoring and technical assistance, and state regulations.

Item 2. Instructional Quality Commission. The Governor's budget requests $270,000 for the Instructional Quality Commission to review and revise, as needed, the curriculum framework for history-social science to include civics education and financial literacy, pursuant to the requirements of AB 137 (Buchanan), Chapter 225, Statutes of 2013, and AB 166 (Roger Hernández), Chapter 135, Statutes of 2013, and to develop a revised curriculum framework and evaluation criteria for instructional materials in science based on the Next Generation Science Standards, pursuant to SB 300 (Hancock), Chapter 480, Statutes of 2013.

Item 3. Charter School Petition Appeal Reviews. The Governor's budget requests $100,000 and 1.0 consultant position for CDE to review various charter school appeals submitted to the State Board of Education (SBE). (The DOF April Letter requests an additional $15,000 for this position to bring the total funding to $115,000). Under state law, SBE may authorize charter school petitions that are denied by school districts and county offices of education, and to consider charter school appeals regarding local non-renewal and revocation decisions. SBE has delegated, to CDE, the authority to review these charter school appeals.

Staff Comment: Staff notes that the Governor proposes trailer bill language (separate from this item) to allow SBE to delegate oversight for SBE-authorized charter schools to any school district or county office of education in the state (see Issue 6, SBE Delegation of Charter School Oversight, on page 34). That language proposal has potential implications for the workload and budget of CDE's Charter Schools Division, whose staff conducts these charter school appeals, oversight of SBE-authorized charters as delegated by SBE to CDE, and other activities related to charter schools.

Proposed CDE State Operations Adjustments—Other Funds:

Item 4. Race to the Top Early Learning Challenge Grant. The Governor's budget proposes for state operations an additional $1 million in federal funds from the Race to the Top Early Learning Challenge Grant (RTT-ELC) supplemental award ($22.4 million) that California received in 2013-14. In 2011, California received $52.6 million from the initial RTT-ELC grant. State-level activities are a complement to the local efforts funded through the grant to improve the quality of early learning programs. Funding for state operations will support the following: 3.0 limited-term positions to assist with and provide oversight for this project, contracts for technical assistance to local participating agencies, and project evaluation. The Governor's budget also provides an additional $7.7 million from the supplemental grant award for local project activities. In a letter dated September 19, 2013, DOF notified the Joint Legislative Budget Committee of DOF's intent to increase CDE's budget in 2013-14 ($2.6 million for state operations and $7 million for local activities) to reflect this grant award.

Staff Comment: CDE submitted to DOF a May Revision proposal to potentially realign the entire budget for the RTT-ELC grant, including the supplemental award that is the subject of this item. Nonetheless, staff believes it is reasonable for the subcommittee to approve the Governor's proposal at this time, with the understanding there may be an adjustment proposed in the May Revision.

<u>Item 5. Fee Reimbursements for Adoption of English Language Arts/English Language Development Instructional Materials.</u> The Governor's budget proposes $281,000 in reimbursement authority for CDE to collect fees from publishers that participate in a forthcoming statewide adoption of new instructional materials for English Language Arts/English Language Development, pursuant to the requirements of SB 201 (Liu), Chapter 478, Statutes of 2013. The 2008-09 budget suspended all statewide instructional materials adoptions due to the state budget shortfall. In 2009-10, a budget veto eliminated $705,000 General Fund support for the state Instructional Materials Commission.

<u>Item 6. School Supplies for Homeless Children.</u> The Governor's budget requests $100,000 from the School Supplies for Homeless Children Fund for the costs of administering new competitive grant funds for school supplies and health-related products for homeless pupils, pursuant to the requirements of SB 1571 (DeSaulnier), Chapter 459, Statutes of 2012. In addition, the Governor's budget requests $530,000 from this special fund for the local assistance competitive grants in 2014-15. This level of funding is estimated to provide supplies to up to 10,000 homeless pupils.

<u>Item 7. State Level Activities for Migrant Education Program.</u> The Governor's budget requests to transfer $501,000 in federal funds for the Migrant Education Program from local assistance contracts to state operations, and add 3.0 permanent consultant positions to implement the workload associated with this funding. The funds transferred would support the same activities as before, but under state-level oversight. Specifically, the resources would support the State Parent Advisory Council, the Identification and Recruitment program, and oversight of program data systems, which are areas where long-standing program deficiencies have been found through program monitoring and federal and state audits.

Staff Recommendation: Staff recommends the subcommittee approve items 1-7 as budgeted.

<u>VOTE:</u>

6110 DEPARTMENT OF EDUCATION

Issue 2: DOF April Letter: State Operations and Local Assistance

In the April Finance Letter, the Governor proposes several adjustments to CDE state operations and local assistance budget items for 2014-15, as shown in the table below. Note the table cites the text from the Finance Letter, which refers to CDE as the State Department of Education (SDE). These adjustments either update federal budget appropriations so they match the latest estimates, or make other corrections to the budget.

Many are considered technical, since they are consistent with current programs, and there is no known opposition to them. Staff recommends the subcommittee approve these adjustments.

For a small number of the Governor's proposals, staff recommends that the subcommittee either adopt the proposal with specified technical corrections (Item 12), or to hold an item open (Items 4, 15, 16, 22-24). Staff comments appear below an item description. A complete list of the staff recommendations is displayed after the table.

	Federal Funds Adjustments
1	**Item 6110-001-0001, State Operations, Public Charter Schools Grant Program (PCSGP) (Issue 002)**—It is requested that Item 6110-001-0890 be increased by $537,000 Federal Trust Fund and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds for the PCSGP. The PCSGP provides competitive grant awards of up to $575,000 to newly-approved charter schools for planning and initial implementation. As part of the 2010 federal grant application, the State Department of Education (SDE) agreed to increase charter school technical assistance. These activities were previously funded by the 2011, 2012, and 2013 Budget Acts. However, due to concerns stemming from a reduction in the federal grant award and a change in the SDE contracting process, the SDE was unable to enter into contracts and fulfill its commitments. In September 2013, the SDE submitted a request to the United States Department of Education to amend the approved technical assistance component of California's 2010 grant application. This request will allow the SDE to fulfill its required activities from the 2010 federal grant application within available resources. 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, $537,000 is available on a one-time basis for the State Department of Education to contract for the development of charter school technical assistance contracts.
2	**6110-001-0890, State Operations, Migrant Education Program Review (Issue 275)—**It is requested that Item 6110-001-0890 be increased by $1,121,000 federal Title I funds and that Item 6110-001-0001 be amended to reflect the availability of the one-time funds for the SDE to complete a review of the Migrant Education Program. The federal Office of Migrant Education is requesting the SDE conduct this review and is providing the funds for this purpose.

	It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $1,121,000 is provided in one-time federal Title I funds for the State Department of Education to complete a review of the Migrant Education Program.
3	**Item 6110-112-0890, Local Assistance, Public Charter Schools Grant Program (PCSGP) (Issue 003)—**It is requested that this item be increased by $90,000 Federal Trust Fund to align to the available federal grant award. The PCSGP awards planning and implementation grants up to $575,000 to new charter schools, as well as grants to disseminate charter school best practices.
4	**Item 6110-113-0890, Local Assistance, Student Assessment Program (Issues 549, 554, and 555)—**It is requested that Schedule (5) of this item be increased by $889,000 federal Title VI funds to align to the available federal grant award. Federal funds for state assessments are provided for costs associated with the development and administration of the California Assessment of Student Performance and Progress, the English Language Development Test, and the California High School Exit Exam. It is also requested that provisional language be amended as follows to clarify contingency language that makes funding available for the California Assessment of Student Performance and Progress upon Department of Finance (Finance) review of supporting contract material. "1. The funds appropriated in Schedule (5) are provided for contract costs for the implementation of the California student assessment system established pursuant to Chapter 489 of the Statutes of 2013, as approved by the State Board of Education, and are contingent upon Department of Finance review of ~~supporting contract material submitted by the State Department of Education~~ <u>the related contract, during contract negotiations, prior to its execution</u>." It is also requested that an amendment to provisional language be made as follows to eliminate unnecessary redundancies in Budget Bill language as Provision 8 within the item provides authority for contract savings from the California English Language Development Test to be used to develop the new English Language Proficiency Assessments for California. This amendment also better reflects the intended use of funds allocated in this schedule. "2. The funds appropriated in Schedule (2) shall be available for approved contract costs for administration of the California English Language Development Test,~~ and the development of and transition to the English Language Proficiency Assessments for California,~~ consistent with the requirements of Chapter 7 (commencing with Section 60810) of Part 33 of Division 4 of Title 2 of the Education Code~~ and Provision 3 of Item 6110-113-0001~~." **<u>Staff comment</u>**: Staff recommends holding this issue open since the subcommittee heard the Governor's proposal for funding of the student assessment program on March 20, 2014, and the subcommittee chose to hold that issue open, pending the May Revision.

5	**Item 6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 279)—**It is requested that this item be decreased by $234,000 federal Title I funds to align to the available federal grant award. The Neglected and Delinquent Children Program provides supplemental instruction, including math and literacy activities, to children and youth in state institutions for juveniles and in adult correctional institutions to ensure that these youth make successful transitions to school or employment.
6	**Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 280, 281, and 282)—**It is requested that Schedule (1) of this item be decreased by $1,954,000 federal Title I funds for the Migrant Education Program to reflect a $6,254,000 reduction to the available federal grant award and the availability of $4.3 million in one-time carryover funds. The Program provides educational support services to meet the needs of highly-mobile children. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (1), $4,300,000 is provided in one-time federal Title I carryover funds to support the existing program. It is also requested that Schedule (2) of this item be increased by $43,000 federal Title I funds for Migrant Education Program–State Level Activities to align to the available federal grant award. The state level activities of the Migrant Education Program includes funding to maintain statewide contracts for the Migrant Eligibility Database, migrant program assessment, college preparation, distance learning, data support, and tutoring programs. It is also requested that Schedule (3) of this item be decreased by $10,559,000 federal Title III funds for the English Language Acquisition Program to align to the available federal grant award. This program provides services to help students attain English proficiency and meet grade level academic standards.
7	**Item 6110-134-0890, Local Assistance, Basic Elementary and Secondary Education Act Program (Issue 548)—**It is requested that Schedule (4) of this item be increased by $37,963,000 federal Title I funds for the Title I Basic Elementary and Secondary Education Act to reflect an increase to the federal grant award. Local educational agencies (LEAs) use these funds to support services that assist low-achieving students enrolled in the highest poverty schools.
8	**Item 6110-134-0890, Local Assistance, School Improvement Grant Program (Issue 550)—**It is requested that Schedule (3) of this item be increased by $73,743,000 federal Title I funds to reflect the availability of $80,560,000 in one-time carryover funds and a $6,817,000 reduction to the available federal grant award. The SDE awards school improvement grants to LEAs with the persistently lowest-achieving Title I schools to implement evidence-based strategies for improving student achievement. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (3), $80,560,000 is provided in one-time carryover funds to support the existing program.

9	**Item 6110-136-0890, Local Assistance, McKinney-Vento Homeless Children Education Program (Issue 283)—**It is requested that Schedule (1) of this item be increased by $164,000 federal Title I funds to align to the available federal grant award. The McKinney-Vento Homeless Children Education Program provides a liaison to ensure homeless students have access to education, support services, and transportation.
10	**Item 6110-137-0890, Local Assistance, Rural and Low-Income School Program (Issue 284)—**It is requested that this item be decreased by $90,000 federal Title VI funds to reflect a $123,000 reduction to the available federal grant award and the availability of $33,000 in one-time carryover funds. The Rural and Low-Income School program provides financial assistance to rural districts to help them meet federal accountability requirements and to conduct activities of the federal Elementary and Secondary Education Act program. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $33,000 is provided in one-time federal Title VI carryover funds to support the existing program.
11	**Item 6110-156-0890, Local Assistance, Adult Education Program (Issue 362)—**It is requested that this item be increased by $7,677,000 federal Title II funds to reflect the availability of $10.5 million in one-time carryover funds and a $2,823,000 reduction to the available federal grant award. The Adult Education Program supports the Adult Basic Education, English as a Second Language, and Adult Secondary Education programs. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $10,500,000 is provided in one-time carryover funds to support the existing program.
12	**Item 6110-161-0890, Local Assistance, Special Education (Issues 124, 125, and 126)—**It is requested that Schedule (1) of this item be decreased by $5,907,000 to reflect a $10,795,000 reduction to the available Individuals with Disabilities Education Act (IDEA) grant awards and the availability of $4,888,000 in one-time IDEA federal carryover funds. It is also requested that Schedule (3) of this item be decreased by $1,563,000 to reflect a $1,763,000 reduction to available IDEA preschool grant awards and the availability of $200,000 in one-time federal IDEA carryover funds. ~~*The Administration proposes to allocate the carryover funds as local assistance grants to mitigate the impact of the federal sequester reduction in 2013-14.*~~ It is also requested that Provision 6 of this item be amended to reference Schedule (2), instead of Schedule (4). This is a technical correction to reflect a change in the scheduling of the item. It is further requested that provisional language be amended and added as follows to conform to these actions: "6. Of the funds appropriated in Schedule ~~*(4)*~~(2), $69,000,000 shall be available only for the purpose of providing educationally related mental health services, including out-of-home

	residential services for emotionally disturbed pupils, required by an individualized education program pursuant to the federal Individuals with Disabilities Education Act (20 U.S.C. Sec. 1400 et seq.) and as described in Section 56363 of the Education Code. The Superintendent of Public Instruction shall allocate these funds to special education local plan areas in the 2014–15 fiscal year based upon an equal rate per pupil using the methodology specified in Section 56836.07 of the Education Code." X. Of the funds appropriated in Schedule (1), $4,888,000 in one-time federal Individuals with Disabilities Education Act (20 U.S.C. Sec. 1400 et seq.) carryover funds shall be available to support the existing program ~~*and to mitigate the impact of the 2013-14 federal sequester reduction to grants for local educational agencies*~~. X. Of the funds appropriated in Schedule (3), $200,000 in one-time federal Individuals with Disabilities Education Act (20 U.S.C. Sec. 1400 et seq.) carryover funds shall be available to support the existing program ~~*and to mitigate the impact of the 2013-14 federal sequester reduction to the Preschool Grant Program*~~. **Staff comment**: Staff recommends adoption of the Governor's proposal but with the technical corrections that are shown above in strike-through italics text. There is no known opposition to these technical corrections.
13	**Item 6110-166-0890, Local Assistance, Vocational Education Program (Issue 363)—**It is requested that this item be increased by $5,736,000 federal Title I funds to reflect the availability of $6,298,000 in one-time carryover funds and a $562,000 reduction to the available federal grant award. The Vocational Education Program develops the academic, vocational, and technical skill of students in high school, community colleges, and regional occupational centers and programs. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $6,298,000 is provided in one-time carryover funds to support the existing program.
14	**Item 6110-183-0890, Local Assistance, Safe and Drug Free Schools Program (Issue 607)—**It is requested that this item be decreased by $8,434,000 Federal Trust Fund to reflect a $9,088,000 reduction to the available federal grant award and the availability of $654,000 in one-time carryover funds. The Safe and Supportive Schools program supports statewide measurement of school climate and helps participating high schools improve conditions such as school safety, bullying, and substance abuse. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $654,000 is provided in one-time carryover funds to support the existing program.
15	**Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issue 364)—**It is requested that this item be increased by $507,000 federal Title II funds to align to the available federal grant award. The Mathematics and Science Partnership Program provides competitive grants to partnerships of low-performing schools and institutions of higher education to provide staff development and curriculum support to

	mathematics and science teachers. **Staff comment**: CDE reports that there are additional carryover funds to budget for this item as part of the May Revision. For that reason, staff recommends the subcommittee hold this item open.
16	**Item 6110-195-0890, Local Assistance, Improving Teacher Quality (Issues 365, 366, and 367)—**It is requested that Schedule (1) of this item be decreased by $14,613,000 federal Title II funds to align with the available grant award. The Improving Teacher Quality Local Grant Program provides funds to LEAs on a formula basis for professional development activities focused on preparing, training, and recruiting highly-qualified teachers. It is also requested that Schedule (2) of this item be increased by $509,000 federal Title II funds to reflect a $403,000 increase to the available federal grant award and the availability of $106,000 in one-time carryover funds. The Improving Teacher Quality-State Level Activities provides funds for the University of California Subject Matter Projects to provide statewide teacher professional development. It is also requested that Schedule (3) of this item be decreased by $71,000 federal Title II to reflect a $342,000 reduction to the available federal grant award and the availability of $271,000 in one-time carryover. The Improving Teacher Quality Higher Education Grants provides funds for teacher professional development in core academic subjects at institutions of higher education. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (2), $106,000 is provided in one-time carryover for transfer to the University of California and shall be used for the Subject Matter Projects. None of these funds shall be used for additional indirect administrative costs. X. Of the funds appropriated in Schedule (3), $271,000 is provided in one-time carryover for the Improving Teacher Quality Higher Education Grants. None of these funds shall be used for additional indirect administrative costs. **Staff comment**: CDE has indicated that there is a need for CDE to reassess the amount of carryover funds available in 2014-15 for Improving Teacher Quality-State Level Activities. For that reason, staff recommends that the subcommittee hold this item open.
17	**Item 6110-197-0890, Local Assistance, 21st Century Community Learning Centers Program (Issue 847)**—It is requested that Schedule (1) of this item be increased by $36,629,000 Federal Trust Fund to reflect the availability of $35,878,000 in one-time carryover funds and a $751,000 increase to the available federal grant award. The 21st Century Community Learning Centers Program provides communities funding to establish or expand before and after school programs that provide disadvantaged K-12 students with academic enrichment opportunities and supportive services. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $35,878,000 is provided in one-time carryover funds to support the existing program.

18	**Item 6110-201-0890, Local Assistance, National School Lunch Program Equipment Grants (Issue 603)—**It is requested that this item be increased by $3,051,000 Federal Trust Fund to reflect one-time funding for National School Lunch Program equipment assistance grants. Qualifying LEAs receiving funding can purchase equipment needed to serve healthier meals, meet nutritional standards, and improve food safety. It is further requested that provisional language be added as follows to conform to this action: X. Of the amount appropriated in Schedule (1), $3,051,000 is provided on a one-time basis for National School Lunch Program equipment assistance grants.
19	**Item 6110-240-0890, Local Assistance, Advanced Placement (AP) Fee Waiver Program (Issue 285)—**It is requested that this item be increased by $833,000 to reflect the availability of $612,000 in one-time carryover funds and a $221,000 increase to the available federal grant award. The AP Fee Waiver program reimburses school districts for specified costs of AP, International Baccalaureate, and Cambridge test fees paid on behalf of eligible students. These programs allow students to pursue college-level course work while still in secondary school. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $612,000 is provided in one-time carryover funds to support the existing program.
	General Fund and Other Adjustments
20	**Item 6110-001-0001, Support, Align Funding for Charter School Appeal Reviews Position (Issue 001)—**It is requested that Schedule (2) of this item be increased by $15,000 General Fund to align funding for a charter school appeal reviews position with estimated position costs.
21	**Item 6110-001-0001, Support, Shift State Operations Funding Between Schedules (Issue 278)**—It is requested that Schedule (2) of Item 6110-001-0001 be decreased by $825,000 and that Schedule (3) of Item 6110-001-0001 be increased by $825,000 to accurately reflect program funding. This technical adjustment would correct an error that resulted from removing current year one-time funding from the incorrect schedule/program when preparing the Governor's Budget. This adjustment would have no effect on the total amount budgeted in the item.
22	**Item 6110-113-0001, Local Assistance, Student Assessment Program (Issues 551 and 553)—**It is requested that provisional language be amended as follows to remove unnecessary provisional language that is repeated in statute and to make conforming changes by referencing the Standardized Testing and Reporting Program when the California Assessment of Student Performance and Progress is referenced, which allows approved apportionment costs to be paid in prior fiscal years. "~~6. It is the intent of the Legislature that the State Department of Education (SDE) develop a~~

~~plan to streamline existing programs to eliminate duplicative tests and minimize the instructional time lost to test administration. The SDE shall ensure that all statewide tests meet industry standards for validity and reliability.~~"

"10. The funds appropriated in Schedule (8) shall be used to pay approved apportionment costs from the 2013–14 and prior fiscal years for the California English Language Development Test, the California High School Exit Examination, <u>the Standardized Testing and Reporting (STAR) Program,</u> and the California student assessment system established pursuant to Chapter 489 of the Statutes of 2013."

It is further requested that provisional language be amended as follows to clarify contingency language that makes funding available for the California Assessment of Student Performance and Progress upon Finance review of supporting contract material.

"2. The funds appropriated in Schedules (5), (6), and (7) are provided for contract costs for the implementation of the California student assessment system established pursuant to Chapter 489 of the Statutes of 2013, as approved by the State Board of Education, and are contingent upon Department of Finance review of ~~supporting contract material submitted by the State Department of Education~~ <u>the related contract, during contract negotiations, prior to its execution</u>."

It is further requested that provisional language be amended as follows to clarify contingency language that makes funding available for the English Language Proficiency Assessments for California upon Finance review of supporting contract material and to better reflect the intended use of funds allocated in this schedule.

"3. The funds appropriated in Schedule (3) shall be available for approved contract costs for ~~administration of the California English Language Development Test (CELDT) meeting the requirements of Chapter 7 (commencing with Section 60810) of Part 33 of Division 4 of Title 2 of the Education Code. These funds shall also be available for~~ the development of and transition to the English Language Proficiency Assessments for California which include initial identification and annual assessments aligned to the state English language development standards in accordance with Chapter 478 of the Statutes of 2013, and are contingent upon the ~~Department of Finance review of supporting contract material submitted by the State Department of Education.~~<u>submittal of the related contract by the State Department of Education to the Department of Finance. Ongoing funding for the English Language Proficiency Assessments for California shall be contingent upon an appropriation in the annual Budget Act.</u> Incentive funding of $5 per pupil is provided in Schedule (8) for district apportionments for the CELDT. As a condition of receiving these funds, school districts must agree to provide information determined to be necessary to comply with the data collection and reporting requirements of the federal No Child Left Behind Act of 2001 (P.L. 107-110) regarding English language learners by the State Department of Education."

<u>**Staff comment**</u>: Staff recommends holding this issue open since the subcommittee heard the Governor's proposal for funding of the student assessment program on March 20, 2014 and chose to hold that item open, pending the May Revision.

23	**Item 6110-170-0001, Local Assistance, Career Technical Education (CTE) Program (Issue 360)**—It is requested that this item be amended by increasing reimbursements by $800,000 to reflect one-time reimbursement carryover funds for the CTE Program. Specifically, $400,000 would allow for the completion of three projects that could not be completed in the current year due to contract delays, $200,000 would fund a contract for an evaluation of the pilot Linked Learning Program, and $200,000 would be allocated to existing participants of the pilot Linked Learning Program. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $800,000 reflects one-time reimbursement carryover funds. Specifically, $400,000 is to complete unfinished projects of the Leadership Development Institutes, the New Teacher Workshops, and the Career Technical Student Organizations, $200,000 is to contract for an evaluation of the pilot Linked Learning Program, and $200,000 is for grants to the existing participants of the pilot Linked Learning Program. **<u>Staff comment</u>**: These are unspent 2013-14 funds from projects related to the Governor's Career Technical Education Pathways Program authorized by SB 1070 (Steinberg), Chapter 433, Statutes of 2012. CDE is concerned about the amount proposed for the Linked Learning Pilot Program (LLPP) evaluation in 2014-15, which is required by Assembly Bill 790 (Furutani), Chapter 616, Statutes of 2011. CDE had requested to allocate $400,000 of these carryover funds to the LLPP evaluation. DOF approved $200,000 for the LLPP evaluation based on DOF's assessment of the scale of this evaluation compared to the planned evaluation of the Career Pathways Trust (CPT) Program. The 2013-14 budget provided $250,000 for the CPT Program evaluation. DOF indicates that the two evaluations will explore similar research questions, however, because the Linked Learning Program includes fewer program participants, DOF believes its evaluation should cost somewhat less than the CPT evaluation. CDE indicates that total funding of $600,000 (not $250,000) has been allocated for the CPT evaluation, which includes $350,000 for evaluation data collection activities. Staff recommends the subcommittee hold this issue open to assess the level of funding needed for the Linked Learning Program evaluation.
24	**Item 6110-194-0001, Local Assistance, Federal Child Care and Development Fund Provisions (Issue 846)**—It is requested that Provision 1 be amended as follows to require the SDE to seek approval from the Director of Finance and to provide legislative notification prior to incurring expenditures in specified child care programs every other year, consistent with the federal application due date. Currently, the SDE is eligible to apply for a federal grant under the Child Care and Development Program, which includes developing a state expenditure plan, every other year while provisional language requires the SDE to seek Director of Finance approval and provide advanced written notification to the Legislature every year. "1. Funds in Schedules (1.5)(g), Resource and Referral, (1.5)(k), California Child Care Initiative, (1.5)(l), Quality Improvement, and (1.5)(n), Local Planning Councils, shall be allocated to meet federal requirements to improve the quality of child care and shall be used in accordance with the approved California state plan for the federal Child Care and Development Fund. <u>In years when the state plan is submitted to the U.S. Department of Education for approval, the State Department of Education may expend these funds for these purposes</u> ~~U~~upon approval of the state plan by the Director of Finance and no sooner than 30 days after notification in writing to the committees of each house of the Legislature that

	consider the State Budget~~, the State Department of Education may expend these funds for these purposes~~. No notification is required in years when expenditures are made according to a previously approved state plan." **Staff comment:** As a condition of receiving the federal Child Care and Development Fund (CCDF) grant, the state must allocate four percent of the grant to quality improvement activities for child care. The federal government requires states to develop two-year plans for the expenditure of these funds. According to DOF, the proposed change to this provision (first added to the 2013-14 budget) would clarify that, prior to spending federal child care quality funds, CDE is required to obtain DOF approval of the two-year expenditure plan only in the year in which the plan is submitted to the federal government (not also in the subsequent year), as long as the expenditures in the second year are consistent with the previously-approved plan. CDE had requested to remove the entire provision from the 2014-15 Governor's budget. CDE believes the provision is unnecessary since statute (Education Code Section 8206.1) already mandates a process for CDE to develop the plan, including consultation with DOF and other state entities, a stakeholders/public process, and submittal of the plan to the Legislature during the annual budget process prior to the plan's submittal to the federal government (due by July 1 every other year). Further, CDE believes this provision requires it to obtain DOF approval of the plan after the federal government approves the plan, which would delay the expenditure of funds. LAO recommends the Legislature eliminate the provision. LAO believes DOF and the Legislature already have sufficient authority to influence the use of the child care quality dollars through the annual budget act, and the provision could create additional barriers to expending these federal funds in a timely fashion. Staff finds the provision was added to the annual budget act, building upon the requirements that were present in Education Code Section 8206.1, to ensure that the Administration and the Legislature would have an opportunity for input to the expenditure plan, particularly if CDE sought changes to the plan that did not coincide with the annual budget process. Staff also believes CDE and LAO raise legitimate concerns about the provision having the potential to cause delays in the spending of these federal funds. In order to seek a compromise approach (possibly budget provisional language or a revision of the relevant education code), staff recommends the subcommittee keep this item open.

Staff Recommendation: Staff recommends the subcommittee:

1. Approve as budgeted the April Letter items listed above except for Items 4, 15, 16, 22, 23, and 24. Item 12 is to be approved with the technical correction noted.

2. Hold open the April Letter items listed above as Items 4, 15, 16, 22, 23, and 24.

VOTE:

Items Proposed for Discussion/Vote

6110 DEPARTMENT OF EDUCATION

Issue 1: Fiscal Status of School Districts – Fiscal Crisis and Management Assistance Team

Program: The Fiscal Crisis and Management Assistance Team (FCMAT) provides a statewide resource to help monitoring agencies in providing fiscal and management guidance. The purpose of the FCMAT is to help local education agencies (LEAs)—school districts and county offices of education (COEs)—fulfill their financial and management responsibilities. Joel Montero, Executive Director of 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 and the status of state emergency loans.

Budget Overview: The Governor's 2014-15 budget provides the same operational support for FCMAT as provided in the current year. Specifically, the budget proposes to provide $4.8 million Proposition 98 General Fund for FCMAT functions and oversight activities related to K-12 schools. The Governor's budget also includes $570,000 Proposition 98 General Fund for FCMAT to provide support to community colleges.

Beginning in 2013-14, the funding for county fiscal oversight was consolidated into the Local Control Funding Formula (LCFF) for COEs. County offices are still required to review, examine and audit district budgets as well as annually notify districts of qualified or negative budget certifications, however, the state no longer provides a dedicated funding source for this purpose. Under the Governor's proposal, COEs will reach their target funding level in 2014-15.

Background: Legislation adopted through AB 1200 (Eastin), Chapter 1213, Statutes of 1991; created an early warning system to help local education agencies (LEAs) avoid fiscal crisis, such as bankruptcy or the need for an emergency loan from the state. The measure expanded the role of COEs in monitoring school districts and required that they intervene, under certain circumstances, to ensure districts can meet their financial obligations. The bill was largely in response to the bankruptcy of the Richmond School District, and the fiscal troubles of a few other districts that were seeking emergency loans from the state. The formal review and oversight process requires the county superintendent approve the budget and monitor the financial status of each school district in its jurisdiction. COEs perform a similar function for charter schools, and the California Department of Education (CDE) oversees the finances of COEs.

AB 1200 also created the Fiscal Crisis and Management Assistance Team (FCMAT), recognizing the need for a statewide resource to help monitoring agencies in providing fiscal and management guidance. The purpose of the FCMAT is to help LEAs fulfill their financial and management responsibilities by providing fiscal advice, management assistance, training, and other related services. The bill specified that one county office of education would be selected to administer the assistance team. Through a competitive process, the office of the Kern County Superintendent of Schools was selected to administer FCMAT in

June 1992. There are several defined "fiscal crises" that can prompt a COE to intervene in a district: a disapproved budget, a qualified or negative interim report, or recent actions by a district that could lead to not meeting its financial obligations.

Interim Financial Status Reports
Current law requires LEAs to file two interim reports annually on their financial status with the CDE. First interim reports are due to the state by January 15 of each fiscal year; Second interim reports are due by April 15 each year. Additional time is needed by the Department to certify these reports.

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

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

First Interim Report. The first interim report was published by CDE in February 2014 and identified eight school districts with negative certifications, as listed below. These schools will not be able to meet their financial obligations for 2013-14 or 2014-15. The first interim report reflects data generated by LEAs in Fall 2013, prior to release of the Governor's January 2014-15 budget. The first interim report also identified 41 LEAs with Qualified Certifications. These LEAs with qualified certifications may not be able to meet their financial obligations for 2013-14, 2014-15 or 2015-16.

Second Interim Report. The second interim report indicates improvement, with six LEAs with Negative Certification and only 22 LEAs with Qualified Certification. The Second Interim (projected) results are show in the tables below:

Negative Certification
Second Interim Budget Certifications—Projected*

County	District
Glenn	Orland Joint Unified
Los Angeles	Acton-Agua Dulce Unified
Los Angeles	Inglewood Unified
San Diego	San Ysidro Unified
Sonoma	Windsor Unified
Stanislaus	Denair Unified

Source: Fiscal Crisis and Management Assistance Team

Qualified Certification
Second Interim Budget Certifications*

County	District
Alameda	Oakland Unified
Calaveras	Calaveras Unified
Fresno	Westside Elementary
Imperial	Calexico Unified
Kern	El Tejon Unified
Kern	Vineland Elementary
Kern	Lost Hills Elementary
Los Angeles	Los Angeles Unified
Los Angeles	Wilsona Elementary
Madera	Chawanakee Unified
Mendocino	Anderson Valley Unified
Mendocino	Willits Unified
Placer	Placer Hills Union Elementary
Sacramento	Sacramento City Unified
San Bernardino	Rim of the World Unified
San Diego	Ramona City Unified
San Diego	San Diego Unified
San Luis Obispo	Paso Robles Joint Unified
San Luis Obispo	Shandon Joint Unified
Shasta	Junction Elementary
Sonoma	Forestville Union Elementary
Tulare	Hot Springs Elementary

Source: Fiscal Crisis and Management Assistance Team

An examination of the second interim certifications indicates that those with a negative certification peaked in 2008-09 and the current level (six) is the fewest number of LEAs in this category since 2006-07. Similarly, the number of LEAs with a Qualified Certification peaked in 2011-12 at 176, and has declined rapidly. A graphic depiction of certification patterns is presented in the graphic on page 19 prepared by FCMAT.

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. Existing law states the 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.

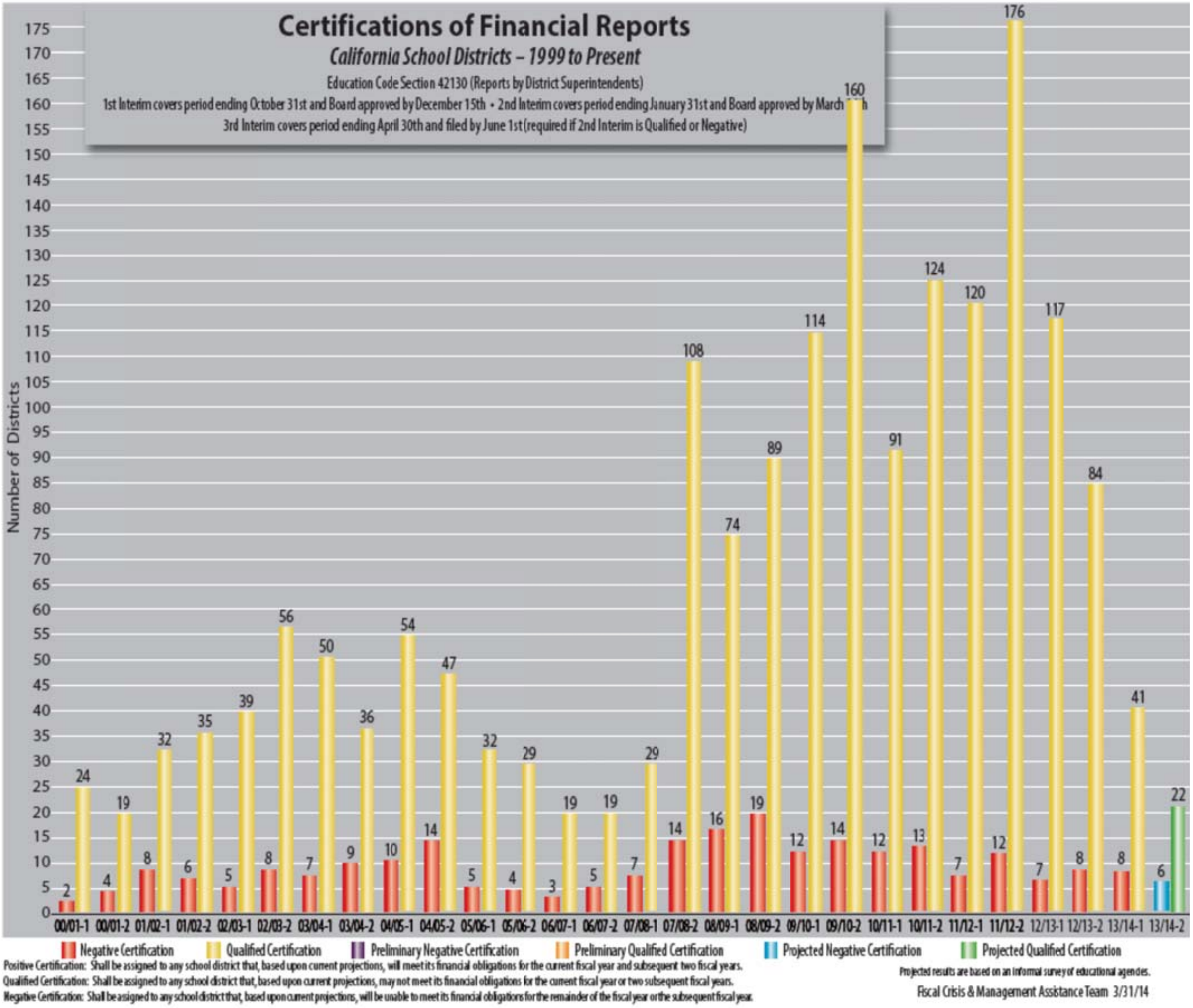
For loans equal to or less than 200 percent of the district's recommended reserve, the following conditions apply:

- 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. Nine school districts have sought emergency loans from the state since 1991. The table below summarizes the amounts of these emergency loans, interest rates on loans, and the status of repayments. Four of these districts: Coachella Valley Unified, Compton Unified, Emery Unified, and West Fresno Elementary, have paid off their loans. Five districts have continuing state emergency loans: Oakland Unified, Richmond/West Contra Costa Unified, South Monterey County Joint Union High (formerly King City Joint Union High), Vallejo City Unified, and Inglewood Unified School District. The loan to Inglewood Unified School District was authorized last year in the amount of $55 million from the General Fund and the California Infrastructure and Economic Development Bank (I-Bank). Of the five districts with continuing emergency loans from the state, Inglewood Unified School District remains on the negative list in the second interim report in 2013-14.


Certifications of Financial Reports
California School Districts – 1999 to Present
Education Code Section 42130 (Reports by District Superintendents)
1st Interim covers period ending October 31st and Board approved by December 15th • 2nd Interim covers period ending January 31st and Board approved by March
3rd Interim covers period ending April 30th and filed by June 1st (required if 2nd Interim is Qualified or Negative)
Number of Districts
00/01-1 00/01-2 01/02-1 01/02-2 02/03-1 02/03-2 03/04-1 03/04-2 04/05-1 04/05-2 05/06-1 05/06-2 06/07-1 06/07-2 07/08-1 07/08-2 08/09-1 08/09-2 09/10-1 09/10-2 10/11-1 10/11-2 11/12-1 11/12-2 12/13-1 12/13-2 13/14-1 13/14-2
Negative Certification
Qualified Certification
Preliminary Negative Certification
Preliminary Qualified Certification
Projected Negative Certification
Projected Qualified Certification
Positive Certification: Shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years.
Qualified Certification: Shall be assigned to any school district that, based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.
Negative Certification: Shall be assigned to any school district that, based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.
Projected results are based on an informal survey of educational agencies.
Fiscal Crisis & Management Assistance Team 3/31/14

Emergency Loans to School Districts
1990 through 2014

District	State Role	Date of Loan	Loan Amount	Interest Rate	Amount Paid	Final Date and Fund
Inglewood Unified	Administrator	11/15/12 11/30/12 02/13/13	$7,000,000 $12,000,000 $10,000,000 $29,000,000 ($55 million authorized)	2.307% Variable (PMIA plus 2%)	$0	11/01/33 GF
South Monterey County Joint Union High (formerly King City Joint Union High)	Administrator	07/22/09 03/11/10 04/14/10	$2,000,000 $3,000,000 $8,000,000 $13,000,000	2.307% Variable (PMIA plus 2%)	$3,762,275	October 2028 I-bank
Vallejo City Unified	Administrator, Trustee	06/23/04 08/13/07	$50,000,000 $10,000,000 $60,000,000	1.5%	$29,429,736	January 2024 I-bank 08/13/24 GF
Oakland Unified	Administrator, Trustee	06/04/03 06/28/06	$65,000,000 $35,000,000 $100,000,000	1.778%	$53,569,661	January 2023 I-bank 6/29/26 GF
West Fresno Elementary	Administrator, Trustee	12/29/03	$1,300,000 ($2,000,000 authorized)	1.93%	$1,425,773	12/31/10 GF
Emery Unified	Administrator, Trustee	09/21/01	$1,300,000 ($2,300,000 authorized)	4.19%	$1,742,501	06/20/11 GF
Compton Unified	Administrator, Trustee	07/19/93 10/14/93 06/29/94	$3,500,000 $7,000,000 $9,451,259 $19,951,259	4.40% 4.313% 4.387%	$24,358,061	06/30/01 GF
Coachella Valley Unified	Administrator, Trustee	06/16/92 01/26/93	$5,130,708 $2,169,292 $7,300,000	5.338% 4.493%	$9,271,830	12/20/01 GF
West Contra Costa Unified (formerly Richmond Unified)	Administrator, Trustee	08/1/90 01/1/91 07/1/91	$2,000,000 $7,525,000 19,000,000 $28,525,000	1.532%	$47,688,620	05/30/12 I-bank

Source: California Department of Education

Staff Comments: SB 533 (Wright), Chapter 325, Statutes of 2012, appropriated $29.0 million for an emergency loan to the Inglewood Unified School District and authorized an additional $26.0 million of lease financing through the I-Bank. The measure also required the Superintendent of Public Instruction to assume all the rights, duties, and powers of the governing board of the district and, in consultation with the Los Angeles County Superintendent of Schools, appoint an administrator to serve in the district, as specified. Despite the fiscal challenges and uncertainty faced by school districts following the recent economic downturn, no school district other than Inglewood Unified had required an emergency loan. Statute added by AB 1200 states intent that the legislative budget subcommittees annually conduct a review of each qualifying school district, as follows:

"It is the intent of the Legislature that the legislative budget subcommittees, annually conduct a review of each qualifying school district that includes an evaluation of the financial condition of the district, the impact of the recovery plans upon the district's educational program, and the efforts made by the state-appointed administrator to obtain input from the community and the governing board of the district."

Suggested Questions:

1. *What is the primary focus of FCMAT as it works with districts in the current fiscal climate? What are the measures or factors used by FCMAT to assess fiscal solvency?*

2. *Are there any districts that are of particular concern? Any that may need emergency funding from the state and, if so, what is the potential impact on the state General Fund?*

3. *Can you describe the most common problems faced by school districts on the negative list? What is the general fiscal trend for districts?*

4. *How do you see the Local Control Funding Formula (LCFF) affecting the fiscal condition of schools? Has categorical flexibility helped LEAs balance their budgets in the past?*

5. *With the transition to LCFF, what has changed about the role of county offices of education (COEs) with respect to oversight and technical assistance regarding school district budgets? During this first year of LCFF implementation, what is (and is not) working well as COEs adjust to this new role?*

6. *What trends are you seeing in enrollment? How is declining enrollment affecting districts budgeting?*

7. *Are you aware of any other LEAs that may be facing financial insolvency and requiring a state emergency loan?*

Staff Recommendation: Information item.

6110 DEPARTMENT OF EDUCATION

Issue 2: Governor's Budget Requests for State Operations

Issue: The Governor's budget for 2014-15 proposes a number of adjustments for the Department of Education (CDE) state operations (staffing and operating expenses) that are described beginning on page 23. They primarily involve staffing increases to implement statutes enacted in 2013. Among these adjustments are new resources for CDE's fiscal oversight of the Local Control Funding Formula and work related to local control and accountability plans (LCAP). Staff believes it is important for the subcommittee to explore the issue of state-level LCFF/LCAP oversight with the panelists, as noted further in staff comments.

Three other proposals that relate to the operations of CDE and the SBE are presented in Issues 3, 4, and 5.

Background: The Governor's budget proposes total funding of $343 million and 2,556.3 positions for CDE staffing and operating expenses in 2014-15, as shown in the table on the next page. Most CDE staff are employed at the department's headquarters in Sacramento to administer state education programs and provide support to local educational agencies (LEAs). The majority of remaining staff are employed at the State Special Schools (including State Diagnostic Centers) that provide direct instruction and support services to attending students with exceptional needs, such persons with hearing or sight impairments.

<u>Recent Budget Reductions for State Operations.</u> CDE has experienced various reductions to state operations in recent years. Most of these are ongoing reductions. CDE also experienced employee furloughs that ceased in 2013-14. In total, CDE's budget has been reduced by more than $20 million in ongoing cuts and more than $9 million in one-time reductions since 2009-10. Major reductions are described below.

- *Reductions Beginning in 2009-10***.** An Executive Order was issued by Governor Schwarzenegger to all state agencies effective in 2009-10, implementing a reduction equivalent to a three-day-per-month furlough. Agencies headed by Constitutional Officers, such as CDE, were exempt from the Executive Order, but they received an equivalent reduction to their state operations funding, beginning in 2009-10, through the Governor's veto of funding in the budget. This veto resulted in a permanent reduction of $17.4 million (across all fund sources), which CDE mitigated through workload reductions. While other departments were restored funding when the staff furlough was lifted, CDE was not. Over the two-year period, CDE experienced a reduction of 62 positions and $20 million (all funds) in funding.

- *Reductions Beginning in 2010-11***.** SB 4 X3 (Ducheny), Chapter 12; Third Extraordinary Session, Statutes of 2009, granted LEAs the authority to use funding received for approximately 40 categorical programs for any educational purpose for a five-year period beginning in 2008-09 and ending in 2012-13. (Subsequent legislation extended this flexibility.) This "categorical flexibility" freed LEAs from certain programmatic and fiscal restrictions and thus, to some degree, CDE's role in monitoring and providing technical assistance for programs falling under categorical flexibility was eliminated. In 2010-11, as a result of categorical flexibility, state operations funding for CDE was reduced by $2.6 million (General Fund) and 22 positions.

California Department of Education, State Operations Positions and Funding ($ in thousands)			
	Actual	**Budgeted**	**Proposed**
	2012–13	**2013–14**	**2014–15**
Authorized Positions			
Headquarters	1,356.2	1,554.9	1,564.1
State Special Schools	881.8	992.2	992.2
Total	2,238.0	2,547.1	2,556.3
Funding			
CDE Headquarters			
General Fund	39,679	47,359	47,328
Federal Fund	131,709	170,672	158,066
Other (Restricted)	19,221	32,267	32,313
Total	**190,609**	**250,298**	**237,707**
Percent General Fund	20.8%	18.9%	19.9%
Percent Federal	69.1%	68.2%	66.5%
CDE State Special Schools			
Proposition 98 GF	47,098	50,500	50,557
Non-Proposition 98 GF	39,949	43,814	44,189
Federal Fund	0	0	0
Other	10,752	12,326	10,522
Total	**97,799**	**106,640**	**105,268**
CDE Headquarters & State Special Schools			
General Fund	126,726	141,673	142,074
Federal Fund	131,709	170,672	158,066
Other	29,973	44,593	42,835
Total	**288,408**	**356,938**	**342,975**

Source: Department of Finance

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

- *Staff Furloughs in 2012-13 and Selected Prior Years***.** CDE received a reduction of $9.18 million (all funds) as a result of one-day-per-month Personal Leave Program (PLP) for all employees (including $3.39 million for the State Special Schools) in 2012-13. CDE received a similar PLP reduction that began in November 2010, extended through October 2011, and was equivalent to an $11.023 million reduction (all funds).

Indirect and Facilities Costs. CDE indicates that its General Fund budget is underfunded for indirect (central administrative) costs and facilities costs. DOF asserts that it generally budgets for these costs as part of the funding complement for operating expenses and equipment that is provided with the establishment of new positions. CDE charges indirect and facilities costs to the appropriate funding sources, based upon the split of CDE's overall budget across those funding sources. A large share of CDE's positions and workload is related to oversight for federal programs and requirements, and therefore, federal funding pays for its proportional share of the indirect and facilities costs. However, in recent years, there has been an increase in CDE's General Fund budget, which requires the General Fund to pay a larger share of the indirect and facilities costs. According to CDE, it has redirected General Fund from other state-mandated workload to pay indirect and facilities costs.

CDE asserts the prior year reductions and the increased pressure on the General Fund to pay indirect and facilities costs prevents it from taking on any additional General Fund-mandated workload unless it is budgeted for those new activities.

CDE State Operations Priorities. CDE submitted to DOF various state operations requests that were not included in the Governor's budget or Finance April Letter, or were only partially approved by the Governor. Some of CDE's highest priorities for additional funding are described in the staff comments below. During the hearing, CDE will inform the subcommittee about CDE's highest priorities for state operations.

State Operations Requests Covered in Previous Hearings. During its March 20, 2014 hearing, the subcommittee heard about the Governor's budget request for $482,000 General Fund (Non-98) to fund 4.0 positions related to implementation of the state's new student assessment system (see Issue 2 of March 20, 2014, hearing agenda).

Proposed CDE State Operations Adjustments—General Fund (Non-Proposition 98):

Item 1: Modification of the English Language Development Standards. The Governor's budget requests $321,000 to align the 2012 English Language Development (ELD) Standards with the state's academic content standards for mathematics and science, pursuant to the requirements of AB 899 (Weber), Chapter 709, Statutes of 2013. This funding would cover the costs of a contract for the analysis and technical writing of the standards, travel and meeting costs to convene a group of experts to assist in this effort, and costs of required public meetings.

Staff Comment: DOF denied CDE's request for additional funding of $172,000 to support 1.7 temporary help positions (one full-time position and a small portion of staff time across three other positions) to manage this project. CDE indicates that staff are needed to develop and oversee the contract and to convene and facilitate the experts and public meetings. Existing staff that would be temporarily assigned to this work are currently supported by federal funds that cannot be used for this state-mandated activity. DOF believes that CDE can fund the positions through its existing temporary help budget. Staff suggests the subcommittee ask CDE if that is possible. Staff recommends the subcommittee approve the Governor's proposal for this item. In addition, staff would support funding CDE for temporary help for this project if CDE provides evidence it cannot fund such positions within existing resources.

<u>Item 2. Local Control Funding Formula (LCFF) Implementation Positions Authorized in the 2013-14 Budget.</u> The Governor's budget includes the full-year cost for several new positions that DOF approved as part-year positions in 2013-14 for LCFF implementation under the authority granted by SB 97 (Budget and Fiscal Review Committee), Chapter 357, Statutes of 2013, the School Finance Budget Trailer Bill. Part-year positions were provided due to the timing of the establishment of the positions. For 2014-15, the Governor's budget includes $852,000 to fund 6.0 positions to work on the fiscal oversight of LCFF funds, including the apportionment of funding to LEAs, and $1.14 million to fund 8.0 positions to assist the State Board of Education with LCFF regulations and accountability workload related to the new local control and accountability plan (LCAP). In a letter dated January 17, 2014, DOF notified the Joint Legislative Budget Committee of DOF's intent to approve the partial funding and positions in 2013-14.

Staff Comment: DOF denied CDE's request for an additional $247,000 that would enable CDE to fill these positions with highly experienced staff at higher salary levels. DOF denied the request because its standard budgeting process is to fund new positions at the mid-step in the salary range. Staff believes that CDE's decision to fill the positions with highly experienced staff makes sense since LCFF is a significant financing and accountability reform that poses implementation challenges and its successful implementation is a high priority for the state.

The LAO recommends against budgeting for these positions higher than mid-step level since the LAO believes that could establish a bad precedent for future budgeting. Alternatively, the LAO suggests that the Legislature could direct CDE to submit a request for funding the indirect costs associated with the positions, in light of CDE's broader concern about the cost pressure on its General Fund budget to pay for indirect costs. Also, CDE would need to demonstrate that it could not redirect funding within its base budget for this purpose. Staff suggests the subcommittee explore these issues with the panelists and keep this item open.

<u>LCFF/LCAP Oversight</u>: Staff recommends the subcommittee question the panelists about the state's overall plan for LCFF/LCAP oversight. Considering these CDE positions and other resources that already have been allocated for oversight of LCFF/LCAP, will the state have an effective oversight structure in place? Specifically, what oversight structure has been articulated and developed? What are the different roles of SBE, CDE, the California Collaborative for Educational Excellence, and the county offices of education (COEs)? What type of activities will, or will not, occur under the structure devised thus far? What else might the state need to do to ensure proper oversight of LCFF? Staff recommends that the Legislature continue to explore this issue with the Administration, SBE, and CDE in future budget and policy hearings.

Item 3. Additional LCFF Implementation and Foster Youth Reporting Workload. The Governor's budget requests $240,000 and 2.0 two-year limited-term consultant positions to address the workload created by certain requirements in AB 97 (Committee on Budget), Chapter 47, Statutes of 2013, the 2013 Education Budget Trailer Bill, for implementation of LCFF and reporting of foster youth data. Specifically, $108,000 and 1.0 position are requested to support the extraction and validation of pupil data from the CALPADS data system that is necessary for the calculation of LCFF funding apportionments to LEAs. In addition, $107,000 and 1.0 position are requested to support the following: an ongoing match of CALPADs data to the statewide foster care system of the California Department of Social Services (DSS), the data extraction necessary for the addition of foster youth as a subgroup to the Academic Performance Index, and the bi-annual report on the academic achievement of foster youth pupils. The request also includes $25,000 to fund an interagency agreement with DSS, subject to DOF approval of the agreement, to support the match between CALPADS and DSS' foster youth data.

Staff Comment: LAO believes CDE should be able to streamline some of the above processes, and thus, be able to conduct the workload with the addition of one position. Because LAO believes this is ongoing workload, LAO recommends approval of a permanent position. CDE supports the addition of one permanent position and one two-year limited-term position for this workload, with the expectation that the staffing needs could be reassessed in two years to determine if workload efficiencies had been achieved by that time. Staff concurs with CDE's assessment of the initial workload need and the ability to revisit the ongoing staffing need in the near future. Thus, staff recommends the subcommittee approve one permanent position and one two-year limited-term position.

Item 4. Standardized Account Code Structure (SACS) Replacement Project. The Governor's budget includes a total of $3.6 million ($1.1 million in General Fund and $2.5 million in federal funds) in 2014-15 to fund the SACS Replacement Project. SACS is CDE's standardized system for collecting, reviewing, and disseminating financial data from all LEAs. CDE uses SACS data for internal operations and reports to state and federal entities and the public. The replacement project will develop a more flexible, integrated web-based system, which LEAs can access through the Internet, to replace the four separate components that now compose SACS and that rely on special software that is outdated.

Staff Comment: CDE plans to split the total costs of the project equally between the General Fund and federal funds. At this time, total project costs are estimated to be $7.2 million. However, CDE is currently working on a revised Special Project Report (SPR) that will have a more refined cost estimate on which to base the development of a request for proposal (RFP) to hire a contractor for the project. Under the Governor's proposal, CDE would not be able to spend project funding in the budget year until the new SPR is approved by the California Technology Agency and DOF. The 2013-14 budget had provided CDE with $3.6 million ($2.5 million in General Fund and $1.1 million in federal funds) for first-year project costs, in anticipation that the SPR and RFP would be completed in 2013-14. However, because those documents are still forthcoming, CDE will not spend those funds in the current year. It is unclear whether CDE will need to request a re-appropriation of the funds for 2014-15. This is one reason the subcommittee should hold this issue open.

SACS Codes for LCFF: Staff recommends the Subcommittee keep this item open to consider how statewide LEA LCFF/LCAP fiscal data could be collected through the SACS replacement system. In addition, staff suggests the Subcommittee question the panelists about whether SACS in its present structure, as well as the planned replacement system, is capable of such statewide LCFF/LCAP fiscal reporting. Also, it is important to know whether (and how) CDE intends to use SACS for that purpose. The state's LCFF consultant, WestEd, has identified options for how SACS codes could be used for LCFF tracking, and there may be other possibilities. Staff believes LEAs will use SACS to track their own LCFF funds, but they will use their own unique coding unless the state sets standard codes to enable interpretation of the information beyond the LEA-level.

Currently, no plan or process has been identified by CDE, or SBE, for statewide reporting of LCAP data for the purposes of public transparency of the information and to inform state-level policy decisions. While local control of education funding is one of the central tenets behind LCFF, another tenet is transparency of information about education funding and local funding decisions so that parents, students, and communities can effectively engage in the local planning process. Furthermore, state policymakers will need statewide information from LCAPs to understand LCFF implementation across the state. It seems SACS would be an efficient means of statewide LCAP fiscal data reporting. The alternative would be to collect, review, and compile individual LCAPs for each of the more than 2,000 LEAs (1,043 school districts, 58 county offices of education, and 1,018 charter schools as of 2011-12).

Additional Staff Comments—CDE Funding Request Related to Revising the Academic Performance Index (API): The Governor's budget does not include $135,000 in funding (General Fund) CDE requested for 2014-15 for costs related to adding college and career readiness measures to the API by 2015-16, pursuant to the requirements of SB 1458 (Steinberg), Chapter 577, Statutes of 2012. Specifically, CDE requested $135,000 to cover the cost of a contract with the National Student Clearinghouse (NSC) to obtain student-level postsecondary enrollment data. NSC is the sole organization with this data. The Public Schools Accountability Act (PSAA) Advisory Committee, which advises SBE about the API, is working to identify various measures that could be included in a single college and career indicator for the API. One potential measure is high school graduates' enrollment in a postsecondary institution; however, CDE does not have this data since CDE does not track students after they leave high school. CDE proposes to contract with NSC for the data to enable CDE to run data simulations to determine the reliability and validity of the measures under PSAA's consideration, consistent with PSAA's current process for studying issues prior to making a recommendation to SBE. DOF indicates it denied CDE's request since it believes the contract funding is not needed until after SBE approves a college and career indicator that uses this data. According to CDE, this is a one-time funding request until the state determines if it needs an ongoing contract for the data. Staff suggests the Subcommittee question the panelists about the need for this funding.

STAFF RECOMMENDATION: For the CDE state operations items listed above, staff recommends the subcommittee take the following actions:

1. Approve as budgeted the Governor's proposal for CDE state operations Item 1.

2. For the Governor's proposal related to LCFF implementation and foster youth reporting workload (Item 3), approve the request for $240,000 to support 2.0 new positions but approve one permanent position and one two-year limited-term position.

Staff recommends the subcommittee hold open the Governor's proposals related to LCFF fiscal and LCAP oversight (Item 2) and the SACS Replacement Project (Item 4), other than to request that the Administration and CDE continue to work with the Legislature to develop an effective structure for state-level LCFF/LCAP oversight.

VOTE:

6110 DEPARTMENT OF EDUCATION

Issue 3: State Special Schools Deferred Maintenance

Issue: The Governor's budget proposes $100 million in a new Control Section 6.10 to fund deferred maintenance projects in various state-run facilities. The proposal includes $5 million for deferred maintenance projects for the State Special Schools; the funding would be available through 2015-16. Under the control section, agencies would need to provide DOF with a specific list of deferred maintenance projects prior to DOF allocating any funds for the projects.

On March 20, with a vote of 3-0, the Senate Budget Subcommittee 4 rejected Control Section 6.10 and directed the Administration to return with a proposal that allows the Legislature to approve funding for individual departments' deferred maintenance projects through the regular budget process. It is possible that the Administration may include an updated proposal for State Special Schools deferred maintenance within CDE's budget as part of the May Revision. For this reasons, staff recommends that the subcommittee consider this issue but take no action at this time.

Background: CDE operates the State Special Schools, which includes three residential schools—the California Schools for the Deaf in Fremont and Riverside and the California School for the Blind in Fremont, and three Diagnostic Centers located in Fremont, Fresno, and Los Angeles. As shown in the table on page 23, the Governor's budget includes $105.3 million in funding for State Special Schools in 2014-15 and about 992 proposed positions. State Special Schools receive both Proposition 98 funding and non-Proposition 98 funding.

In 2011-12, State Special Schools received a $1.5 million General Fund (Non-98) ongoing "operational efficiency" reduction. CDE received a total operational efficiency reduction of $3.4 million in 2011-12 and assessed $1.5 million of this amount to the State Special Schools. In 2012-13, the General Fund budget for State Special Schools was reduced by another $1.8 million. However, that reduction was backfilled by the same amount of one-time federal special education funds in 2012-13 and 2013-14.

<u>Deferred Maintenance</u>: CDE uses some of the State Special Schools annual operating budget for maintenance of the facilities. In 2002, CDE began setting aside $2.4 million each year for scheduled and deferred maintenance projects. In 2012-13, CDE dedicated an additional $2.3 million in unspent prior year funds for deferred maintenance projects, for a total of $4.7 million. Currently, the list of deferred maintenance projects for the State Special Schools totals $25 million. CDE has indicated that they would use the $5 million deferred maintenance funding proposed in the Governor's budget for some major projects, such as replacing roofing and improving theatre accessibility, as well as other smaller projects.

LAO Recommendation: The LAO recommends that the Legislature reject the Governor's proposal to provide $5 million in one-time funding for State Special Schools deferred maintenance projects. In lieu of that, the LAO recommends the Legislature provide State Special Schools with $3.6 million in one-time state funds that would essentially backfill, for another two years, the $1.8 million General Fund budget reduction made in 2012-13. The LAO believes $3.6 million would be sufficient funding to enable CDE to sustain its existing maintenance plan over this period (using the $2.4 million set aside annually from its operating budget) and to address urgent health and safety needs.

In addition, LAO suggests it would be premature to make additional investments in the State Special Schools until the state addresses what LAO believes are issues with the overall funding structure for the State Special Schools. For instance, LAO indicates that the relationship between funding levels and student enrollment should be explored, as well as differences in how the state funds special education services provided by the State Special Schools and LEAs.

Staff Comment: Providing $3.6 million in one-time state funds to State Special Schools over two years, as the LAO recommends, would help CDE to continue funding deferred maintenance projects out of the operations budget. Staff supports that level of funding at a minimum. A higher level of funding for deferred maintenance projects of the State Special Schools would need to be assessed after the May Revision based on updated state revenue estimates.

Staff Recommendation: In light of Subcommittee 4 having rejected the proposed Control Section 6.10 to fund deferred maintenance projects, staff recommends this subcommittee take no action on this issue at this time.

6110 DEPARTMENT OF EDUCATION

Issue 4: Accessible Instructional Materials

Issue: The Governor's budget proposes trailer bill language to eliminate the statutory requirement for CDE to operate the central clearinghouse/library that produces, houses, and distributes large print, Braille, and other accessible instructional materials for pupils who are blind, visually impaired, or have other disabilities. While CDE has provided that service, supported by the state General Fund, the Governor proposes to shift the responsibility for the provision of these instructional materials to LEAs and make it optional for CDE to continue operating the centralized service as a fee-based structure supported by fees from LEAs that could choose to purchase materials through the clearinghouse.

This proposal is the Administration's response to the elimination in 2013-14 of the dedicated state funding for the State Instructional Materials Fund (IMF), which previously paid for the General Fund costs of this clearinghouse. Funding previously provided for IMF was transferred into the LCFF for allocation to LEAs. However, current law (Education Code Section 60313) still requires CDE to provide the accessible instructional materials. In 2013-14, CDE used one-time carryover funds to pay for this service. CDE submitted a request to DOF for ongoing funding of $4.5 million General Fund (Non-Proposition 98), beginning in 2014-15, to support the clearinghouse. DOF denied that request.

Background: Producing large print and Braille materials is a specialized process that includes transcription and embossing of materials. It can involve long, several-month production times and high cost, especially for transcription. Under the current structure, CDE has been able to contract for services at a reduced cost and under a shorter turn-around time due to the economies of scale and by using a bid process and interagency state agreements rather than standard contracting procedures. The current process enables CDE to ensure a contractor's qualifications to complete the work and accept the lowest rate of cost. For example, CDE can produce one 550-page math algebra textbook for about $8,113 to transcribe and $1.40 per page to emboss. Prior to CDE's current process, that textbook cost about $23,375 to transcribe and $8.00 per page to emboss.

In addition to producing materials at the request of LEAs, the clearinghouse also serves as a lending library for material to be returned after a student has finished with it and redistributed. Electronic materials also may be downloaded from the clearinghouse. This service is presently used by more than 300 public and private schools. The exact number of students served is unknown. (There are about 5,500 registered students with vision impairments in California.) According to CDE, the clearinghouse produces about 5,400 titles annually, which equates to about 19,000-21,000 volumes (some titles, such as math books, have multiple volumes). Of those volumes, about 18,000 volumes are returned to the clearinghouse every spring for redistribution.

According to DOF, providing instructional materials to students is a general responsibility of LEAs, and the state funding that previously supported the purchase of accessible instructional materials has been shifted into the LCFF for allocation to LEAs. Under the Governor's proposal, LEAs may choose to pay CDE to continue these services.

CDE opposes the Governor's proposal and indicates that a fee-structure will not work to support the clearinghouse. CDE believes LEAs would need to obtain these materials on their own at a much higher cost overall than what the state presently pays. As previously noted, DOF denied CDE's request for $4.5 million General Fund (Non-98) in 2014-15 to fund the clearinghouse without assessing fees from LEAs. CDE's cost estimate is based upon the prior year expenditures for this service (about $3 million annually) and its estimate of the additional cost over the next few years ($1.5 million annually) to produce new mathematics materials, based on the 2014 state adoption of mathematics materials aligned to the Common Core State Standards.

The subcommittee received correspondence from associations representing school districts, county offices of education, and students who oppose the Governor's proposal. They are concerned that an elimination of state funding for the clearinghouse could cause it to close, which reportedly would add a significant cost and long time frame for LEAs to purchase materials without the economies of scale benefits of the clearinghouse. There is also serious concern about the potential for delays in providing accessible materials to students and the negative impact that would have on students.

LAO Recommendation: The LAO recommends an alternative approach that would enable the state to play a role in assisting LEAs to access affordable instructional materials. The LAO believes it is reasonable for LEAs to pay some amount for these materials. In addition, the LAO believes state-level federal special education funds would be a more appropriate source than non-Proposition 98 General Fund to cover the remaining costs of the materials. The LAO also suggests CDE's cost estimate for the materials in 2014-15 may be overestimated, and additional documentation is needed to justify the estimate. Specifically, the LAO recommends the Legislature take the following steps:

- Provide $3 million in state-level federal IDEA funds on a one-time basis to cover the cost of producing these materials in 2014-15, and consider increasing the amount if CDE provides cost justification.

- Require CDE to develop, and submit to the Legislature and DOF, by November 2014, a fee schedule for charging LEAs to access instructional materials for the visually-impaired, with the intent that the fees contribute to the long-term costs of producing the materials.

- Beginning in 2015-16, fund these materials with a combination of state-level IDEA funds and fee revenue from districts.

Staff Comment: In light of the state's transition to greater local discretion and funding flexibility under the LCFF, staff believes it is reasonable for LEAs to have responsibility and discretion for the provision of accessible instructional materials to their students. By continuing to operate the clearinghouse, the state would provide valuable assistance to LEAs by offering them one option for purchasing materials, reportedly at a much lower cost and shorter timeline than if LEAs contracted themselves for these services. For these reasons, staff believes there are fiscal and other incentives for LEAs to purchase the materials from the clearinghouse if the state were to implement a reasonable fee-structure.

But there are many unknowns about the workability of the Governor's proposal to shift to a 100 percent fee-based structure. For instance, what level of fees would be required to support this service? The Governor's proposal has no details about how fees would be implemented. Based on the fees set, would LEAs continue to purchase materials from the clearinghouse or pursue other options to obtain materials? Is there an additional state-level investment that would still be required to operate the clearinghouse? Would a fee-based structure necessitate any type of change to the service? In light of these issues, staff believes there is insufficient information and time to implement any fee-structure in 2014-15.

In concept, staff agrees with the LAO's general approach to continue state-level funding for the clearinghouse in 2014-15; and to direct CDE to develop and submit a plan to the Legislature and DOF for assessing fees to LEAs, beginning in 2015-16, for the long-term costs of providing accessible instructional materials.

Staff Recommendation: Staff recommends the subcommittee reject the Governor's trailer bill language regarding accessible instructional materials.

In addition, it is recommended that the subcommittee direct staff to further review this issue and report back to the subcommittee at the May Revision hearing regarding:

1. The cost to operate the accessible instructional materials clearinghouse in 2014-15, including potential funding sources such as state-level IDEA funds.

2. Proposed trailer bill language that would direct CDE to develop and submit a plan and fee schedule for assessing fees to LEAs, beginning in 2015-16, for the costs of providing accessible instructional materials.

VOTE:

6110 DEPARTMENT OF EDUCATION

Issue 5: SBE Delegation of Charter School Oversight

Issue: The Governor's budget proposes trailer bill language to allow SBE to delegate its oversight of SBE-authorized charter schools to any school district or county office of education in the state.

Background: More than 1,000 charter schools are operating in California, serving an estimated 500,000 students. With a few exceptions, charter schools are exempt from nearly all requirements of the state education code. While most charter schools are authorized at the local level and are subject to oversight by their local authorizers, SBE considers appeals when a charter is denied at the local level and may authorize a charter under the board's authority. As of October 2013, there were 19 SBE-authorized charter schools, operating 23 school sites.

Current law authorizes SBE to delegate oversight of SBE-authorized charter schools to the school district that originally denied the charter petition and any local education agency in the county in which the charter school is located, with the LEA's consent. SBE has chosen not to delegate oversight to those entities and instead has delegated this responsibility to CDE. The Governor's proposal would not prohibit SBE from such delegation to CDE.

SBE also delegates responsibility to CDE to review various charter school appeals. According to CDE, four of the six staff in its Charter Schools Division are assigned to both review charter school appeals and conduct oversight of SBE-authorized charters. These staff are partially funded by the state General Fund (for reviewing appeals) and by the one-percent reimbursement fees paid by SBE-authorized charters (for conducting oversight).

DOF indicates that a primary rationale for this trailer bill language proposal is to reduce SBE's reliance on CDE for charter school oversight, and thereby reduce CDE's workload for staff in the Charter Schools Division. (In a separate proposal—Issue 2, CDE state operations request for Charter School Petition Appeal Reviews—the Governor's budget requests $100,000 and 1.0 consultant position for CDE to review various charter school appeals submitted to SBE. CDE had requested an additional $245,000 in funding to support an additional 2.0 positions for that workload, and DOF denied that portion of the request.)

According to CDE, if SBE were to reduce its oversight delegation to CDE as a result of this trailer bill language proposal, CDE would lose a portion of the funding (reimbursement fees) that supports the staff who work on both oversight and appeals reviews and thus, also lose some of these positions.

LAO Recommendation: The LAO recommends the Legislature adopt the trailer bill language proposal to allow SBE to delegate oversight to any school district or county office of education. According to the LAO, for charter schools located in smaller counties, the options for delegating oversight within the county may be very limited. By allowing SBE to delegate oversight to a capable school district or other COE, the proposal would improve the prospects of quality oversight. In addition, given oversight is currently managed by CDE, which is located a far distance from some of the schools it oversees, the entity selected as the oversight authority under the Governor's proposal may be located closer to the charter school.

Staff Comment: Staff believes this is largely a policy proposal with implications for the oversight of SBE-authorized charter schools, with little impact to the state budget. The Administration proposed similar trailer bill language last year, which was rejected in Conference Committee due to a lack of budget nexus.

Suggested Questions:

- *What problem is this proposal intended to address?*
- *Is there a concern about the oversight CDE provides for SBE-authorized charters?*
- *Has SBE indicated it would like to delegate its charter school oversight authority to particular LEAs?*
- *Why has SBE not exercised its ability now to delegate charter school oversight authority to an LEA within the charter school's county?*
- *Under the proposal, what role, if any, would SBE continue to play in the oversight of its authorized charter schools? Would LEAs fulfill the same role as CDE does now in terms of monitoring and reporting to SBE about the performance of the charter schools?*

Staff Recommendation: Since this a policy proposal with little budgetary impact, staff recommends the subcommittee reject the proposal without prejudice and direct the Administration to submit the proposal through the legislative policy process.

VOTE:

6110 DEPARTMENT OF EDUCATION

Issue 6: Child Nutrition (Information Only)

Issue: The federal government enacted the National School Lunch Act in 1946, creating the National School Lunch Program. Since then, additional programs have been created to further the goal of providing nutritious food to needy schoolchildren, including the School Breakfast Program, the Special Milk Program, and the Summer Food Service Program for Children, known collectively as the Child Nutrition Cluster of federal programs (child nutrition programs). According to the federal government, in fiscal year 2012-13, child nutrition programs served over 550 million lunches, 250 million breakfasts, almost 2 million half-pints of milk, and over 10 million summer meals throughout California.

The major funding for child nutrition programs in California comes from the federal government, with some supplemental funding from the state. According to the California Department of Education (CDE), in fiscal year 2011-12, the U.S. Department of Agriculture (USDA) provided 92 percent of the funding for the child nutrition programs, or $1.7 billion, and the state provided the remaining 8 percent, or $148 million. The National School Lunch Program is the largest component of the child nutrition programs, accounting for more than $1.3 billion—or roughly 77 percent—of the $1.7 billion in federal funds spent in fiscal year 2011-12.

Funded meals largely include free- and reduced-price breakfast and lunch provided predominantly by local educational agencies (LEAs) in school settings. However, both the state and federal programs authorize funding for low-income children in non-LEA settings -- including private schools, child care centers and family day care homes. Each LEA must separately account for its revenues and expenditures related to the child nutrition programs and state law authorizes LEAs to establish a “cafeteria fund” for this purpose.

To qualify for free meals, students must be from families with incomes at or below 130 percent of the federal poverty level. For a family of four, that threshold is $31,005 for the 2014-15 school year (the federal poverty level is $23,850 for a family of four). For reduced-price meals, the eligibility line is raised to 185 percent of the federal poverty level, or $44,123 for a family of four.

<u>State Oversight of Child Nutrition.</u> The CDE is responsible for administering nutrition programs, which includes activities such as disbursing funds and ensuring compliance with program requirements. The Healthy, Hunger-Free Kids Act of 2010, or the reauthorization of the Child Nutrition Act, instituted additional requirements for state oversight (CDE) and nutritional meals (districts). Specifically, the Act required the implementation of a more unified accountability system designed to increase compliance with federal requirements and established a new three-year administrative review cycle beginning in 2013-14. Previously, the review cycle was every five years. The Act also provided funding for the state to provide training and technical assistance to help school food authorities and other agencies implement new requirements and nutrient standards.

<u>Reports on CDE’s Oversight of Child Nutrition.</u> In February 2013, the California Senate Office of Oversight and Outcomes issued a report titled *Food Fight: Small Team of State Examiners*

No Match for Schools That Divert Student Meal Funds (Food Fight report). It detailed examples of school districts not following established rules for the cafeteria fund. The report noted that many of the examples of improper spending were discovered not by CDE examiners, but by internal whistleblowers. This report brought widespread attention to the issue of potential misuse of school nutrition-related funds, and it was the impetus for an audit by the California State Auditor.

In October 2013, CDE provided an assessment of its staffing needs for child nutrition compliance activities and the outcome of its review of cafeteria funds for 30 school districts, as required by the Legislature in the *Budget Act of 2013*. The CDE reported a need to hire 14 additional full-time analysts and one manager to close the resource gap it had identified. The assessment stated that these additional positions would address the recommendation made in the Food Fight report to hire enough staff to carry out CDE's oversight responsibilities. Recently, CDE stated it plans to redirect authorized positions that are currently vacant, to conduct this workload beginning in 2014-15. All of these positions are supported with federal funds.

In February 2014, the California State Auditor released its report based on a review of 18 LEAs expenditure of school nutrition-related funds. The audit found that these 18 LEAs generally used their school nutrition-related funds for expenditures that relevant laws and regulations allow. Specifically, of the more than $32 million in expenditures that the auditors reviewed across 18 LEAs, more than $31 million was for expenditures that were necessary and reasonable for the operation or improvement of the child nutrition programs and complied with applicable administrative requirements. Most of the approximately $1 million in unallowable expenditures was for non-payroll expenditures. Further, more than half of the roughly $969,300 in unallowable non-payroll expenditures was for expenditures related to facilities and equipment.

The State Auditor made four specific recommendations, as follows:

- By June 30, 2014, LEAs that used school nutrition-related funds for unallowable purposes should (1) reimburse those funds and (2) review all guidance to better understand what these funds should be used for.

- LEAs with excess cash balances should develop spending plans to reduce their cash balances and submit the spending plans to CDE for review, by June 30, 2014.

- To ensure that LEAs' spending plans reduce excess cash, CDE should, by July 1, 2015, begin requiring LEAs to develop or revise an existing spending plan, if it will not reduce the entire excess.

- LEAs that are not tracking the revenues and expenditures of non-program food activities should implement a system to do so, by June 30, 2014.

Staff Comments and Questions: Issues have been raised about CDE's oversight of LEAs use of school nutrition funds. The CDE is responsible for ensuring that the use of these funds is consistent with federal requirements and, recently, federal requirements for state oversight of these funds have increased. Concerns have been raised about CDE having enough staff to provide additional oversight and conduct more frequent administrative reviews.

Suggested Questions:

1. *How is CDE complying with the recently expanded federal requirements, for example, the increased frequency of administrative reviews?*
2. *What is CDE's current level of staffing for conducting administrative and financial reviews of LEAs to ensure compliance with federal requirements? Is this level of staffing adequate to ensure compliance? If CDE redirects existing vacant positions to perform oversight, what work, for which these positions were originally authorized, is potentially not being done?*
3. *What is CDE doing to ensure that each of the State Auditor's recommendations is implemented? How do these actions help the state enforce federal requirements for the use of federal child nutrition funds?*
4. *If districts or other agencies do not repay misused school nutrition funds, what is the source of funding that would repay the federal government?*

Staff Recommendation: Informational item.

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, May 1, 2014
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191

Consultants: Jody Martin, Farra Bracht and Mark Ibele

Proposed Vote Only Calendar

6360 Commission on Teacher Credentialing

Issue 1 DOF April Letter: Dual Credential Program Page 2

Approved the April Letter request to increase CTC's reimbursements by $175,000 to fund the development of a dual Special Education/General Education teacher preparation and credential program and to add the requested budget item schedule and provisional language.

VOTE: 3-0

6110 Department of Education

Issue 1 Governor's Budget Requests for State Operations Page 3

Approved $114,000 General Fund (non-Prop 98) and 1.0 position to implement the appeal requirements related to the pupil fee complaint process (item 1).

VOTE: 2-1 (Wyland)

Approved the following requests:

- **$270,000 General Fund (non-Prop 98) for the Instructional Quality Commission to (1) review and revise the history-social science curriculum framework and (2) develop a revised curriculum framework and evaluation criteria for instructional materials in science (item 2).**

- **$100,000 General Fund (non-Prop 98) and 1.0 position to review various charter school appeals submitted to the State Board of Education (item 3). (An additional $15,000 for this position was approved as part of Issue 2 below.)**

- **An additional $1 million (federal funds) from the Race to the Top Early Learning Challenge Grant (item 4).**
- **$281,000 in reimbursements authority for CDE to collect publishers' fees for the forthcoming statewide adoption of new instructional materials for English Language Arts/English Language Development (item 5).**
- **$100,000 from the School Supplies for Homeless Children Fund for the costs of administering new competitive grant funds for school supplies and health-related products for homeless pupils (item 6).**
- **Transfer $501,000 in federal funds from the Migrant Education Program from local assistance contracts to state operations, and add 3.0 permanent positions to implement the workload associated with this funding (item 7).**

VOTE: 3-0

Issue 2 DOF April Letter: State Operations and Local Assistance Page 5

Approved the April letter requests listed in the agenda except for items 4, 15, 16, 22, 23, and 24, which were held open. Approved item 12 with the technical correction noted.

VOTE: 3-0

Proposed Discussion/Vote Calendar

6110 Department of Education

Issue 1 Fiscal Status of School Districts (Informational Item) Page 15

No action.

Issue 2 Governor's Budget Requests for State Operations Page 22

Approved the request for $321,000 for modification of the English language development standards (item 1).

Approved the request for $240,000 to support 2.0 new positions for Local Control Funding Formula (LCFF) implementation and foster youth reporting workload (item 3), but approved one permanent position and one two-year limited term position.

Held open the request related to LCFF implementation positions authorized in the 2013-14 Budget Act (item 2) and the Standardized Account Code Structure Replacement Project (item 4).

VOTE: 3-0

Issue 3 State Special Schools Deferred Maintenance Page 29

No action.

Issue 4 Accessible Instructional Materials Page 31

Rejected the Governor's trailer bill language.

Directed staff to further review the accessible instructional materials issue and report back at the May Revision hearing regarding:

1. **The cost to operate the accessible instructional materials clearinghouse in 2014-15, including potential funding sources such as state-level IDEA funds.**

2. **Proposed trailer bill language that would direct CDE to develop and submit a plan and fee schedule for assessing fees to LEAs, beginning in 2015-16, for the costs of providing accessible instructional materials.**

VOTE: 2-0 (Wyland abstaining)

Issue 5 State Board of Education Delegation of Charter School Oversight Page 34

No action.

Issue 6 Child Nutrition (Informational Item) Page 36

No action.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, May 8, 2014
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191

Consultants: Farra Bracht, Erin Gabel, Joe Stephenshaw, Mark Ibele and Jen Troia

Proposed Vote Only

6110 Department of Education

Issue 1 Categorical Programs Consolidation Page 2

Proposed Discussion / Vote Calendar

6110 Department of Education
6870 California Community Colleges

Issue 1 K-14 Mandates Page 3

Issue 2 Proposition 39 Page 10

6110 Department of Education

Issue 3 School Facilities Program Page 14

Issue 4 Emergency Repair Program Page 20

Issue 5 Home-to-School Transportation (Informational Item) Page 22

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Items Proposed for Vote Only

6110 DEPARTMENT OF EDUCATION

Issue 1: Categorical Programs Consolidation—Specialized Secondary Education Programs and Agricultural Education Grants (Budget Proposal)

Proposal: The Governor's budget provides for Specialized Secondary Programs (SSP) and Agricultural Education Grants (AEG) within the Local Control Funding Formula (LCFF). Under the Governor's proposal, school districts receiving funding for these two programs in 2013-14 would have those funds count toward their LCFF targets beginning in 2014-15, with no change made to the LCFF target rates. The currently required categorical activities would be left to each district's discretion. The 2013-14 budget consolidated approximately two-thirds of all categorical programs with the discretionary revenue limit funding to create the LCFF. Currently, 13 categorical programs continue to be funded outside of the LCFF, including SSP and AEG.

Prior Subcommittee Action: At its April 29 hearing, the Subcommittee voted to explicitly reject the Governor's proposal to place the designated SSP and AEG programs under the LCFF. Apparently, there was some confusion expressed as to whether the intent was to continue actually funding these programs as separate categorical programs.

Staff Comment: Staff suggests that Subcommittee affirm their action taken on April 29th to continue funding SSP and AEG as separate categorical programs outside the LCFF.

Staff Recommendation: Affirm the rejection of the Governor's proposal to include Agricultural Education Grants and Specialized Secondary Programs funds within the LCFF and approve these as separate categorical programs and maintain their current funding.

Vote:

Items Proposed for Discussion/Vote

6110 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES

Issue 1: K-14 Mandates

Overview: The California Constitution requires the state to reimburse local governments for new programs or requirements for higher levels of service that the state imposes on them. In the area of education, local governments that qualify for reimbursement include school districts, county offices of education (COEs), and community colleges—collectively referred to as local educational agencies (LEAs).

The state currently owes $4.5 billion in prior year mandate costs, a "backlog" that accumulated due to the state's earlier deferrals of those payments. The Governor's multi-year plan for paying off all outstanding education obligations includes the payment of outstanding mandate costs (part of the "wall of debt"). However, the Governor does not include funding for paying down the mandate backlog in 2014-15. Instead, the Governor proposes to pay off these obligations in the 2015-16 through 2017-18 fiscal years.

The Commission on State Mandates (CSM) recently approved statewide cost estimates for seven new education mandates. The Governor's budget addresses four of these mandates. Specifically, the Governor proposes to add the following education mandates to the mandates block grants for schools and community colleges: 1) Uniform Complaint Procedures (K-12 schools only), 2) Charter Schools IV (K-12 schools only), and 3) Public Contracts (K-12 schools and community colleges). The Governor's budget also proposes to repeal the Community College Construction Mandate. The Administration acknowledges that they inadvertently omitted one new mandate, and intentionally left out the remaining two because the CSM had not yet finished their cost estimates when the Governor's budget was released. The Administration indicates that proposals related to these three remaining new mandates will likely be included in the May Revision.

In a recent analysis of education mandates (available online here: http://www.lao.ca.gov/Publications/Detail/2956), the Legislative Analyst's Office (LAO) made additional recommendations related to changing the state's mandate funding process, which are described below.

Background:

Brief Summary of the History of Mandates

The concept of state reimbursement to local agencies and school districts for state-mandated activities originated with the Property Tax Relief Act of 1972 (Senate Bill 90, Chapter 1406, Statutes of 1972), known as SB 90. The primary purpose of the Act was to limit the ability of local agencies and school districts to levy taxes. In 1979, Proposition 4 was passed by voters, which required local governments to be reimbursed for new programs or higher levels of services imposed by the state. Local educational agencies (LEAs) can seek reimbursement for these mandated activities. In response to Proposition 4, the Legislature created the CSM to hear and decide upon claims requesting reimbursement for costs mandated by the state.

Proposition 1A, approved by the state's voters in 2004, required the Legislature to appropriate funds in the annual budget to pay a mandate's outstanding claims, "suspend" the mandate (render it inoperative for one year), or "repeal" the mandate (permanently eliminate it or make it optional). The provisions in Proposition 1A, however, do not apply to K-14 education.

Over the years, as the cost and number of education mandates grew, the state began to defer the full cost of education mandates. Prior to the 2010-11 Budget Act, the state had deferred the cost of roughly 50 education mandates but still required LEAs to perform the mandated activity by providing a nominal amount of money ($1,000) for each activity. An exception was made 2006, when the state provided more than $900 million in one-time funds for state mandates. This funding retired almost all district and college mandate claims (plus interest) through the 2004-05 fiscal year. Though a superior court in 2008 found the state's practice of deferring mandate payments unconstitutional, constitutional separation of powers means the courts cannot force the Legislature to make appropriations for mandates.

<u>Mandate Reimbursement Processes</u>

Under the traditional mandate reimbursement process, the CSM first determines whether an activity is a mandate. Next, LEAs are required to document in detail how much they spent on a particular mandate. The LEAs then submit this information on an ongoing basis to the State Controller's Office (SCO) for review and approval. This process has been criticized because reimbursements are based on actual costs, and LEAs may therefore lack an incentive to perform required activities as efficiently as possible. This process also does not consider how well an activity is performed. As a result, the state may pay some LEAs more than others, regardless of their performance.

In recent years, the state created two alternative reimbursement systems. First, in 2004, the state created the Reasonable Reimbursement Methodology (RRM). Rather than requiring LEAs to submit detailed documentation of actual costs, RRM uses general allocation formulas or other approximations of costs approved by the CSM. Only three school mandates currently have approved RRMs.

Then, as part of the 2012-13 budget, the state created two block grants for education mandates: one for school districts, COEs, and charter schools (for which some mandated activities apply) and another for community colleges. Instead of submitting detailed claims that track the time and money spent on each mandated activity on an ongoing basis, LEAs can choose to receive block grant funding for all mandated activities included in the block grant.

<u>Block Grant Participation</u>

The 2013-14 budget included a total of $250 million for the mandates block grants ($217 million for schools and $33 million for community colleges). Block grant funding is allocated to participating LEAs on a per-pupil basis, based on average daily attendance (ADA) or full-time equivalent students. The rate varies by type of LEA and by grade span, due to the fact that some mandates only apply to high schools. The per-pupil rates are as follows:

- School districts receive $28 per student in grades K-8 and $56 per student in grades 9-12.
- Charter schools receive $14 per student in grades K-8 and $42 per student in grades 9-12.
- County offices of education (COEs) receive $28 for each student they serve directly, plus an additional $1 for each student within the county. (The $1 add–on for COEs is intended to cover mandated costs largely associated with oversight activities, such as reviewing district budgets.)
- Community colleges receive $28 per student.

Most school districts and COEs, and virtually all charter schools and community college districts, have opted to participate in the block grant. Specifically, the LEAs participating in the block grant serve 95 percent of K-12 students and 97 percent of community college students.

New Education Mandates: The chart below shows the seven mandates for which the CSM recently adopted cost estimates for and the Governor's January budget proposal.

Mandates With Cost Estimates Adopted by CSM as of February 1, 2014	Reimbursement Start Date	CSM Estimated Annual Cost Statewide	Governor's January Proposal	Governor's Proposed Change in Block Grant Funding
Parental Involvement Program	7/1/2002	$125,268	None	NA
Williams Case Implementation	9/29/2004	106,183	None	NA
Uniform Complaint Procedures	7/1/2002	34,751	Add to block grant	$0
Developer Fees	7/1/2001	34,209	None	NA
Public Contracts	7/1/2001	32,932	Add to block grant	0
Community College Construction	7/1/2001	22,519	Repeal	NA
Charter Schools IV	1/1/2003	$4,261	Add to block grant	$0
*Community College Construction applies only to community colleges. Public Contracts applies to both schools and community colleges. All other mandates apply only to schools.				

Source: LAO

Governor's Budget Proposals and LAO Comments: As mentioned earlier, the Governor's January budget addresses four of the seven new mandates, which are described in more detail below.

<u>Uniform Complaint Procedures Mandate (UCP) (K-12)</u>
The state requires schools to respond to certain types of complaints, such as those regarding certain educational programs, discrimination, harassment, facilities, teacher misassignments, and instructional materials. Parents, students, employees, and community members can file complaints on behalf of themselves or on behalf of another individual. For certain types of complaints, the state requires schools to use its UCP to resolve the complaint. Most procedural activities required under the state's UCP have been found to be reimbursable mandates. However, reimbursement is only required when the complaint relates to 1) free and reduced-price school meals; 2) adult education programs in citizenship and English; 3) most special education activities; and 4) discrimination, with the exception of discrimination relating to age, sex, and disability. The specific UCP reimbursable activities are:

- Adopting complaint procedures and notifying the public;
- Providing notice of civil remedies;
- Referring certain complaints; and
- Forwarding information for appeals.

In addition, under state and federal law, schools are required to perform specified activities related to antidiscrimination laws, as they pertain to education programs. These activities include providing a statement of their intent to comply with antidiscrimination laws to the California Department of Education (CDE), as well as describing how they will comply with these laws. Because the state requirements go beyond the federal law, the CSM deemed these activities a state mandate. Specifically, the state requires schools to report on antidiscrimination compliance related to religion and sexual orientation. The corresponding statement of intent requires minimal additional workload, since this information is included in a single, one-page document, and CDE has not yet required districts to report on how they are complying with antidiscrimination laws.

LAO Comment. For addressing the UCP as it relates to handling complaints, the LAO recommends a mixed approach that is shown in the figure below. The LAO believes that making these changes will result in minimal costs and thus does not recommend increasing block grant funding.

Activity	Claimants	Assessment	Recommendation
Adopt and publish complaint procedures	School districts, COEs	Requirement helps hold schools accountable.	Retain
Provide notice of civil remedies to complainants	School districts, COEs	Requirement helps hold schools accountable.	Retain
Refer certain complaints to other state and federal agencies	School districts, COEs	Complainant better suited to work directly with other agencies.	Amend regulations to refer complainant (rather than complaint itself) to other agencies
Forward information for appeals to CDE	School districts, COEs	Stronger incentive needed to ensure districts and COEs provide requested information.	Amend regulations to indicate that withholding requested information will be viewed as a finding in favor of the complainant

COEs = county offices of education
CDE = California Department of Education.

For addressing the UCP as it relates to antidiscrimination laws, the LAO recommends approving the Governor's proposal to add this mandate to the block grant without increasing block grant funding. The LAO also recommends that the Legislature require schools to submit compliance reports to CDE if evidence of discrimination emerges.

<u>Charter Schools IV (K-12)</u>
AB 1994 (Reyes), Chapter 1058, Statutes of 2002, made several changes to the way the state establishes and operates charter schools, which resulted in a number of reimbursable state mandates. The Charter Schools IV mandate includes the following activities for charter school authorizers:

- Reviewing proposed countywide charter schools (similar to the review of non-countywide charter schools).
- Receiving financial information from the charter schools they authorize.
- Reviewing other information related to the charter schools they authorize, including procedures for closure, where the charter will be located, and the process for notifying parents about accreditation and status of A-G approved courses.
- Holding open meetings for reviewing whether an existing charter can open an additional site.
- Verifying the accuracy of data reported by the charter school.

Related Charter Schools I-III mandates reimburse charter authorizers for reviewing proposed charters, holding public hearings, and monitoring charters after approval. These mandates are already included in the mandates block grant.

LAO Comment. The LAO recommends retaining most activities related to this mandate and adding these activities to the mandates block grant without providing additional funding. The LAO also recommends repealing three mandated activities, including reviewing proposed parental notification procedures, holding open meetings to consider additional school sites, and verifying the accuracy of financial data. The LAO argues that the parental notification procedure is redundant due to the recent enactment of Local Control Accountability Plan (LCAP) requirements, which are tied to the Local Control Funding Formula. The LAO also argues that open meetings would occur even without this mandate and that verifying financial data is unnecessary due to computerized accounting systems.

<u>Public Contracts (K-12 and Community Colleges)</u>
State law generally allows school districts and community colleges discretion to undertake repair and maintenance projects through the work of staff, or by contracting out for the work. Public Contract Code does, however, require school districts and colleges to contract out for repair and paint jobs under certain circumstances. In 2012, the CSM identified more than a dozen reimbursable activities that are triggered when districts are required to contract out for repairs and maintenance, including specifying in bid notices any type of specific license a contractor must have, or including clauses in contracts regarding the identification of hazardous waste discovered during a project. The Governor's budget proposes shifting this new mandate into the mandates block grant for school districts and community college districts.

LAO Comment. The LAO recommends repealing the mandate and amending statute to allow schools and community colleges more discretion as to how they handle repair and painting projects.

<u>Community College Construction (Community Colleges)</u>
Each community college district submits a five-year infrastructure plan to the Board of Governors, and provides annual updates. Statute identifies six specific areas that must be addressed in these plans, including enrollment capacity at the district, an inventory of facilities, and an estimate of district funds available for construction. In 2011, the CSM found that four of the six required subject areas constitute state-reimbursable mandates. The Governor's budget proposes trailer bill language that would eliminate the mandate by allowing districts more flexibility regarding the information they present in their infrastructure plan.

LAO Comment. The LAO supports this proposal, noting that the information would likely be included in the plans regardless of whether it was required by these laws, because districts would need to present the information to justify proposed projects for approval by the Chancellor's Office.

Other LAO Recommendations: The LAO recommends the Legislature repeal the RRM process because the Legislature can adjust funding through the budget process based on expected costs for education mandates. The LAO also recommends considering a variety of factors when adding new mandates and adjusting funding for the mandates block grant. Additionally, the LAO recommends providing a cost-of-living adjustment (COLA) to the block grants, similar to other education programs. The cost to provide a 0.86 percent COLA to the block grants would be $1.9 million for K-12 schools and $300,000 for community colleges.

Staff Comment: The Governor's proposal to include the Uniform Complaint Procedures Mandate, Charter Schools IV Mandate, and Public Contracts Mandate into the mandates block grant without additional funding seems reasonable because the additional workload appears to be minimal. Regarding the Community College Construction Mandate, there is a general consensus among stakeholders that these mandated activities would be included in the community college's five-year infrastructure plan, therefore repealing this mandate, as the Governor proposal seems reasonable.

Subcommittee Questions:

1) Why does the Governor propose paying down other outstanding obligations such as deferrals and the Emergency Repair Program (discussed later in this agenda), but not the mandate backlog in 2014-15?

2) Given that most LEAs and community colleges participate in the mandates block grant, is it necessary for the Legislature to provide a COLA for this program?

Staff Recommendation: Adopt the Governor’s proposal to add the Uniform Complaint Procedures Mandate, Charter Schools IV Mandate, and Public Contracts Mandate into the mandates block grant without additional funding. In addition, adopt the Governor’s proposal to repeal the Community College Construction Mandate.

Vote:

Issue 2: Proposition 39

Governor's Budget Proposal. The Governor's budget estimates $726 million in Proposition 39 revenue. Of this amount, one-half ($363 million) is dedicated, primarily to schools and community colleges, as follows:

- $316 million and $39 million to K-12 school and community college districts, respectively, for energy efficiency project grants.
- $5 million to the California Conservation Corps (CCC) for continued technical assistance to K-12 school districts.
- $3 million to the California Workforce Investment Board (CWIB) for continued implementation of the job-training program.

The Governor's budget includes a reduction, from the current-year funding level, of $101 million for Proposition 39 energy projects due to lower projected tax revenues than assumed in the 2013-14 budget. These revenue projections are based on the Franchise Tax Board's estimates.

Background. The California Clean Energy Jobs Act was created with the approval of Proposition 39 in the November 6, 2012 statewide general election. Proposition 39 changed the corporate income tax code to require most multistate businesses to determine their California taxable income using a single sales factor method. The increase in the state's corporate tax revenue, resulting from Proposition 39, is allocated to the General Fund and the Clean Energy Job Creation Fund for five fiscal years, beginning with fiscal year 2013-14. Under the initiative, roughly $550 million annually was projected to be available for appropriation by the Legislature for eligible projects to improve energy efficiency and expand clean energy generation. For fiscal year 2013-14, $464 million in Proposition 39 revenue was appropriated as follows:

- $381 million in awards to local educational agencies (LEAs), which include county offices of education, school districts, charter schools, and state special schools for energy efficiency and clean energy projects.
- $47 million in awards to California community college districts for energy efficiency and clean energy projects.
- $28 million for low-interest and no-interest revolving loans and technical assistance to the California Energy Commission (CEC).
- $3 million to the CWIB to develop and implement a competitive grant program for eligible workforce training organizations to prepare disadvantaged youth, veterans, and others for employment in clean energy fields.

- $5 million to the CCC to perform energy surveys and other energy conservation-related activities.

Following is a further description and/or update of the five program elements:

- **K-12 - Local Educational Agency Proposition 39 Award Program.** SB 73 (Committee on Budget and Fiscal Review), Chapter 29, Statues of 2013, establishes that 89 percent of the funds deposited annually into the Clean Energy Job Creation Fund, and remaining after any transfers or other appropriations, be allocated by the State Superintendent of Public Instruction for awards and made available to LEAs for energy efficiency and clean energy projects. Minimum grant amounts were established for LEAs within the following average daily attendance (ADA) thresholds:

  - $15,000 for LEAs with ADA of 100 students or less.
  - $50,000 for LEAs with ADA of 100 to 1,000 students.
  - $100,000 for LEAs with ADA of 1,000 to 2,000 students.

  The CEC, in consultation with the CDE, Chancellor's Office and the Public Utilities Commission, was required to develop guidelines for contracts with LEAs. The CEC released these guidelines in December 2013.

  In order to receive an energy efficiency project grant, LEAs must submit an expenditure plan to the CEC outlining the energy projects to be funded. The CEC will review these plans to ensure they meet the criteria set forth in the guidelines. The CDE will distribute funding to LEAs with approved expenditure plans. LEAs can also request funding for planning prior to submission of the plan.

  As of last month, the CDE had granted planning funding for approximately 1,500 LEAs and four LEAs were approved for energy efficient project grants. Approximately 480 LEAs had not yet applied for planning or project grants. The Administration has indicated that they are considering changes in the May Revision to allow for these LEAs to access this funding in future years.

- **California Community College Chancellor’s Office.** SB 73 established that 11 percent of the funds deposited annually into the Clean Energy Job Creation Fund be allocated to the California Community College Chancellor’s Office to be made available to community college districts for energy efficiency and clean energy projects.

  In conjunction with the CEC, the Chancellor's office developed guidelines for districts as they plan to use Proposition 39 funds. The guidelines sought to leverage existing energy efficiency programs, including partnerships most districts had with investor owned utilities. These partnerships had been in existence since 2006 and had already reduced system-wide energy costs by $12 million. Thus, most college districts did not need to use Proposition 39 for planning; the planning was complete.

According to the Chancellor's office, 276 projects had been approved for funding by March 2014, and $36 million had been distributed. Another $3 million was distributed in April for an additional 35 projects. About half of the projects will be complete by the end of the fiscal year, and the Chancellor's office estimates annual system wide cost savings of about $4.5 million. About 55 percent of the projects were related to upgrading lighting systems to make them more energy efficient.

In addition, the Chancellor's office allocated $6 million of the Proposition 39 funding, in the current-year, to provide for job training and workforce development and public-private partnerships for eligible projects. The majority of this funding is being distributed through a request-for-application process designed to align with the CCC's Doing What Matters for Jobs and the Economy framework already in place. About $5 million is being used to redesign curricula regarding green energy and energy efficiency classes to ensure more standardized training across the system. Another $1 million is being used for professional development for green energy faculty.

The Chancellor's office notes that it anticipates about 500 project requests for 2014-15, with an estimated total cost of $150 million. This need will continue to outpace funding well into the future. It will be reviewing the workforce development portion of this funding to determine an appropriate amount for 2014-15.

- **California Energy Commission Energy Conservation Assistance Act − Education Subaccount: Loan and Technical Assistance Grant Program.** As noted above, $28 million in the current fiscal year was appropriated to the CEC for the Energy Conservation Assistance Act − Education Subaccount. Of this amount, about 90 percent was to be made available for low-interest or no-interest loans. The remaining 10 percent was to be transferred to the CEC's Bright Schools Program to provide technical assistance grants to LEAs and community colleges. The Bright Schools Program technical assistance can provide American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) Level Two energy audits to identify cost-effective energy efficiency measures.

  The Governor's budget does not include funding for the CEC revolving loan program. This is the only Proposition 39 program element that the Administration is not planning to provide additional funding for in the budget year. The CEC has received over $50 million in applications for funding in the current year.

- **California Workforce Investment Board.** SB 73 appropriated Proposition 39 funding to the CWIB to develop and implement a competitive grant program for eligible workforce training organizations, which prepares disadvantaged youth, veterans, or others for employment.

- **California Conservation Corps.** The 2013-14 California Budget Act allocated $5 million in fiscal year 2013-14 to the CCC for energy surveys and other energy conservation-related activities for public schools.

Staff Comment. Due primarily to efforts already underway to address energy sustainability prior to Proposition 39, the community colleges were well positioned to begin taking advantage of the opportunities provided by Proposition 39 to immediately undertake projects. On the other-hand, the K-12 system was not as well prepared and faces additional challenges driven by the number, size and diverseness of facilities, resulting in a greater need to undertake planning activities. Despite these challenges, overall, Proposition 39 efforts appear to be progressing consistent with the initiatives intent. As we move forward, the Legislature should continue to assess not only the progress that is being made by the state's K-14 system in completing energy efficiency projects, but, also how funding is being utilized in each of the program elements and whether certain efforts are more effective or efficient than others.

Subcommittee Questions.

1) Are there specific roadblocks that are hindering K-12 efforts to undertake projects or are we truly just facing a need to adequately plan?

2) Why have some LEAs not yet applied for planning or project grants?

Staff Recommendation. Hold open.

Issue 3: School Facilities Program (Budget Proposal)

Budget Proposal: The Governor's 2014-15 budget proposes the transfer of a total of $211.0 million in bond authority from four specialized school facility programs to the new construction and modernization programs. The impacted programs are the Overcrowded Relief Grant, Seismic Mitigation, Career Technical Education, and High Performance Schools programs. Under the proposal, half of any remaining bond authority on June 30, 2014, would be equally redirected to new construction and modernization. Any funds that revert to these programs from rescinded projects or project savings in the future would also be equally redirected.

Background: The School Facilities Aid Program provides financing to local educational agencies for K-12 school facility-related activities such as school construction, modernization, and emergency repairs. The Leroy F. Greene School Facilities Act of 1998, SB 50 (Greene), Chapter 407, Statutes of 1998, created the School Facility Program (SFP) to streamline school construction funding. AB 127 (Núñez and Perata), Chapter 35, Statutes of 2006, created the Kindergarten-University Public Education Facilities Bond Act of 2006, authorized Proposition 1D, a statewide general obligation bond proposal for $10.4 billion. Proposition 1D, approved in November 2006, provided a total of $7.3 billion in State General Obligation Bonds for K-12 facilities, of which $5.2 billion was for new construction and modernization projects. Further, Proposition 1D provided targeted funds for the Career Technical Education Facilities Program, the High Performance Incentive Grant Program, Charter Schools, Overcrowding Relief, Critically Overcrowded Schools, Joint-Use, and the Seismic Mitigation Program. The major programs are described below:

- <u>Seismic Mitigation Program</u>. AB 300 (Corbett), Chapter 622, Statutes of 1999, required the Department of General Services (DGS) to conduct a seismic safety inventory of California's K-12 school buildings. In 2002, Department of General Services and the Division of the State Architect released the report "Seismic Safety Inventory of California Schools." The report identified 7,537 buildings that were of 12 construction types, collectively known as Category 2 construction that would not perform well in an earthquake. Proposition 1D, as part of new construction funding, provided up to $199.5 million for seismic mitigation of school facilities that are the most vulnerable Category 2 buildings and that pose an unacceptable risk of injury to students during a seismic event. Up to $199.5 million (10 percent) of Proposition 1D's new construction funding was originally approved by the voters for the purpose of seismic mitigation. Eligibility for the program is determined by the Division of the State Architect (DSA).

  The program requires an initial application to DSA in order to determine eligibility of the project before application for funding. Only certain buildings are eligible (Category 2 building type, as defined in SFP regulations), and these must be located on a site where there is a potential for collapse due to ground shaking, to be verified through a geological professional report and a letter of concurrence with the report from the California Geological Survey. Project approval requires that the DSA concur with a report by a structural engineer identifying the structural deficiencies that pose an unacceptable risk of collapse. In 2011, the California Seismic Commission provided a

$200,000 grant to the SAB to be used to assist school districts in conducting these engineering studies.

After the project has been reviewed and approved by the DSA, the district may choose to submit an application for conceptual approval to the Office of Public School Construction (OPSC). Once the proposed project has final plan approval from the DSA, the district may submit an application for funding to the OPSC. For a project that has been granted conceptual approval, the district has 18 months to submit an approved application for funding, and 24 months if the project includes site acquisition.

- High Performance Incentive Grant Program. Proposition 1D provided $100 million for high performance incentive grants to promote the use of designs and materials in school facility new construction and modernization projects that include the attributes of high performance schools, pursuant to regulations adopted by the State Allocation Board. The High Performance Incentive (HPI) is a supplemental grant available for new construction and modernization projects with high performance attributes. Current law defines high performance attributes as including the use of designs and materials that promote energy and water efficiency, maximize the use of natural lighting, improve indoor air quality, utilize recycled materials and materials that emit a minimum of toxic substances, and employ acoustics conducive to teaching and learning.

- Overcrowding Relief Grant. Proposition ID provided $1 billion for the Overcrowding Relief Grant. The Overcrowding Relief Grant (ORG) program enables districts to reduce the number of portable classrooms on overcrowded school sites and replace them with permanent classrooms. In order to participate in the ORG Program, districts must have school sites deemed eligible by the California Department of Education (CDE) based on population density equal to, or greater than, 175 percent of CDE's recommended population density. This program does not require new construction eligibility.

- Career Technical Education. Proposition ID provided $500 million for the Career Technical Education Facilities Program (CTEFP), which provides funding to qualifying school districts and joint powers authorities for the construction of new facilities or reconfiguration of existing facilities to integrate Career Technical Education (CTE) programs into comprehensive high schools. Applicants are eligible to receive funding without requiring eligibility in either the School Facility Program (SFP), New Construction Program, or the Modernization Program. A CTEFP project can include CTE equipment or consist solely of equipment with an average useful life expectancy of 10 years.

- Charter Schools Facility Program (CSFP). Propositions 47, 55, and 1D, have made $900 million available for the new construction of charter school facilities or the rehabilitation of existing school district facilities for charter school use. This program allows charter schools that provide site-based instruction to access State facility funding directly or through the school district where the project will be physically located. To qualify for funding, a charter school must be deemed financially sound by the California School Finance Authority (CSFA).

According to the Office of Public School Construction (OPSC), as of March 26, 2014, approximately $351.1 million remained in bond authority in the SFP. At its March 2014 meeting, the State Allocation Board (SAB) took action to reserve $52.7 million of existing bond authority for the ongoing administration of the program over the next five years, reducing the remaining bond authority to $298.4 million. The majority of this bond authority exists for the Seismic Mitigation and Charter School programs (about $259 million). Bond authority for new construction and modernization programs has essentially been depleted, respectively, since July 2012 and May 2012.

The SAB maintains a list of LEA projects whose applications were fully processed for approval by the OPSC just prior to the exhaustion of bond authority but could not be funded due to the lack of bond authority. This list of LEA projects is referred to as the “Truly Unfunded” list. Applications on the Truly Unfunded list have a final grant determination but are unable to be funded unless projects are rescinded or monies revert back to the fund. There is a total of $185 million in projects on the new construction Truly Unfunded list, and a total of $207 million in projects on the modernization Truly Unfunded list.

In addition, since November 1, 2012, the SAB has maintained an "Applications Received Beyond Bond Authority" list. This list is presented to the SAB for acknowledgement, but not approval. Because the applications are not fully processed for final grant determination, the project funding amounts on the list are only estimates. As of March 31, 2014, the list indicated new construction applications totaling $237 million and modernization applications of $198 million. These applications are currently unable to be funded unless projects are rescinded or monies revert back to the fund.

The chart below outlines the status of each of the programs contained within the SFP, including those impacted by the Governor’s budget proposal:

Governor's Proposal for School Facilities Program

(In Millions)

	Original Bond Authority[a]	Remaining Bond Authority[b]	Governor's Proposal	Program Status
Modernization	$3,300	—	Receive half of bond authority transferred from other programs.	$405 million in applications submitted beyond bond authority.
New construction	1,700	—	Receive half of bond authority transferred from other programs.	$422 million in applications submitted beyond bond authority.
Overcrowded schools	1,000	$16	Transfer remaining bond authority to new construction and modernization.	Applications on file with OPSC for most of remaining bond authority but funding not yet disbursed. OPSC adopting new regulations that likely would speed up disbursements.
Career technical education	500	4	Transfer remaining bond authority to new construction and modernization.	Applications on file with OPSC for most of remaining bond authority but funding not yet disbursed. OPSC adopting new regulations that likely would speed up disbursements.
Charter facilities	500	95	None.	OPSC currently accepting new applications from April 1, 2014 to May 30, 2014.
Seismic mitigation[c]	200	151	Transfer remaining bond authority to new construction and modernization.	Applications pending at OPSC totaling about $32 million. An additional $104 million in applications pending at DSA.
Energy efficient facilities	100	33	Transfer remaining bond authority to new construction and modernization.	This program is a supplemental grant, to be used with other programs.
Joint use	30	—	None.	
Totals	**$7,330**	**$298**		

[a] From Proposition 1D (2006).
[b] As of March 26, 2014.
[c] Seismic mitigation is a subprogram of the new construction program.
OPSC = Office of Public School Construction and DSA = Division of State Architect.

There appears to be great demand for the Seismic Mitigation Program (SMP) despite the bond authority balance, and a backlog in project approvals. In July 2013, OPSC staff indicated that there were approximately $100 million in eligible buildings going through the DSA initial approval process. At that time, OPSC staff estimated a potential need of approximately $120.9 million in SMP funding for those buildings that moved beyond the preliminary DSA review. Of this amount, about $15 million was for applications for funding of projects that included DSA approved plans already submitted to the OPSC. According to the OPSC, the SAB has approved conceptual approval of four projects under the SMP. A conceptual approval does not constitute a reservation of funds or bond authority.

Although prior adjustments to the regulations have been made, concerns continue to be raised that the limited use of these funds is due to narrowly-constructed eligibility requirements, rather than the need for, and interest in, seismic mitigation of school facilities. The SAB has requested an update on the current status of these funds.

At its March 2014 meeting, the State Allocation Board took action to include the Overcrowded Relief Grant (ORG), Career Technical Education (CTE), and Charter School Programs (CSFP) in the priority funding process. The priority funding process was created to allow projects that receive unfunded approval by the SAB to receive an apportionment with accelerated timelines. A district that participates must be able to enter into 50 percent of the contracts for the project within 90 days of the apportionment. Any project that is unable to do so or opts not to participate in the funding round, twice, is removed from the Unfunded List, and the priority funding apportionment is rescinded, allowing other construction-ready projects to move forward on the list.

SB 1157 (Hancock), would prohibit the shift of funds from the SMP and High Performance Incentive Grant Program, as proposed in the Governor's budget. AB 2235 (Buchanan) would authorize a new construction and modernization bond for K-12 school facilities. Both of these bills are under consideration in the current session.

Staff Comments: The problem that the Governor's proposal seeks to address is two-fold: 1) the exhaustion of the new construction and modernization programs, which have a combined unfunded demand of $827 million and an enormous unknown need in the field due to class size reduction pressures, enrollment growth in certain regions, and aging or lacking facilities; and 2) the need to spend down remainders in each of the specialized programs. In the January budget, the Governor noted the need for a renewed conversation about the state's role in the financing of K-12 school facilities:

"As part of the 2014 Five‑Year Infrastructure Plan, the Administration proposes to continue a dialogue on the future of school facilities funding, including consideration of what role, if any, the state should play in the future of school facilities funding. This infrastructure discussion should also include the growing debt service costs associated with the state's increased reliance on debt financing."

According to the DOF, this dialogue has begun with K-12 stakeholders, however, no May Revise proposal or engagement with the Legislature in the near future is intended. In the absence of a more robust dialogue about changes, to and funding, for the School Facilities Program, the Legislature is left with the short-term proposal to shift funds from four specialized programs in order to fund a small number of additional projects on the new construction and modernization unfunded lists.

The LAO recommends approving the Governor's proposal with two modifications. First, the LAO recommends delaying the transfer of remaining bond authority from the four targeted school facility programs by six months. This would allow OPSC to award more funding for pending projects. Second, the LAO recommends the Legislature also transfer the remaining bond authority in the Charter School Facility program to the New Construction and Modernization programs. This would be consistent with the Governor's approach.

SAB staff has suggested that the intent of the LAO's recommendation would be best achieved with an extension of the date to March 31, 2015.

Subcommittee Questions:

1. Why does the Governor's proposal not include shifting bond authority from the Charter School Facility program, which also has remaining bond authority?

2. Why is it a higher policy priority for the Administration to fund new construction and modernization projects than pending Seismic Mitigation Grant projects?

Staff Recommendation: Pending a comprehensive conversation regarding the future of the entire School Facilities Program and the state's role in local school facility funding and planning, staff recommends an alternative to the Governor's proposal:

1) Accept the Governor's proposal to redirect funds that remain in the Career Technical Education and High Performance Impact Grant programs as of June 30, 2014.

2) For the Overcrowded Relief Grant and charter school facility program, allow funds that remain unspent in each program after March 31, 2015, to be redirected, thus allowing current pending applications to finish the review and SAB approval process.

3) Due to ongoing need for the Seismic Mitigation Program, encourage the Administration to continue working with the DSA, the OPSC, and the SAB on streamlining and speeding up awards from the Seismic Mitigation Program for eligible projects and request a progress report back to the SAB and Legislature on or before March 1, 2015.

Vote:

Issue 4: Emergency Repair Program (Budget Proposal)

Budget Proposal: The Governor’s budget proposes a one-time appropriation of $188.1 million in Prop 98 funds for the Emergency Repair Program (ERP), which was created in response to the *Williams v California* settlement in 2004. New funding would be disbursed to districts in the order in which they were originally submitted and approved.

Background: As a part of the *Williams v California* settlement, SB 6 (Alpert), Chapter 899, Statutes of 2004, established the Emergency Repair Program (ERP). To help meet emergency repair costs, the School Facilities Emergency Repair Account is funded from the Proposition 98 Reversion Account until a total of $800 million has been disbursed for the purpose of addressing emergency facilities needs at school sites in deciles 1 through 3 based on the 2006 Academic Performance Index. As a continuation of the provisions of the settlement, AB 607 (Goldberg), Chapter 704, Statutes of 2006, adopts and encourages participation in the ERP by providing grant funding as well as funding to reimburse applicants for emergency repairs, and provides for a permanent state standard of good repair.

The *Williams v. California* lawsuit, originally filed in 2000, charged that the state had failed to give thousands of children the basic tools necessary for their education, in part due to "inadequate, unsafe, and unhealthful facilities.” The 2004 settlement included increased accountability measures, extra financial support, and other help for low-performing schools. The state agreed to provide $800 million for critical repair of facilities in future years for the state's lowest-performing schools. These low-performing schools were defined as those that were in the bottom three deciles of the 2006 Base Academic Performance Index (API) rankings. Thus far, the state has contributed a total of $338 million for the ERP, and has not provided any new funding since 2008-09.

The Governor proposes to provide $188.1 million in one-time Proposition 98 General Fund to the ERP in 2014-15. The funds would be made available for districts that submitted applications and were approved for ERP funding in 2008. New funding is disbursed to districts in the order in which projects were originally submitted and approved. Over 100 districts have approved ERP projects, at over 700 school sites on file. These projects include emergency repairs such as replacing heating and air conditioning systems, plumbing, electrical and repairing roofs. The Office of Public School Construction does not have the authority to survey districts about the status of their projects and whether they have completed these projects since the time the applications were approved.

As part of his plan to pay down the "wall of debt," the Governor proposes providing $188 million in 2014-15 and $274 million in 2015-16 in order to retire the state's remaining ERP obligation.

Staff Comments: The LAO has raised concerns with the Governor's ERP proposal. Because ERP projects are focused on emergencies, and the list dates from 2008, the LAO points out that most projects have likely already been addressed. Therefore, this funding may not have much impact on improving school facilities. Instead the funding would likely function as general purpose funding for those districts that receive ERP funding. The LAO also believes that some districts may no longer meet the program's eligibility criteria of being among the lowest performing schools. Additionally, the LAO highlights that the proposal runs counter to the state's more recent decision to eliminate categorical programs and require schools to address their facility maintenance using LCFF funds.

The LAO recommends three options for addressing the ERP:

1) Approve the Governor's proposal and honor the state's commitment from many years ago to pay these districts.

2) Open up a second round of ERP applications for either low-performing schools or all schools.

3) Adopt statutory language indicating the state has met its obligation for ERP since it provided billions of dollars in new LCFF funding in 2013-14 and requires that districts use a portion of this funding to maintain their facilities.

Subcommittee Questions:

1. Why does the LAO suggest opening up another round of ERP applications to low-performing or all schools? Is this policy in conflict with the *Williams v California* settlement?

Staff Recommendation: Hold item open until May Revision for further Proposition 98 impact considerations.

Issue 5: Home-to-School Transportation (Informational Item)

Overview: Under the Local Control Funding Formula (LCFF), enacted by the Legislature and Governor in 2013-14 (discussed in greater detail during the March 6, 2014 Subcommittee hearing), local education agencies (LEAs) receive the bulk of their funding based on average daily attendance (ADA) in four grade spans and specified demographics of their student bodies. The LCFF eliminated most K-12 categorical programs (programs with defined purposes and set-aside funding, with corresponding restrictions on the use of those funds for those purposes) and rolled their funding into the LCFF. The Home-to-School Transportation (HTST) categorical program was, however, one of a few exceptions. This program was continued as an "add-on" to the LCFF. Districts that receive this add-on must spend the same amount of state HTST funds as they spent in 2012-13. Districts that did not receive HTST funding in 2012-13 are not eligible for the add-on moving forward. The Governor's budget does not propose any further changes to the HTST program.

In 2013-14, the Legislature also requested that the Legislative Analyst's Office (LAO) assess, and report back with recommendations, for how to improve the state's approach to funding school transportation going forward. The LAO released its resulting report on February 25, 2014 (available online at http://www.lao.ca.gov/reports/2014/education/school-transportation/school-transportation-022514.pdf). The report identifies three potential alternatives for transportation funding moving forward: 1) funding transportation within LCFF, 2) creating a targeted program that reimburses a share of extraordinary transportation costs, or 3) creating a broad-based program that reimburses a share of all transportation costs.

Background on HTST:[1] Most school districts in the state operate school bus programs to transport a portion of their students to and from school. Statewide data from 2011-12 (the most recent available) show that about 700,000, or about 12 percent, of California students ride the school bus on a daily basis. Most of the remaining students get to school via private automobile, or by walking or biking. In contrast to some other states, California does not require districts to transport students who live far from school. At the same time, however, federal law does require LEAs to transport three groups of students: 1) students with disabilities for whom transportation is necessary in order to receive a "free and appropriate public education," 2) students attending schools which are sanctioned under the federal No Child Left Behind (NCLB) Act of 2001, and 3) homeless students. Although a relatively small percentage of students ride the bus to school statewide, most districts transport at least some, and a few districts transport most, of their students. Districts transporting larger shares of pupils tend to have smaller enrollments, be located in rural areas, and enroll larger proportions of students from low-income families, although these trends do not apply in all cases.

Expenditures and Allocations

In 2011-12, districts reported $1.4 billion in expenditures on pupil transportation. The two largest funding sources are contributions from local unrestricted revenues (roughly

[1] The background information in this section is largely excerpted and adapted from the LAO report.

$860 million or 62 percent) and the state HTST program (approximately $491 million or 35 percent). In addition, two other sources of revenue—federal grants and local fees—account for a small share of funding. The state has also historically funded a small program for certain districts to make one-time purchases of school buses.

A total of 890 school districts receive HTST funding, along with 38 county offices of education (COEs). According to California Department of Education (CDE), the largest recipients of funding in 2012-13 included:

LEA	2012-13 Total HTST Entitlement after Control Section 12.42 Reduction	2012-13 P-2 ADA (per "School District ADA" Funding Exhibit)	HTST Apportionment Per ADA
Los Angeles Unified	$77,587,829	548,762.90	$141.4
San Diego Unified	9,559,456	107,478.86	88.9
Long Beach Unified	5,029,976	79,087.89	63.6
Oakland Unified	5,724,962	37,062.50	154.5
San Juan Unified	5,230,781	38,314.25	136.5
Stockton Unified	4,457,353	33,537.28	132.9
San Francisco COE*	4,405,904	51,104.99	86.2
Fresno Unified	4,401,557	66,072.30	66.6
Lodi Unified	4,196,630	26,950.87	155.7
Sacramento City Unified	$4,115,457	41,353.44	$99.5

*Chart displays ADA for San Francisco Unified School District (SFUSD), but HTST funding only for SF COE.

History and Criticism of the HTST Program

The HTST program began in 1947 by reimbursing districts for a share of transportation expenditures. However, since the early 1980s, districts' funding levels have been locked in, with no adjustment for changes in costs, enrollment, or any other factor, apart from uniform cost-of-living adjustments (COLAs) in some years. Additionally, each district's HTST allocation was reduced by 20 percent in 2008-09. Among a few other changes the Legislature and Governor made to the program in 2013-14, HTST allocations are no longer given COLAs.

Because HTST allocations were locked in during the early 1980s, they fail to reflect districts' current characteristics or level of transportation services. Available data indicate that one-quarter of districts receive an HTST allocation sufficient to cover less than 30 percent of their costs, whereas another one-quarter of districts receive an HTST allocation that covers more than 60 percent of their costs. Additionally, some LEAs, including all of the state's approximately 1,100 charter schools, are excluded entirely from receiving any allocation.

LAO Recommendations

The LAO recommends three options for reforming the state's HTST expenditures:

1) Fund transportation costs within LCFF, similar to most former categorical programs.

Under this option, the state no longer would provide additional funding for a discrete pupil transportation program. Instead, LEAs would determine what level of transportation service to provide, and pay for its costs using their LCFF allocations. Funding transportation costs through the LCFF would decrease future funding for those districts currently receiving HTST funds as an add-on to the LCFF (and correspondingly increase levels for those not currently benefiting as much from HTST funds). The LAO notes, however, that the change could be implemented gradually and/or designed to ensure no district receives less total funding than it did in 2012-13.

2) Create a targeted program that reimburses a share of extraordinary costs (while funding other transportation costs within LCFF).

Under an extraordinary cost model, the state would phase out HTST allocations for the majority of districts—as described under the option above—while maintaining a small amount of funding for districts with exceptionally high transportation costs. Specifically, the state could define allowable costs and establish a threshold at which costs exceed what an ordinary district pays for pupil transportation, and then fund a share of those costs.

3) Create a broad-based program that reimburses a fixed share of all allowable costs.

   Under this approach, the state would develop a set of allowable transportation expenditures and cover a uniform, set percentage of those expenditures for all LEAs. The LAO recommends a state share of between 35 and 50 percent. Because the degree to which the existing state HTST allocation covers district transportation costs varies across the state, "equalizing" the state's share of costs across LEAs would require a shift in how funds are allocated and/or an overall increase in state funding for transportation. At the low end, if the state were to fund 35 percent of expenditures and to hold districts harmless from funding decreases, state costs would increase by roughly $120 million beyond current HTST funding. At the high end, the LAO estimates that a 50 percent share of expenditures would increase state costs by roughly $260 million (not accounting for changes due to inflation or service changes).

Proposed legislation currently on the Suspense File in the Senate Appropriations Committee, SB 1137 (Torres), is similar to the third recommendation by the LAO. In its present form, SB 1137 would provide for school districts to be funded at a minimum of 50 percent of approved transportation costs, thereby equalizing funding for those districts that are currently reimbursed at less than 50 percent. This equalization would occur over a seven-year period beginning in 2014-15.

Staff Comment: The allocation formula for the existing HTST program is outdated and inequitable. All of the options recommended by the LAO would phase out the use of allocations linked to historical factors that have since changed and apply more equitable funding rules across LEAs. In addition, all of the options would encourage efficiency by requiring local agencies to cover a notable share of total costs. Finally, all three options would be more transparent than the existing HTST allocation formula. In order to ensure that no individual districts lose overall funding as a result of any changes, however, reforming this program would require additional state resources. Staff recommends that the Subcommittee consider this potential use of state funds and weigh it against other priorities when additional information on the state's revenues is available at the May Revision.

Subcommittee Questions:

1. **For the LAO:**
   a. Please summarize the recommendations contained in your report.
   b. What are the advantages and disadvantages of each approach?
   c. Would districts retain incentives to provide transportation if transportation was funded within LCFF, instead of as a separate program?

2. **For DOF and CDE:**
   a. What are your reactions to the LAO's recommendations?

Staff Recommendation: This is an informational item and no action is required at this time.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, May 8, 2014
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191

Consultants: Farra Bracht, Erin Gabel, Joe Stephenshaw, Mark Ibele and Jen Troia

OTCOMES

Proposed Vote Only

6110 Department of Education

Issue 1 Categorical Programs Consolidation (Staff Reco Approved 2-0, Wyland absent) Page 2

Proposed Discussion / Vote Calendar

6110 Department of Education
6870 California Community Colleges

Issue 1 K-14 Mandates (Item held over, Vote 1-0 Wyland/Liu absent) Page 3

Issue 2 Proposition 39 (Held Open) Page 5

6110 Department of Education

Issue 3 School Facilities Program (Held Open) Page 6

Issue 4 Emergency Repair Program (Held Open) Page 7

Issue 5 Home-to-School Transportation (Informational Item) Page 8

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N

Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Items Proposed for Vote Only

6110 DEPARTMENT OF EDUCATION

Issue 1: Categorical Programs Consolidation—Specialized Secondary Education Programs and Agricultural Education Grants (Budget Proposal)

Proposal: The Governor's budget provides for Specialized Secondary Programs (SSP) and Agricultural Education Grants (AEG) within the Local Control Funding Formula (LCFF). Under the Governor's proposal, school districts receiving funding for these two programs in 2013-14 would have those funds count toward their LCFF targets beginning in 2014-15, with no change made to the LCFF target rates. The currently required categorical activities would be left to each district's discretion. The 2013-14 budget consolidated approximately two-thirds of all categorical programs with the discretionary revenue limit funding to create the LCFF. Currently, 13 categorical programs continue to be funded outside of the LCFF, including SSP and AEG.

Prior Subcommittee Action: At its April 29 hearing, the Subcommittee voted to explicitly reject the Governor's proposal to place the designated SSP and AEG programs under the LCFF. Apparently, there was some confusion expressed as to whether the intent was to continue actually funding these programs as separate categorical programs.

Staff Comment: Staff suggests that Subcommittee affirm their action taken on April 29th to continue funding SSP and AEG as separate categorical programs outside the LCFF.

Staff Recommendation: Affirm the rejection of the Governor's proposal to include Agricultural Education Grants and Specialized Secondary Programs funds within the LCFF and approve these as separate categorical programs and maintain their current funding.

Vote: (Staff Reco Approved 2-0, Wyland absent)

Items Proposed for Discussion/Vote

6110 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES

Issue 1: K-14 Mandates

Overview: The California Constitution requires the state to reimburse local governments for new programs or requirements for higher levels of service that the state imposes on them. In the area of education, local governments that qualify for reimbursement include school districts, county offices of education (COEs), and community colleges—collectively referred to as local educational agencies (LEAs).

The state currently owes $4.5 billion in prior year mandate costs, a "backlog" that accumulated due to the state's earlier deferrals of those payments. The Governor's multi-year plan for paying off all outstanding education obligations includes the payment of outstanding mandate costs (part of the "wall of debt"). However, the Governor does not include funding for paying down the mandate backlog in 2014-15. Instead, the Governor proposes to pay off these obligations in the 2015-16 through 2017-18 fiscal years.

The Commission on State Mandates (CSM) recently approved statewide cost estimates for seven new education mandates. The Governor's budget addresses four of these mandates. Specifically, the Governor proposes to add the following education mandates to the mandates block grants for schools and community colleges: 1) Uniform Complaint Procedures (K-12 schools only), 2) Charter Schools IV (K-12 schools only), and 3) Public Contracts (K-12 schools and community colleges). The Governor's budget also proposes to repeal the Community College Construction Mandate. The Administration acknowledges that they inadvertently omitted one new mandate, and intentionally left out the remaining two because the CSM had not yet finished their cost estimates when the Governor's budget was released. The Administration indicates that proposals related to these three remaining new mandates will likely be included in the May Revision.

In a recent analysis of education mandates (available online here: http://www.lao.ca.gov/Publications/Detail/2956), the Legislative Analyst's Office (LAO) made additional recommendations related to changing the state's mandate funding process, which are described below.

Governor's Budget Proposals and LAO Comments: As mentioned earlier, the Governor's January budget addresses four of the seven new mandates, which are described in more detail below.

Uniform Complaint Procedures Mandate (UCP) (K-12)

The state requires schools to respond to certain types of complaints, such as those regarding certain educational programs, discrimination, harassment, facilities, teacher misassignments, and instructional materials. Parents, students, employees, and community members can file complaints on behalf of themselves or on behalf of another individual. For certain types of complaints, the state requires schools to use its UCP to resolve the complaint. Most procedural activities required under the state's UCP have been found to be reimbursable mandates. However, reimbursement is only required when the complaint relates to 1) free and reduced-price school meals; 2) adult education programs in citizenship and English; 3) most special education activities; and 4) discrimination, with the exception of discrimination relating to age, sex, and disability. The specific UCP reimbursable activities are:

- Adopting complaint procedures and notifying the public;
- Providing notice of civil remedies;
- Referring certain complaints; and
- Forwarding information for appeals.

In addition, under state and federal law, schools are required to perform specified activities related to antidiscrimination laws, as they pertain to education programs. These activities include providing a statement of their intent to comply with antidiscrimination laws to the California Department of Education (CDE), as well as describing how they will comply with these laws. Because the state requirements go beyond the federal law, the CSM deemed these activities a state mandate. Specifically, the state requires schools to report on antidiscrimination compliance related to religion and sexual orientation. The corresponding statement of intent requires minimal additional workload, since this information is included in a single, one-page document, and CDE has not yet required districts to report on how they are complying with antidiscrimination laws.

Staff Recommendation: Adopt the Governor's proposal to add the Uniform Complaint Procedures Mandate, Charter Schools IV Mandate, and Public Contracts Mandate into the mandates block grant without additional funding. In addition, adopt the Governor's proposal to repeal the Community College Construction Mandate.

Vote: (Item held over, Vote 1-0 to Approve Staff Reco, Liu/Wyland absent)

Issue 2: Proposition 39

Governor's Budget Proposal. The Governor's budget estimates $726 million in Proposition 39 revenue. Of this amount, one-half ($363 million) is dedicated, primarily to schools and community colleges, as follows:

- $316 million and $39 million to K-12 school and community college districts, respectively, for energy efficiency project grants.
- $5 million to the California Conservation Corps (CCC) for continued technical assistance to K-12 school districts.
- $3 million to the California Workforce Investment Board (CWIB) for continued implementation of the job-training program.

The Governor's budget includes a reduction, from the current-year funding level, of $101 million for Proposition 39 energy projects due to lower projected tax revenues than assumed in the 2013-14 budget. These revenue projections are based on the Franchise Tax Board's estimates.

Staff Recommendation. Hold open.

Vote: (Held Open)

Issue 3: School Facilities Program (Budget Proposal)

Budget Proposal: The Governor's 2014-15 budget proposes the transfer of a total of $211.0 million in bond authority from four specialized school facility programs to the new construction and modernization programs. The impacted programs are the Overcrowded Relief Grant, Seismic Mitigation, Career Technical Education, and High Performance Schools programs. Under the proposal, half of any remaining bond authority on June 30, 2014, would be equally redirected to new construction and modernization. Any funds that revert to these programs from rescinded projects or project savings in the future would also be equally redirected.

Staff Recommendation: Pending a comprehensive conversation regarding the future of the entire School Facilities Program and the state's role in local school facility funding and planning, staff recommends an alternative to the Governor's proposal:

1) Accept the Governor's proposal to redirect funds that remain in the Career Technical Education and High Performance Impact Grant programs as of June 30, 2014.

2) For the Overcrowded Relief Grant and charter school facility program, allow funds that remain unspent in each program after March 31, 2015, to be redirected, thus allowing current pending applications to finish the review and SAB approval process.

3) Due to ongoing need for the Seismic Mitigation Program, encourage the Administration to continue working with the DSA, the OPSC, and the SAB on streamlining and speeding up awards from the Seismic Mitigation Program for eligible projects and request a progress report back to the SAB and Legislature on or before March 1, 2015.

Vote: (Held Open)

Issue 4: Emergency Repair Program (Budget Proposal)

Budget Proposal: The Governor's budget proposes a one-time appropriation of $188.1 million in Prop 98 funds for the Emergency Repair Program (ERP), which was created in response to the *Williams v California* settlement in 2004. New funding would be disbursed to districts in the order in which they were originally submitted and approved.

Staff Recommendation: Hold item open until May Revision for further Proposition 98 impact considerations.

Vote: (Held Open)

Issue 5: Home-to-School Transportation (Informational Item)

Overview: Under the Local Control Funding Formula (LCFF), enacted by the Legislature and Governor in 2013-14 (discussed in greater detail during the March 6, 2014 Subcommittee hearing), local education agencies (LEAs) receive the bulk of their funding based on average daily attendance (ADA) in four grade spans and specified demographics of their student bodies. The LCFF eliminated most K-12 categorical programs (programs with defined purposes and set-aside funding, with corresponding restrictions on the use of those funds for those purposes) and rolled their funding into the LCFF. The Home-to-School Transportation (HTST) categorical program was, however, one of a few exceptions. This program was continued as an "add-on" to the LCFF. Districts that receive this add-on must spend the same amount of state HTST funds as they spent in 2012-13. Districts that did not receive HTST funding in 2012-13 are not eligible for the add-on moving forward. The Governor's budget does not propose any further changes to the HTST program.

In 2013-14, the Legislature also requested that the Legislative Analyst's Office (LAO) assess, and report back with recommendations, for how to improve the state's approach to funding school transportation going forward. The LAO released its resulting report on February 25, 2014 (available online at http://www.lao.ca.gov/reports/2014/education/school-transportation/school-transportation-022514.pdf). The report identifies three potential alternatives for transportation funding moving forward: 1) funding transportation within LCFF, 2) creating a targeted program that reimburses a share of extraordinary transportation costs, or 3) creating a broad-based program that reimburses a share of all transportation costs.

Staff Recommendation: This is an informational item and no action is required at this time.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Tuesday, May 20, 2014
1:30 p.m.
Room 3191

Consultants: Joe Stephenshaw, Samantha Lui, Jody Martin, Mark Ibele

May Revision Overview Hearing
Proposition 98 and K-14 Education Issues

Part A

Items Proposed for Discussion

Item	Department	Page
6110	**California Department of Education**	
Issue 1	Child Care Overview………………………………………………………………...	2
Issue 2	May Revision Program Changes………………………………………………..	4
6110	**California Department of Education**	
6870	**California Community Colleges**	
Issue 1	Proposition 98 Overview…………………………………………………………….	8
Issue 2	May Revision Program Changes…………………………………………………..	12

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Items Proposed for Discussion

6110 CALIFORNIA DEPARTMENT OF EDUCATION - CHILD CARE

Issue 1: CHILD CARE OVERVIEW

Panelists: Legislative Analyst's Office

Governor's May Revision. The May Revision provides a total of $1.8 billion for all child care and development programs (a decrease of $15 million [2 percent] due to increases in federal funding by $14 million and decreases in state General Fund by $29 million). The May Revision also adjusts funding for all three stages of CalWORKs child care to reflect revised caseload estimates and a higher average cost of care.[1] Specifically, the May Revision provides a total of $936 million across the three stages, reflecting a net decrease of less than $1 million. Compared to the January budget proposal, the May Revision:

- Decreases funding for Stage 1 by $13.5 million,
- Decreases funding for Stage 2 by $15.6 million, and
- Increases funding for Stage 3 by $29.6 million.

Additionally, the May Revision updates federal fund estimates and removes $16 million state General Fund, which was originally provided in 2013-14 to backfill an anticipated federal sequestration. The anticipated federal cuts did not occur, and the additional General Fund was no longer needed to backfill the federal sequestration cuts.

The Administration proposes slight increases in growth funding, specifically by $0.8 million to provide a total of $5.9 million in statutory growth adjustments across General Child Care, Alternative Payment, State Preschool, Migrant and Handicapped programs. These increases reflect updated estimates for the change in the state's population of children ages birth to five (increasing from 0.42 percent in January to 0.49 percent in May).

To compare key child care and development budget differences between the Administration's January proposal and May Revision, please see chart below from the Legislative Analyst's Office.

[1] Adjustments reflect net of both caseload changes—which decrease for both Stage 1 and Stage 2, but increase for Stage 3—and higher assumptions regarding the cost of providing care.

Child Care and Preschool Budget

(Dollars in Millions)	2012-13 Actual	2013-14 Revised		2014-15 January	2014-15 May	Change from January Amount	Change from January Percent
Expenditures							
CalWORKs Child Care							
Stage 1	$289	$337		$385	$371	-$14	-4%
Stage 2 a	$419	$367	b	$364	$349	-$16	-4%
Stage 3	$162	$202	b	$186	$216	$30	16%
Subtotals	**$870**	**$906**		**$935**	**$936**	**$0**	**0%**
Non-CalWORKs Child Care							
General Child Care	$465	$453	b	$479	$468	-$11	-2%
Alternative Payment	$174	$173	b	$179	$175	-$4	-2%
Other child care	$28	$27	b	$28	$28	-$1	-2%
Subtotals	**$666**	**$653**		**$687**	**$671**	**-$15**	**-2%**
Support Programs	$76	$74		$73	$73	$0	0%
Totals	**$1,612**	**$1,634**		**$1,695**	**$1,680**	**-$15**	**-1%**
Funding							
State Non-Proposition 98 General Fund	$779	$780		$784	$755	-$29	-4%
Other state funds	$14	$0		$0	$0	$0	0%
Federal CCDF	$549	$541		$556	$570	$14	3%
Federal TANF	$372	$313		$355	$355	$0	0%
State Preschool (Proposition 98)	**$481**	**$507**		**$509**	**$509**	**$0**	**0%**

a Does not include $9.2 million provided to Community Colleges for Stage 2 child care.
b Totals reflect midyear funding shifts to augment Stage 2 by $9.4 million and Stage 3 by $19.1 million to address shortfalls.

CCDF=Child Care and Development Fund and TANF=Temporary Assistance for Needy Families

The number of slots is slightly lower from the January proposal, due to revised caseload estimates in CalWORKs programs and other statutory growth adjustments for other programs. On the following page, please see the chart, which summarizes the number of child and state preschool slots.

Summary of Child Care and Preschool Subsidized Slots[a]

			2014-15		Change from January	
	2012-13	**2013-14 Revised**	**January**	**May**	**Amount**	**Percent**
CalWORKs Stage 1	34,849	37,774	42,719	41,787	-932	-2%
CalWORKs Stage 2b	63,379	54,080	55,943	51,956	-3,987	-7%
CalWORKs Stage 3	25,448	31,674	30,830	34,563	3,733	12%
Subtotal	123,676	123,528	129,492	128,306	-1,186	-1%
General Child Care	46,036	44,854	47,429	46,360	-1,068	-2%
Alternative Payment	24,854	25,626	26,515	25,962	-553	-2%
Migrant	2,491	2,477	2,567	2,509	-59	-2%
Handicapped	143	144	145	145	0	0%
Subtotal	73,524	73,101	76,656	74,976	-1,680	-2%
Total Child Care	**197,200**	**196,629**	**206,148**	**203,282**	**-2,866**	**-1%**
State Preschool	**129,511**	**136,182**	**137,093**	**137,189**	**96**	**0%**

a Reflects average monthly slots.
b Does not include 1,781 Stage 2 Community College Child Care slots.
Source: Legislative Analyst's Office.

Issue 2: MAY REVISION PROGRAM CHANGES

Panelists: Department of Finance
Legislative Analyst's Office
Department of Education

The Governor's May Revision proposal pertaining to child care, early education, and development are detailed below.

Child Care

- Revised Cost Estimates (Issue 853). The Administration requests $14.6 million to reflect revised cost estimates for CalWORKs Stage 2 (-$15.6 million) and Stage 3 child care ($30.2 million) to reflect a higher projected cost per case in Stages 2 and 3 than in the Governor's January budget, as well as decreased caseload of 4,000 in Stage 2 and increased caseload of 3,700 in Stage 3.

- Growth Adjustment. (Issue 856). The Administration proposes to adjust the non-Proposition 98 child care programs for growth, specifically, to increase local assistance by $481,000 to reflect a revised growth adjustment of 0.49 percent. The Governor's January demographic information indicated a 0.42 percent increase in the 0-4 year old population.

The Administration proposes to amend Provision 5 of the item, as follows:
"5. The amounts provided in Schedules (1.5)(a), (1.5)(c), (1.5)(d), and (1.5)(j) of this item to reflect an adjustment to the base funding of ~~0.42~~ 0.49 percent for an increase in the population of 0-4 year olds."

- Adjustments in federal Child Care Funds (Issues 8585, 859, 860, and 861). The Administration proposes an increase of $24.4 million to reflect the following adjustments in the federal Child Care Funds:

  - An increase of $7.1 million in one-time federal funds available from prior years.
  - An increase of $17.3 million in ongoing federal funds, which will offset a like-amount in non-Proposition 98 General Fund in the CalWORKs Stage 3 child care program.

  The Governor's January budget identified $20.7 million in one-time carryover funds for the budget year, and this adjustment will increase total available carryover funds to $27.8 million.

  Additionally, the Administration requests to amend Provision 4 of Item 6110-194-0890 as follows:

  "4. Of the funds appropriated in this item, ~~$20,723,000~~ $27,825,000 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 2014-15 federal fiscal year."

- Excess Funding Authority for Child Care Programs (Issue 862). The Administration requests a decrease of $15.9 million excess authority, which was associated with a backfill for an anticipated sequester of federal child care funds that did not materialize.

State Preschool Program

- Revised Growth Adjustment (Issue 857). The Administration seeks to adjust State Preschool funding by $356,000, reflecting a revised growth adjustment of a 0.49 percent increase in the 0-4 year old population. As discussed above, the demographic information at the time of the Governor's budget indicated a 0.42 percent increase.

  As such, the Administration proposes the following amended language to Provision 3:

  "3. The amount provided in Schedule (1) reflects an adjustment to the base funding of ~~0.42~~ 0.49 percent for an increase in the population of 0-4 year-olds."

Race to the Top--Early Learning Challenge (RTT--ELC) Grant

- Local Assistance Funding (Issue 854). The Administration proposes an increase of $1.8 million in local assistance to reflect changes in indirect cost rates, due to changes in contract costs, and grant carryover, available from the 2013-14 RTT--ELC. The additional authority does not increase the total amount of the grant but instead, shifts the funds between grant years.

- State Operations Funding (Issue 855). The Administration proposes to increase state operations by $3.2 million and amend the corresponding budget bill language to reflect this change and changes in indirect cost rates and grant carryover, available from 2013-14 from the RTT-ELC grant.

  The May Revision proposal requests to amend Provision 19 as follows:

  "19. Of the funds appropriated in this item, ~~$2,240,000~~ $5,447,000 shall be available to support local quality improvement activities under the Race to the Top--Early Learning Challenge (RTT-ELC) grant, consistent with the plan approved by the Department of Finance."

State Median Income

The May Revision proposes trailer bill language that continues to set the state median income (SMI), for purposes of qualifying for specified child care programs, at the level used in 2007-08. January budget funding was based on the 2007-08 SMI. The proposed trailer bill language is below:

Section 8263.1 of the Education Code is amended to read:

8263.1. (a) For purposes of this chapter, "income eligible" means that a family's adjusted monthly income is at or below 70 percent of the state median income, adjusted for family size, and adjusted annually.

(b) Notwithstanding any other law, for the 2011–12 fiscal year, the income eligibility limits that were in effect for the 2007–08 fiscal year shall be reduced to 70 percent of the state median income that was in use for the 2007–08 fiscal year, adjusted for family size, effective July 1, 2011.

(c) Notwithstanding any other law, for the 2012–13 fiscal year, the income eligibility limits shall be 70 percent of the state median income that was in use for the 2007–08 fiscal year, adjusted for family size.

(d) Notwithstanding any other law, for the 2013–14 fiscal year, the income eligibility limits shall be 70 percent of the state median income that was in use for the 2007–08 fiscal year, adjusted for family size.

(e) Notwithstanding any other law, for the 2014–15 fiscal year, the income eligibility limits shall be 70 percent of the state median income that was in use for the 2007–08 fiscal year, adjusted for family size.

(~~e~~f) The income of a recipient of federal supplemental security income benefits pursuant to Title XVI of the federal Social Security Act (42 U.S.C. Sec. 1381 et seq.) and state supplemental program benefits pursuant to Title XVI of the federal Social Security Act and Chapter 3 (commencing with Section 12000) of Part 3 of Division 9 of the Welfare and Institutions Code shall not be included as income for purposes of determining eligibility for child care under this chapter.

6110 CALIFORNIA DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES

Issue 1: PROPOSITION 98 OVERVIEW

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

GOVERNOR'S MAY REVISION PROPOSALS

Proposition 98 Overall Funding—K-12 and Community Colleges

California's Proposition 98 guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

As a result of changes in General Fund revenues over the three-year period of 2012-13 to 2014-15, Proposition 98 funding obligations will increase by a total of $242 million over the Governor's budget. Specifically, Proposition 98 funding in 2012-13 decreases by $547 million primarily due to a decrease in revenues. In 2013-14, Proposition 98 funding increases by approximately $1.5 billion due to higher revenues and enrollment growth. Proposition 98 funding in 2014−15 decreases by approximately $700 million primarily due to slower year-over-year General Fund revenue growth and a decrease in local property tax revenues. As a result of these changes, the revised Proposition 98 Guarantee levels at the May Revision for the 2012-13 through 2014-15 fiscal years are $57.8 billion, $58.3 billion, and $60.9 billion respectively.

The Proposition 98 minimum guarantee is determined by comparing the results of three "tests" or formulas that are based on specific economic and fiscal data. The factors considered in these tests include growth in personal income of state residents, growth in General Fund revenues, changes in student enrollment, and a calculated share of the General Fund. Very generally, Test 1 is based on a percentage of General Fund, Test 2 on growth in personal income, and Test 3 on General Fund growth. As in January, the May Revision assumes that 2012-13 is a Test 1 year and that the current year is a Test 3 year. In addition, the current assumption is that 2014-15 will be a Test 1 year--in the budget year it is expected that the calculated share of the General Fund will result in greater revenues under Proposition 98 than either of the growth calculations under Test 2 or Test 3.

In years following suspension of the Proposition 98 minimum guarantee or when the General Fund grows more slowly than the economy, a maintenance factor is created. The payment of this maintenance factor is designed to bring school funding back to the level where it would be based on economic growth. When growth in state General Fund revenues is stronger, the state is required to make maintenance factor payments. The Proposition 98 amounts include maintenance factor paid of $5.2 billion in 2012-13, accrued of $458 million in 2013-14, and paid of $2.6 billion in 2014-15. Maintenance factor outstanding would be $4.0 billion at the end of the budget year.

Proposition 98 funding from General Fund and local property taxes by segment is shown in the table below:

Proposition 98 Funding (Dollars in Millions)	**2012-13**			**2013-14**			**2014-15**		
	January	**May Revision**	**Change**	**January**	**May Revision**	**Change**	**January**	**May Revision**	**Change**
Preschool	481	481	0	507	507	0	509	509	0
K-12 Education									
General Fund	37,740	37,271	-469	36,361	37,958	1,597	40,079	39,537	-542
Local property tax revenue	13,895	13,848	-47	13,633	13,405	-229	14,171	14,089	-82
Subtotals	**51,634**	**51,119**	**-515**	**49,995**	**51,363**	**1,368**	**54,250**	**53,626**	**-624**
California Community Colleges									
General Fund	3,908	3,853	-56	4,001	4,187	186	4,396	4,338	-59
Local property tax revenue	2,241	2,264	23	2,232	2,167	-65	2,326	2,309	-18
Subtotals	**6,149**	**6,117**	**-32**	**6,233**	**6,355**	**121**	**6,723**	**6,646**	**-76**
Other Agencies	78	78	0	78	78	0	77	77	0
Totals	**58,342**	**57,795**	**-547**	**56,813**	**58,302**	**1,489**	**61,559**	**60,859**	**-700**
General Fund	42,207	41,682	-524	40,948	42,731	1,783	45,062	44,462	-600
Local property tax revenue	16,135	16,112	-23	15,866	15,572	-294	16,497	16,397	-100

Source: Legislative Analyst's Office

The May Revision focuses on maintaining the core priorities outlined in the Governor's budget for K-12 schools-paying down the "Wall of Debt" and investing significantly in the new Local Control Funding Formula (LCFF). The May Revision prioritizes available funding to repay all of the inter-year budgetary deferrals through a mix of ongoing 2014-15 funds and one-time funds attributable to 2012-13 and 2013-14. The deferral pay-down plan for the May Revision includes some inter-year shifts, but the overall fiscal effect over the three years remains unchanged from January, as shown below:

Changes to Governor's Deferral Paydown Plan			
(In Millions)			
	January	**May**	**Difference**
2012-13			
K-12	1,813	1,295	-518
CCC	194	139	-55
Subtotal	2,007	1,433	-574
2013-14			
K-12	1,520	2,781	1,260
CCC	163	296	134
Subtotal	1,683	3,077	1,394
2014-15			
K-12	2,238	1,496	-742
CCC	236	158	-78
Subtotal	2,474	1,653	-820
Total Paydown	**6,164**	**6,164**	**0**

Source: Legislative Analyst's Office

The payment of all deferrals will provide local educational agencies with additional cash, potentially reducing borrowing costs for schools, but it does not constitute additional resources for improving programs. The May Revision also continues the Administration's commitment to the LCFF, by maintaining the $4.5 billion second-year-implementation investment in the formula, enough to eliminate more than 28 percent of the remaining funding gap, representing a significant acceleration from the original implementation schedule. Funding is provided for various workload adjustments under the new formula.

The administration has also proposed a comprehensive funding plan for the California State Teachers Retire System (CalSTRS) which is based on shared responsibility among the school districts, teachers and the state. This issue will be discussed more fully in Subcommittee 5. The Administration's proposal for a new reserve policy, encompassing a Proposition 98 reserve, was modified based on legislative concerns and approved pursuant to ACA2X1 (John Pérez) to be placed before the voters in November 2014.

Changes within Proposition 98, as proposed in the May Revision, are shown in the table below. Specific additional proposals are outlined in Issue 2, below.

Proposition 98 Spending Changes in 2014-15 May Revision	
(In Millions)	
K-12 Education	
Reduce deferral paydown	-742
Increase LCFF for higher attendance	121
Increase categoricals for higher attendance	17
Increase funding for FCMAT	1
Other K-12 adjustments	-20
Subtotal	(623)
California Community Colleges	
Rescind instructional equipment proposal	-88
Reduce deferral paydown	-78
Increase deferred maintenance funding	61
Provide one-time CTE funding	50
Reduce enrollment growth funding	-15
Other CCC adjustments	-12
Fund internet equipment and connectivity	6
Subtotal	(76)
Total May Revision Changes	**-700**

Source: Legislative Analyst's Office

Issue 2: MAY REVISION PROGRAM CHANGES

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

GOVERNOR MAY REVISION PROPOSALS

Program Changes — K-12

<u>Common Core</u>
The Administration continues its focus on the implementation of the Common Core academic standards in California. $1.25 billion in one-time funds last year was provided to assist schools with investments in the areas of professional development, instructional materials, and technology enhancements. Because adequate technological capability is important to supporting basic access for all schools and students to the computer-based assessment environment envisioned under Common Core, the May Revision proposes an investment of $26.7 million for the K-12 High Speed Network to perform a comprehensive network connectivity assessment and allocate grant funding to those school districts with the greatest need in this area. Providing this funding will allow maximum participation in computer adaptive tests during 2014-15.

<u>Independent Study</u>
The Administration proposes changes in the Governor's January budget proposal in the May Revision regarding independent study. The Governor's budget proposed to streamline and expand the instructional opportunities available through independent study by authorizing local educational agencies to offer course-based independent study options for students in grades 9-12 and site-based blended learning programs for grades K-12. The May Revision proposes a series of changes to the Administration's January proposal, including: (1) eliminating the requirement that certificated teachers and students meet weekly to assess if a student is making satisfactory academic progress in a school site-based blended learning independent study program. Teachers and students in these programs already interact frequently enough to monitor student progress; (2) providing schools with the ability to offer site-based blended learning, utilizing a universal learning agreement for all students enrolled in the same course or courses; (3) promoting equitable funding for students enrolled in course-based independent study programs by basing it on average daily attendance, and not enrollment, and applying the statewide excused absence rate to average daily attendance (ADA) claimed by local educational agencies.

Local Control Funding Formula

During the initial transition to the LCFF in 2013‑14, local educational agencies participating in Provisions 2 and 3 of the National School Lunch Program encountered administrative challenges collecting income eligibility forms to determine if a student qualified for a free or reduced‑price meal. To address those challenges, the May Revision proposes the following changes to the calculation of unduplicated pupils under the LCFF: (1) authorize schools participating in Provision 2 or 3 of the National School Lunch Program to establish base‑year student eligibility for free or reduced‑price meals no less than once every four years; provided that the school annually updates its free and reduced‑price meal eligible student counts for newly enrolled or disenrolled students during the intervening years; (2) require the Superintendent of Public Instruction to revise a local educational agency's three‑year rolling average unduplicated student enrollment percentage using 2014‑15 student data in place of 2013‑14 data, if doing so would increase the local educational agency's rolling average.

Proposition 39

The California Clean Energy Jobs Act was approved by voters in 2012 and increases state corporate tax revenues. For 2013‑14 through 2017‑18, the measure requires half of the increased revenues, up to $550 million per year, to be used to support energy efficiency projects. The May Revision decreases the amount of energy efficiency funds available to K‑12 schools in 2014‑15 by $9 million to $307 million to reflect reduced revenue estimates.

Other Changes and Proposals

In addition to the changes noted and discussed above, the May Revision provides for the following:

- Categorical Program Growth — An increase of $15.3 million Proposition 98 General Fund for selected categorical programs based on updated estimates of projected ADA growth.

- Cost‑of‑Living Adjustments — A decrease of $258,000 Proposition 98 General Fund to selected categorical programs based on a revised cost‑of‑living factor of 0.85 percent for 2014‑15.

- K‑12 Mandates Block Grant — An increase of $1.6 million Proposition 98 General Fund to align mandate block funding with revised ADA estimates. This additional funding is required to maintain statutory block grant funding rates assuming 100 percent program participation.

- K‑12 Mandates Claims Process — An increase of $5,000 Proposition 98 General Fund to reflect the addition of five mandates to the mandate claiming process. Specifically, $1,000 is provided for each of the following new mandates: Parental Involvement Programs; *Williams* Case Implementation I, II, and III; and

Developer Fees. An additional $1,000 is provided for both the existing Student Records and Graduation Requirements mandates, which were inadvertently omitted from the claims process budget bill item last year

- Special Education — An increase of $4.5 million to provide federal Individuals with Disabilities Education Act (IDEA) funds to support the provision of accessible instructional materials to local educational agencies. This request would shift federal IDEA funds from local assistance entitlements to state-level activities. This proposal replaces the Governor's January fee-based proposal, which the Subcommittee rejected.

- Fiscal Crisis and Management Assistance Team (FCMAT) — An increase of $500,000 to support the operations of FCMAT, which helps local educational agencies fulfill their financial and management responsibilities. The funding would provide FCMAT with resources to support the LCFF workload.

- Charter Schools and Workforce Investment — Statutory language that would suspend the ability of local education agencies to establish new federal Workforce Investment Act affiliated charter schools until a more comprehensive adult education plan can be developed. Currently, these schools can claim LCFF-based funding for adult average daily attendance, unlike other schools.

Program Changes — Community Colleges

The May Revision provides for the following changes for community colleges:

- Enrollment Growth — Includes funding for enrollment growth of 2.75 percent, instead of 3 percent growth, which was proposed in January. The revised plan would provide $140.4 million Proposition 98 General Fund for enrollment growth.

- Cost-of-Living Adjustment (COLA) — Reduces the proposed COLA from .86 percent, as proposed in the Governor's budget, to .85 percent. Under the May Revision proposal, $47.3 million Proposition 98 General Fund would be available for a COLA.

- Career Technical Education (CTE) — Provides $50 million Proposition 98 General Fund to augment the Economic and Workforce Development categorical program. The program supports regional planning for CTE programs tied to regional workforce needs, and also supports equipment costs and professional development for CTE faculty. This is one-time funding. The proposal would require the Chancellor's Office to distribute the funding to already-formed regional consortia.

- Enhanced Non-Credit Rate Increase — Proposes trailer bill language that would increase the funding rate in 2015-16 for career development and college preparation noncredit courses to equal the rate of credit courses. These courses, often referred to as enhanced noncredit courses, offer noncredit classes that are tied to specific credit programs.

- Deferred Maintenance and Instructional Equipment — Rescinds the Governor's budget proposal to provide $87.5 million Proposition 98 General Fund for the replacement of instructional equipment, and instead increases funding to allow community colleges to address deferred maintenance by $60.5 million Proposition 98 General Fund. Total funding for deferred maintenance is now proposed for $148 million. In addition, the May Revision proposes to eliminate a 1-to-1 match for districts who receive this funding.

- Technology Infrastructure — Provides $6 million Proposition 98 General Fund to upgrade bandwidth and replace technology equipment at each community college to support technology initiatives begun in 2013-14 such as electronic transcripts, electronic education planning, and the online education initiative.

- Deferral Eliminations — Continues to pay down all outstanding deferrals, but changes the year in which payments are counted, as follows:

Year	Jan Proposal	May Revise	Difference
2012-13	$194 Million	$139 Million	-$55 Million
2013-14	$163 Million	$296 Million	$134 Million
2014-15	$236 Million	$158 Million	-$78 Million

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Tuesday, May 20, 2014
1:30 p.m.
Room 3191, State Capitol

Consultant: Joe Stephenshaw
Part B

Item	Department
6120	**California State Library**
6440	**University of California (UC)**
6870	**California Community Colleges (CCC)**
6980	**California Student Aid Commission (CSAC)**

Vote Only Item

Item 1	Appointments to the State Library	Page 2
Item 2	UC Revenue Adjustment	Page 2
Item 3	UC Capital Outlay Trailer Bill Language	Page 2
Item 4	CCC Growth Funding	Page 3
Item 5	CCC Trailer Bill Language Proposals	Page 3
Item 6	CCC May Revise Technical Adjustments	Page 4
Item 7	CCC Reappropriations	Page 5
Item 8	CCC Technology Infrastructure	Page 6
Item 9	Student Success and Statewide Performance Strategies	Page 6
Item 10	City College of San Francisco Stabilization	Page 7
Item 11	CSAC May Revision Proposals	Page 8
Item 12	CSAC Legislative Augmentations	Page 9

Discussion Items

Item 1	UC Funding Package	Page 11
Item 2	UC Research Programs	Page 14
Item 3	CCC Augmentations to Governor's May Revision	Page 16

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Items Proposed for Vote Only

6120 CALIFORNIA STATE LIBRARY
6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Issue 1: Appointments to the State Library

Governor's Proposal. The May Revision proposes $192,000 General Fund and two positions to support the State Librarian.

Background. On March 25, 2014, the Governor announced the appointment of a new State Librarian. The Governor has subsequently appointed a special assistant to assist with various research projects on behalf of the librarian. An additional administrative assistant is also requested to support the librarian.

Staff Recommendation. Approve as proposed.

Issue 2: UC Revenue Adjustment

Governor's Proposal. The May Revision includes a decrease of $876,000 from the Cigarette and Tobacco Products Surtax Fund Research Account.

Background. This adjustment is being proposed to maintain an adequate reserve in the Cigarette and Tobacco Products Surtax Fund Research Account due to a decrease in the amount of revenues projected to be deposited in the account.

Staff Recommendation. Approve as proposed.

Issue 3: UC Capital Outlay Trailer Bill Language

Governor's Proposal. The Governor's budget proposed trailer bill language that makes minor technical changes to the UC capital outlay process approved last year, moves language regarding energy conservation projects that had been included in provisional budget language into statute, and creates one process to authorize UC energy conservation projects, instead of two.

Background. Last year the Legislature created a new process for UC capital outlay projects, in which UC is allowed to pledge its General Fund support to finance bonds and UC has greater authority to determine its own capital outlay projects. Trailer bill language proposed this year makes minor word changes to statute for clarification purposes.

The language also moves some provisional budget language regarding energy conservation projects and other capital outlay projects into statute. Finally, the trailer bill language consolidates the process UC must undertake to receive approval for energy conservation projects. Previously there were separate processes for such projects, depending on whether the project was a general energy conservation project or a project with an investor-owned utility. The language would consolidate these processes into one, requiring 30-day legislative notice before UC can move forward with either type of project.

Staff Recommendation. Approve as proposed.

Issue 4: CCC Growth Funding

Governor's Proposal. The May Revision proposes funding for 2.75 percent enrollment growth, instead of 3 percent growth, which was proposed in January. The revised plan would provide $140.4 million Proposition 98 General Fund for enrollment growth. In addition, the May Revision modifies the Governor's budget proposal for trailer bill language to update the apportionment growth formula to provide flexibility to the Chancellor's office and an additional year to revise the formula, as long as the formula continues to consider the age of the adult population and the amount of unemployed adults in community college district boundaries.

Background. The subcommittee heard this issue on April 29th, at which time concerns were expressed regarding the Governor's budget proposal. The two primary concerns were that the level of growth funding, 3 percent, was too high and that more time was needed to update the apportionment formula.

Staff Recommendation. Approve as proposed.

Issue 5: CCC Trailer Bill Language Proposals

Governor's Proposal. The May Revision includes the following trailer bill language requests:

- **Local Goal Setting.** This proposal would modify trailer bill language proposed in the Governor's budget to clarify that goal setting for measures in the Student Success Scorecard by community colleges is a condition of participating in, and receiving funding from, the Student Success and Support Program.

- **Eliminate Apportionment Deferrals.** This proposal continues to eliminate deferrals, however, revises the payment schedule between fiscal years based on updated Proposition 98 estimates.

In addition to the May Revision proposals, the following trailer bill issue is proposed:

- **Nursing Faculty Sunset Extension.** State law generally requires that any community college faculty who teaches at least 67 percent of a full load of courses during a semester be hired as full-time faculty. SB 1309 (Scott), Chapter 837, Statutes of 2006, created an exemption to this law for clinical nursing staff, with a sunset date of June 30, 2014.

  The exemption was created to allow nurses overseeing nursing students in clinical rotations to remain employed as a nurse while also working as adjunct faculty. Nursing rotations are typically 12-hour shifts, with clinical rotations lasting between 6-18 weeks. To meet the state law, most community college clinical nursing programs would have to hire full-time faculty, which is difficult to do, or use more than one part-time faculty for one course, which is a detriment to both the student and the hospital. SB 1309 sought to give flexibility to this specific type of nursing program.

  Several community college nursing programs have asked that the sunset date of this statute be extended to allow for legislation next year that would either make this flexibility provision permanent or extend the sunset for a longer period of time. Trailer bill language would extend the sunset to Dec. 31, 2015.

Staff Recommendation. Approve as proposed.

Issue 6: CCC May Revise Technical Adjustments

Governor's Proposal. The May Revision includes the following technical adjustments:

Community College May Revise Technical Adjustments		
Student Enrollment Fee Revenue	$24.7 million Prop 98 GF	Reflects a decrease in estimated student enrollment fund revenue
Student Financial Aid Administration and Board Financial Assistance	$1.5 million Prop 98 GF	Adjustments consistent with revised estimates of waived fees. Includes BBL adjustment.
Education Protection Account Revenues for Net Excess Tax Districts	-$464,000 Prop 98 GF	Decrease to reflect revised estimates of the Education Protection Account revenue that is allocated to net excess tax districts.

Education Protection Account Revenues	-$22.8 million Prop 98 GF	Decrease to reflect increased estimates of offsetting the Education Protection Account revenue
Redevelopment Agency Revenue Shift	$36.2 million Prop 98 GF	Reflects revised redevelopment agency revenues that will be received after April 15, 2014 and reflect the budget year offset.
Decrease Clean Energy Job Creation Fund Revenue	-$1.5 million Job Creation Fund (Prop 39)	Decrease to reflect revenue estimates.
Mandated Programs Block Grant	-$345,000 Prop 98 GF	Decrease to align block grant funding with revised full-time equivalent students estimate.
Lease Revenue Bond Payment	$1.1 million Prop 98 GF	Reflects the defeasing of outstanding lease revenue bonds related to the LA Community College District's Southwest College Lecture Lab.

Staff Recommendation. Approve; however, conform to the Proposition 98 package, as needed.

Issue 7: CCC Reappropriations

Governor's Proposal. The May Revision proposes to reappropriate the balance of Clean Energy Job Creation Funds (Prop 39). In addition, The Board of Governor's requests the reappropriation of $455,066 in federal funds.

Background. The Prop 39 reappropriation will allow the community colleges to use these funds to implement energy efficient projects through 2017-18, consistent with the intent of the program. The federal funds are being reappropriated primarily due to delays in receipt of the funds. The federal funds will be granted to community colleges to continue with mandated programs, compliance regulations, and to further enhance the solar energy initiative.

Staff Recommendation. Approve as proposed.

Issue 8: CCC Technology Infrastructure

Governor's Proposal. The May Revision proposes $6 million Prop 98 General Fund to upgrade bandwidth and replace technology equipment at community colleges.

Background. This proposal will allow the community colleges to contract for back-up connectivity services, provide one-time funding to replace technology equipment, as well as support modernization effort currently underway.

Staff Recommendation. Approve as proposed.

Issue 9: Student Success and Statewide Performance Strategies

Governor's Proposal. The Governor's budget proposes $200 million Proposition 98 General Fund to improve and expand student success programs and to strengthen efforts to assist underrepresented students. This includes: 1) $100 million to increase orientation, assessment, placement, counseling, and other education planning services for all matriculated students, and, 2) $100 million to close gaps in access and achievement in underrepresented student groups, as identified in local Student Equity Plans. This funding is intended to allow colleges to better coordinate delivery of existing categorical programs.

For the funding provided to implement activities and goals outlined in student equity plans, the Chancellor of the CCCs is to allocate the funds in a manner that ensures districts with a greater proportion or number of students who are high-need, as determined by the Chancellor's Office, receive greater resources to provide services. In addition, as a condition of receipt of the funds, the districts are required to include in their Student Equity Plan how they will coordinate existing student support services in a manner to better serve their high-need student populations. At a minimum, their plan is to demonstrate an alignment of services funded through allocations for the following programs:

- Student Success for Basic Skills Students
- Student Financial Aid Administration
- Disabled Students
- Special Services for CalWORKs Recipients
- Matriculation
- EOPS
- Fund for Student Success

Lastly, subject to approval by a district's governing board, districts may use up to 25 percent of any of the funds allocated for Student Success for Basic Skills Students, Special Services for CalWORKs Recipients, and EOPS for other federal, state, or local programs that serve high-need student populations as identified in the district's Student Equity Plan.

Implementing Statewide Performance Strategies. The Governor's budget proposes $1.1 million non-Proposition 98 General Fund and nine positions for the Chancellor's Office to develop leading indicators of student success and to monitor districts' performance. In addition, the Governor's budget proposes $2.5 million Proposition 98 General Fund to provide local technical assistance to support implementation of effective practices across all districts, with a focus on underperforming districts.

Background. The subcommittee heard this issue on April 29th.

Staff Recommendation. Approve the Governor's proposals for 1) $200 million Proposition 98 General Fund to improve and expand student success programs and to strengthen efforts to assist underrepresented students; 2) $1.1 million non-Proposition 98 General Fund plus nine positions for the Chancellor's office; and, 3) $2.5 million Proposition 98 General Fund to provide local technical assistance. In addition, adopt placeholder trailer bill language to codify requirements for Student Equity Plans and specify that the plans include alignment of services, as proposed in the Governor's budget bill language, and appropriate outcome reporting measures. Lastly, the Governor's proposed budget bill language should be revised, as needed, to ensure consistency with the trailer bill.

Issue 10: City College of San Francisco Stabilization

Proposal. Trailer bill language is proposed to provide the San Francisco Community College District with stabilization funding for the next three years as the college works to restore student enrollment and maintain accreditation.

Background. Accreditation for the City College of San Francisco (CCSF) has been terminated by the Accrediting Commission for Community and Junior Colleges (ACCJC), effective June 30th of this year. The CCSF has appealed that decision and is currently working to maintain accreditation. The CCSF remains an accredited institution during the appeal process and pursuant to a court injunction, but enrollment has continued to drop since 2012, when the ACCJC first put the college on "show cause" (prove why the accreditation should not be revoked) status. According to the CCC Chancellor's office, CCSF has made significant progress toward meeting the more than 300 goals it identified to improve effectiveness and has hired new key administrators.

The proposed trailer bill language will provide financial stability for CCSF over the next few years, which is an integral part of the college's efforts to maintain accreditation.

Staff Recommendation. Approve trailer bill language to provide stabilization funding for the City College of San Francisco.

Issue 11: CSAC May Revision Proposals

Governor's Proposal. The May Revision provides no new significant policy changes from the January budget for the California Student Aid Commission (CSAC); rather it includes funding changes to the Cal Grant program primarily due to updated participation and funding swaps. The following chart displays CSAC's May Revision proposals:

CSAC May Revision Proposals		
Cal Grant Program Caseload	$13.9 million GF - 2013-14 $25.1 million GF – 2014-15	Due primarily to an increase in the number of awards in the current year (carried forward as additional new and renewal awards in the budget year).
Loan Assumption Program Caseload	$148,000 GF – 2013-14 $735,000 GF – 2014-15	Reflects revised caseload estimates for the loan assumption programs.
Student Loan Operating Fund Offset (SLOF)	$60 million GF – 2014-15	Reflects notification that SLOF contributions will no longer be provided for Cal Grants.
Temporary Assistance for Needy Families (TANF) Reimbursements	$104.5 million GF – 2014-15	Primarily related to a change in GF requirements for social service programs
Reimbursements For Financial Aid Data	$52,000 in Reimbursements – 2014-15	Provides CSAC the authority to receive reimbursements to cover the costs of fulfilling approved data requests.
Expanding Renewal Award Eligibility*	$15.8 GF – 2014-15	Trailer bill language would allow students who become ineligible because they exceed the income cap in one year to become eligible again in a subsequent year if their income falls below the cap.
Excess Cal Loan Funds	-$6.0 million GF – 2014-15	Reflects utilization of excess Student Loan

		Authority Funds to offset GF loan assumption program costs.
Middle Class Scholarship*	$107 million GF – 2014-15	Begin implementation of the Middle Class Scholarship Program.

*Reflects May Revision amount, however, was proposed in the Governor's budget

Staff Recommendation. Approve as budgeted.

Issue 12: CSAC Legislative Augmentations

Proposal. This item would provide for the following augmentations:

- $9 million General Fund to rescind the budget year reduction of 11 percent in the maximum Cal Grant award level for students attending private non-profit colleges and universities and accredited for-profit institutions.

- $13.4 million General Fund to increase the Cal Grant B Access Award by five percent, from $1,473 to $1,551.

Background.

Cal Grant B Access Award. According to an April 2013 report by the Institute for College Access and Success (TICAS), done in collaboration with more than a dozen other student, civil rights, business, and college access organizations, Cal Grant awards for many qualifying students have been stagnant for decades and many of California's low-income college students are left out of the program entirely. For example, TICAS points out that the original Cal Grant B access award was $900 in 1969-70, equal to $5,900 in 2012-13 dollars. Instead the 2012-13 access award of $1,473, where it remains today, was just one quarter of what the original award would be worth had it kept pace with inflation.

More recently, TICAS has reported that college affordability, as measured by the proportion of family income needed to pay college costs, is inversely related to family income, with lower income families expected to contribute a much larger share of their income to paying for college than higher income families.

The Cal Grant maximum award for students attending private nonprofit colleges and universities is scheduled to decrease by 11 percent in the budget year. The 2012 Budget Act put in place reductions to the Cal Grant award amounts for independent non-profit and accredited for-profit institutions. The Governor's 2014-15 budget proposal accounts for the continued reduction. More than 32,000 California students use Cal Grants to help them attend these schools, allowing access to college for low-income students during a period in which the CSU system is turning away eligible students. The chart below indicates the reduced amount of the Cal Grant for these schools.

Cal Grant Maximum Award for WASC Accredited Private Colleges and Universities					
	2011-12	**2012-13**	**2013-14**	**2014-15**	**Cumulative Change**
Cal Grant Amount Per Student	$9,708	$9,223	$9,084	$8,056	-17%

Staff Comment. The subcommittee heard these issues on March 13th.

Staff Recommendation. Approve this proposal, providing a total of $22.4 million General Fund to rescind the budget year reduction of 11 percent in the maximum Cal Grant award level for students attending private non-profit colleges and universities and accredited for-profit institutions and increase the Cal Grant B Access Award by five percent.

Items Proposed for Discussion/Vote

Issue 1: UC Funding Package

Governor's Proposal. The Governor's budget proposed a base budget increase of five percent, or $142.2 million General Fund, over the current year funding for the University of California (UC). The Governor also proposes new budget language requiring the UC Board of Regents to adopt a three-year sustainability plan by November 30, 2014.

Background. Although generally supportive of the Governor's proposal for additional funding, the UC Board of Regents adopted a budget for the 2014-15 fiscal year that assumes a higher level of General Fund support. Specifically, the UC's budget plan proposes $120.9 million in additional state funding, above the Governor's five percent base budget adjustment, as follows:

- State Share of Employer Contributions to the University's Retirement Program - $64.1 million in state funding beyond the five percent base budget adjustment to cover the state's share of the incremental increase in pension costs consistent with what the state already provides for employees in the California Community Colleges and the California State University.

- Enrollment Growth - The budget plan seeks $21.8 million in additional state support for a one percent increase in funded enrollments. This will permit continued growth at the Merced campus and provide support for growth in California resident enrollment to allow the University to continue to meet its obligation under the Master Plan, as well as to address unfunded enrollments that currently exist on the general campuses and in health sciences programs.

- Reinvestment in Academic Quality - The plan indicates a need to invest an initial increment of $35 million in what will necessarily be a multi-year reinvestment in the quality of UC's core academic programs.

State support for UC remains significantly reduced. Even with the five percent increase in the current year, General Fund support for UC operations remains at least $400 million below 2007-08 levels. UC officials note this drop in funding, which led to major tuition increases, has hurt their ability to hire new faculty and keep up with mandatory costs such as retirement contributions and employee health benefits. Student-faculty ratios, which UC considers a key measurement of the quality of instruction, have risen sharply during this period.

UC Earmarks. The following programs have historically been earmarked in the UC budget because they address legislative priorities. UC has signaled its support for these programs during subcommittee hearings. Despite this, the Governor does not include them in his budget.

Program	UC Budget	Description
UC - Charles R. Drew Medical Program	$8.3 million	The Charles R. Drew University of Medicine and Science (CDU), a private, nonprofit corporation with its own Board of Trustees, conducts educational and research programs in south central Los Angeles.
UC - AIDS Research	$8.8 million	Since its founding in 1983 by the Legislature, the California HIV/AIDS Research Program (CHRP) has supported research that is attentive to the needs of California, accelerating progress towards prevention and treatment for HIV/AIDS.
UC - Subject Matter Projects	$5.0 million	The California Subject Matter Project (CSMP) is a statewide network of subject-specific professional development programs for teachers. CSMP engages K-12 educators with faculty in various disciplines from UC to develop and deliver intensive institutes for education professionals.
UC - Cal Institutes for Science & Innovation (Gray Davis Institutes)	$4.8 million	The state, UC, and hundreds of the state's businesses run the California Institutes for Science and Innovation, using state money and federal and private sources. The four Institutes, each jointly operated by multiple UC campuses, engage UC's world-class research faculty directly with California, national, and international companies in attacking large-scale issues critical to the state's economy and its citizens' quality of life.
UC - COSMOS	$1.7 million	The California State Summer School for Mathematics and Science (COSMOS) provides an intensive academic experience for students who wish to learn advanced mathematics and science and prepare for careers in these areas.

UC Science and Math Teacher Initiative	$885,000	CalTeach encourages students majoring in science, technology, engineering, and mathematics (STEM) to augment their studies with a sequence of CalTeach courses and fieldwork in K-12 classrooms that ready them to pursue teaching credentials after receiving their baccalaureate degrees.
UC - PRIME	$2.0 million	Programs In Medical Education (PRIME) are innovative training programs focused on meeting the health needs of California's underserved populations in both rural and urban areas by combining specialized coursework and clinical training experiences designed to prepare future clinician experts, leaders, and advocates for the communities they will serve.
UC Nursing Programs	$1.7 million	To help meet the state's future nursing needs, both university systems have expanding nursing programs
UC Labor Centers	$2.0 million	The Labor Centers at UC Berkeley and UCLA conduct research on issues such as the implementation of the Affordable Care Act, green jobs, workforce development, the underground economy and low-wage industries.

The proposed Sustainability Plans appear unnecessary and could limit Legislative input. The Governor's proposal raises several concerns. It appears somewhat duplicative of the budget report the UC Regents already adopt each fall, but adds new workload for UC. Perhaps more importantly, the process in which the Administration would provide the UC each fall with its proposed funding for the following budget year creates a public budget negotiation before the Legislature has input. This could limit the Legislature's ability to determine its budget levels and priorities for the UC.

Staff Recommendation. Staff recommends the following actions for UC funding:

1. Augment funding provided to the UC by $60 million General Fund above the Governor's funding level of $142.2 million.

2. Restore the program earmarks, identified in the above chart, to the UC's budget and augment the funding level for the UC Labor Centers by $4 million General Fund, from $2 million to $6 million, to better support the centers' research programs.

Issue 2: UC Research Programs

Proposal. It is proposed that the Legislature provide funding for the following two UC research initiates:

- Provide $5 million in Mental Health Services Act (MHSA) funding annually, for three-years, for Behavioral Health Centers for Excellence of California at UC Los Angeles (UCLA) and UC Davis.

- Provide $2 million General Fund to establish the California Blueprint for Research to Advance Innovations in Neuroscience Act of 2014 or the Cal-BRAIN program.

Background. In 2013, the Obama administration unveiled the BRAIN Initiative, which is a collaborative project that will map the activity of the human brain with a proposed investment of up to $3 billion over 10 years. For federal fiscal year 2014, approximately $100 million is being identified for allocation toward this endeavor with the National Institutes of Health, the National Science Foundation, and the Defense Advanced Research Projects Agency working in close collaboration.

The Cal-BRAIN program will leverage California's research assets and the federal BRAIN Initiative funding opportunities to accelerate the development of brain mapping techniques with the following program goals:

- Maintain California's leadership role in neuroscience innovation.

- Develop a dynamic map of the human brain that provides researchers, physicians, and engineers with the knowledge necessary to develop new treatments and technologies that will improve lives and reduce costs of providing health care.

- Grow California's economy through the expansion of California's high technology and biotechnology sectors.

- Train the next generation of scientists for the neuroscience and engineering jobs of the future.

UC Davis and UCLA are pioneers in neuroscience research leading to discoveries that improve mental and behavioral health and in translating research to community benefit and engaging the community in mental health services research and neuroscience with positive outcomes.

UCLA and UC Davis have established effective partnerships with LA and Sacramento counties and will enhance these partnerships through the MHSA to meet community needs. The Behavioral Health Centers will increase our understanding of how to address mental health disparities, early intervention in psychosis, and address other concerns such as violence, incarceration and recidivism. The centers will leverage existing resources to greater benefit for California's diverse under-resourced communities by sharing neuroscience research and collaborating with communities to promote best practices, and to improve outcomes, and by building upon policy initiatives including; MHSA and the Affordable Care Act.

Staff Recommendation. Approve $5 million in MHSA funds (annually, for three years) for Behavioral Health Centers for Excellence of California and $2 million General Fund for the Cal-BRAIN program. In addition, adopt placeholder budget bill language to distinguish these programs within the UC's budget and trailer bill language to establish the Cal-BRAIN program.

Issue 3: CCC Augmentations to Governor's May Revision

Legislative Proposal. Based on the Legislative Analyst's Office's revenue estimates, it is proposed that the Legislature adopt additional expenditures of $246 million Prop 98 General Fund in 2014-15 and $34 million Prop 98 General Fund in 2013-14, as outlined in the following chart.

Proposed Augmentations for Community Colleges
2014-15
(In Millions)

Issues	2014-15 Admin May Revise	Proposed Augmentation	2014-15 Total	Comment
Categorical Programs				
Academic Senate	$0.5	**$0.5**	$1.0	Double program funding to enhance work on articulation efforts
Apprenticeship (community colleges)	$7.2	**$8.0**	$15.2	Restore to 2008-09 level and allow for hourly rate increase, BBL
Apprenticeship (school districts)	$15.7	**$5.0**	$20.7	Restore to 2007-08 level and allow for hourly rate increase, BBL
CalWORKs student services	$34.5	**$15.0**	$49.5	Restore to 2007-08 level and codify BBL
Campus child care support	$3.4	**$3.4**	$6.8	Restore to 2007-08 level
Disabled Students Program	$84.2	**$50.0**	$134.2	Restore to 2007-08 level
Economic and Workforce Development	$72.9	**$10.0**	$82.9	Additional funding for CTE, BBL, TBL
EOPS	$88.6	**$18.0**	$106.6	Restore to 2007-08 level, BBL
Part-time Faculty Office Hours	$3.5	**$6.5**	$10.0	Support for part-time faculty office hours
Physical Plant and Instructional Support	$148.0	**$51.3**	$199.3	Allow for flexibility to use for deferred maintenance or instructional equip
Foster and Kinship Care Education	$5.3	**$1.0**	$6.3	Make up for eroding program funds
Student Success for Basic Skills Students	$20.0	**$5.0**	$25.0	$3 million for professional development (support acceleration)
Other Appropriations				
Full-Time Faculty		**$25.0**	$25.0	Plus BBL
COLA	$47.3	**$47.3**	$94.6	Double COLA to1.7%
Total Augmentation 2014-15		**$246.0**		

	2013-14
Paydown Mandates	$34
Total Augmentation 2013-14	**$34**

Background. While the Governor's budget proposal for the CCCs focuses funding on the student success initiative, there are many categorical programs that help students stay in school, complete programs and become employed. During the recession, most of these programs received significant funding reductions. The legislature's proposed augmentation would restore many of these programs to their previous funding levels. In addition, the legislature's plan would augment or change the Governor's proposal, as follows:

- The May Revision provides $50 million Proposition 98 General Fund, on a one-time basis, to augment the Economic and Workforce Development categorical program to support regional planning for career technical education (CTE) programs tied to regional workforce needs, and also support equipment costs and professional development for CTE faculty. The proposal would require the Chancellor's Office to distribute the funding to already-formed regional consortia. The Legislature's plan augments the Governor's proposal by $10 million.

- The May Revision rescinds a January proposal to provide $87.5 million Proposition 98 General Fund for the replacement of instructional equipment, and instead increases funding to allow community colleges to address deferred maintenance by $60.5 million Proposition 98 General Fund. Total funding for deferred maintenance, as of the May Revision, is $148 million. In addition, the May Revise proposes to eliminate a 1 to 1 match for districts who receive this funding. The Legislature's plan augments this amount by $51.3 million and provides flexibility for funds to also be used for instructional equipment.

- The May Revision proposes a cost-of-living adjustment (COLA) of .85 percent or $47.3 million Proposition 98 General Fund. The Legislature's plan would provide a COLA of twice the Governor's amount; 1.7 percent or $94.6 million.

- The Legislature's plan provides $5 million Proposition 98 General Fund to augment the Basic Skills categorical, with $3 million of this funding directed to professional development.

- The Legislature's plan provides $25 million Proposition 98 General Fund to increase the number of full-time faculty.

- The Legislature's plan provides $34 million Proposition 98 General Fund in the current year to pay down mandate liabilities.

- After nearly 30 years, the community college CalWORKs programs still lack statutory guidance related to program standards. As a result, programs lack permanent or full-time staff proficient in the ever changing regulations and requirements of the CalWORKs program. They often rely on adjunct counselors, temporary staff or student help to manage the day-to-day operations of a college CalWORKs program. CalWORKs students' success depends on knowledgeable and timely coordination with county welfare departments. As such, the Legislature's plan includes placeholder trailer bill language to establish statutory program and staffing standards for the CCC CalWORKs program.

- The May Revision proposes trailer bill language that would increase the funding rate in 2015-16 for career development and college preparation noncredit courses to equal the rate of credit courses. These courses, often referred to as enhanced noncredit courses, offer noncredit classes that are tied to specific credit programs. The Legislature's plan would amend the Governor's trailer bill language to include reporting on outcomes in terms of student success gains achieved from this revised policy.

Staff Recommendation. Based on the LAO's revenue projections, approve the proposed augmentations of $246 million Prop 98 General Fund in 2014-15 and $34 million Prop 98 General Fund in 2013-14, as displayed in the above chart. In addition, adopt placeholder budget bill and trailer bill language necessary to implement the Legislature's plan.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Tuesday, May 20, 2014
1:30 p.m.
Room 3191, State Capitol

Consultant: Joe Stephenshaw
Part B

OUTCOMES

Item	Department
6120	**California State Library**
6440	**University of California (UC)**
6870	**California Community Colleges (CCC)**
6980	**California Student Aid Commission (CSAC)**

Vote Only Item

Item 1 Appointments to the State Library Staff Reco Approved 2-0 (Wyland Not Voting) Page 2
Item 2 UC Revenue Adjustment Staff Reco Approved 3-0 Page 2
Item 3 UC Capital Outlay Trailer Bill Language Staff Reco Approved 3-0 Page 2
Item 4 CCC Growth Funding Staff Reco Approved 3-0 Page 3
Item 5 CCC Trailer Bill Language Proposals Staff Reco Approved 3-0 Page 3
Item 6 CCC May Revise Technical Adjustments Staff Reco Approved 2-0 (Wyland Not Voting)Page 4
Item 7 CCC Reappropriations Staff Reco Approved 3-0 Page 5
Item 8 CCC Technology Infrastructure Staff Reco Approved 3-0 Page 6
Item 9 Student Success and Statewide Performance Strategies Staff Reco Approved 3-0 Page 6
Item 10 City College of San Francisco Stabilization Staff Reco Approved 2-1 (Wyland No) .Page 7
Item 11 CSAC May Revision Proposals Staff Reco Approved 3-0 Page 8
Item 12 CSAC Legislative Augmentations Staff Reco Approved 3-0 Page 9

Discussion Items

Item 1 UC Funding Package Staff Reco Approved (3-0 on $60 mil for UC, 2-1 on $4 mil for labor center & rejection of sustainability plans (Wyland No)) Page 11
Item 2 UC Research Programs Staff Reco Approved 3-0 Page 14
Item 3 CCC Augmentations to Governor's May Revision Staff Reco Approved 2-1 (Wyland No)Page 16

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Items Proposed for Vote Only

6120 CALIFORNIA STATE LIBRARY
6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

Issue 1: Appointments to the State Library

Governor's Proposal. The May Revision proposes $192,000 General Fund and two positions to support the State Librarian.

Background. On March 25, 2014, the Governor announced the appointment of a new State Librarian. The Governor has subsequently appointed a special assistant to assist with various research projects on behalf of the librarian. An additional administrative assistant is also requested to support the librarian.

Staff Recommendation. Approve as proposed.

Issue 2: UC Revenue Adjustment

Governor's Proposal. The May Revision includes a decrease of $876,000 from the Cigarette and Tobacco Products Surtax Fund Research Account.

Background. This adjustment is being proposed to maintain an adequate reserve in the Cigarette and Tobacco Products Surtax Fund Research Account due to a decrease in the amount of revenues projected to be deposited in the account.

Staff Recommendation. Approve as proposed.

Issue 3: UC Capital Outlay Trailer Bill Language

Governor's Proposal. The Governor's budget proposed trailer bill language that makes minor technical changes to the UC capital outlay process approved last year, moves language regarding energy conservation projects that had been included in provisional budget language into statute, and creates one process to authorize UC energy conservation projects, instead of two.

Background. Last year the Legislature created a new process for UC capital outlay projects, in which UC is allowed to pledge its General Fund support to finance bonds and UC has greater authority to determine its own capital outlay projects. Trailer bill language proposed this year makes minor word changes to statute for clarification purposes.

The language also moves some provisional budget language regarding energy conservation projects and other capital outlay projects into statute. Finally, the trailer bill language consolidates the process UC must undertake to receive approval for energy conservation projects. Previously there were separate processes for such projects, depending on whether the project was a general energy conservation project or a project with an investor-owned utility. The language would consolidate these processes into one, requiring 30-day legislative notice before UC can move forward with either type of project.

Staff Recommendation. Approve as proposed.

Issue 4: CCC Growth Funding

Governor's Proposal. The May Revision proposes funding for 2.75 percent enrollment growth, instead of 3 percent growth, which was proposed in January. The revised plan would provide $140.4 million Proposition 98 General Fund for enrollment growth. In addition, the May Revision modifies the Governor's budget proposal for trailer bill language to update the apportionment growth formula to provide flexibility to the Chancellor's office and an additional year to revise the formula, as long as the formula continues to consider the age of the adult population and the amount of unemployed adults in community college district boundaries.

Background. The subcommittee heard this issue on April 29th, at which time concerns were expressed regarding the Governor's budget proposal. The two primary concerns were that the level of growth funding, 3 percent, was too high and that more time was needed to update the apportionment formula.

Staff Recommendation. Approve as proposed.

Issue 5: CCC Trailer Bill Language Proposals

Governor's Proposal. The May Revision includes the following trailer bill language requests:

- **Local Goal Setting.** This proposal would modify trailer bill language proposed in the Governor's budget to clarify that goal setting for measures in the Student Success Scorecard by community colleges is a condition of participating in, and receiving funding from, the Student Success and Support Program.

- **Eliminate Apportionment Deferrals.** This proposal continues to eliminate deferrals, however, revises the payment schedule between fiscal years based on updated Proposition 98 estimates.

In addition to the May Revision proposals, the following trailer bill issue is proposed:

- **Nursing Faculty Sunset Extension.** State law generally requires that any community college faculty who teaches at least 67 percent of a full load of courses during a semester be hired as full-time faculty. SB 1309 (Scott), Chapter 837, Statutes of 2006, created an exemption to this law for clinical nursing staff, with a sunset date of June 30, 2014.

  The exemption was created to allow nurses overseeing nursing students in clinical rotations to remain employed as a nurse while also working as adjunct faculty. Nursing rotations are typically 12-hour shifts, with clinical rotations lasting between 6-18 weeks. To meet the state law, most community college clinical nursing programs would have to hire full-time faculty, which is difficult to do, or use more than one part-time faculty for one course, which is a detriment to both the student and the hospital. SB 1309 sought to give flexibility to this specific type of nursing program.

  Several community college nursing programs have asked that the sunset date of this statute be extended to allow for legislation next year that would either make this flexibility provision permanent or extend the sunset for a longer period of time. Trailer bill language would extend the sunset to Dec. 31, 2015.

Staff Recommendation. Approve as proposed.

Issue 6: CCC May Revise Technical Adjustments

Governor's Proposal. The May Revision includes the following technical adjustments:

Community College May Revise Technical Adjustments		
Student Enrollment Fee Revenue	$24.7 million Prop 98 GF	Reflects a decrease in estimated student enrollment fund revenue
Student Financial Aid Administration and Board Financial Assistance	$1.5 million Prop 98 GF	Adjustments consistent with revised estimates of waived fees. Includes BBL adjustment.
Education Protection Account Revenues for Net Excess Tax Districts	-$464,000 Prop 98 GF	Decrease to reflect revised estimates of the Education Protection Account revenue that is allocated to net excess tax districts.

Education Protection Account Revenues	-$22.8 million Prop 98 GF	Decrease to reflect increased estimates of offsetting the Education Protection Account revenue
Redevelopment Agency Revenue Shift	$36.2 million Prop 98 GF	Reflects revised redevelopment agency revenues that will be received after April 15, 2014 and reflect the budget year offset.
Decrease Clean Energy Job Creation Fund Revenue	-$1.5 million Job Creation Fund (Prop 39)	Decrease to reflect revenue estimates.
Mandated Programs Block Grant	-$345,000 Prop 98 GF	Decrease to align block grant funding with revised full-time equivalent students estimate.
Lease Revenue Bond Payment	$1.1 million Prop 98 GF	Reflects the defeasing of outstanding lease revenue bonds related to the LA Community College District's Southwest College Lecture Lab.

Staff Recommendation. Approve; however, conform to the Proposition 98 package, as needed.

Issue 7: CCC Reappropriations

Governor's Proposal. The May Revision proposes to reappropriate the balance of Clean Energy Job Creation Funds (Prop 39). In addition, The Board of Governor's requests the reappropriation of $455,066 in federal funds.

Background. The Prop 39 reappropriation will allow the community colleges to use these funds to implement energy efficient projects through 2017-18, consistent with the intent of the program. The federal funds are being reappropriated primarily due to delays in receipt of the funds. The federal funds will be granted to community colleges to continue with mandated programs, compliance regulations, and to further enhance the solar energy initiative.

Staff Recommendation. Approve as proposed.

Issue 8: CCC Technology Infrastructure

Governor's Proposal. The May Revision proposes $6 million Prop 98 General Fund to upgrade bandwidth and replace technology equipment at community colleges.

Background. This proposal will allow the community colleges to contract for back-up connectivity services, provide one-time funding to replace technology equipment, as well as support modernization effort currently underway.

Staff Recommendation. Approve as proposed.

Issue 9: Student Success and Statewide Performance Strategies

Governor's Proposal. The Governor's budget proposes $200 million Proposition 98 General Fund to improve and expand student success programs and to strengthen efforts to assist underrepresented students. This includes: 1) $100 million to increase orientation, assessment, placement, counseling, and other education planning services for all matriculated students, and, 2) $100 million to close gaps in access and achievement in underrepresented student groups, as identified in local Student Equity Plans. This funding is intended to allow colleges to better coordinate delivery of existing categorical programs.

For the funding provided to implement activities and goals outlined in student equity plans, the Chancellor of the CCCs is to allocate the funds in a manner that ensures districts with a greater proportion or number of students who are high-need, as determined by the Chancellor's Office, receive greater resources to provide services. In addition, as a condition of receipt of the funds, the districts are required to include in their Student Equity Plan how they will coordinate existing student support services in a manner to better serve their high-need student populations. At a minimum, their plan is to demonstrate an alignment of services funded through allocations for the following programs:

- Student Success for Basic Skills Students
- Student Financial Aid Administration
- Disabled Students
- Special Services for CalWORKs Recipients
- Matriculation
- EOPS
- Fund for Student Success

Lastly, subject to approval by a district's governing board, districts may use up to 25 percent of any of the funds allocated for Student Success for Basic Skills Students, Special Services for CalWORKs Recipients, and EOPS for other federal, state, or local programs that serve high-need student populations as identified in the district's Student Equity Plan.

Implementing Statewide Performance Strategies. The Governor's budget proposes $1.1 million non-Proposition 98 General Fund and nine positions for the Chancellor's Office to develop leading indicators of student success and to monitor districts' performance. In addition, the Governor's budget proposes $2.5 million Proposition 98 General Fund to provide local technical assistance to support implementation of effective practices across all districts, with a focus on underperforming districts.

Background. The subcommittee heard this issue on April 29th.

Staff Recommendation. Approve the Governor's proposals for 1) $200 million Proposition 98 General Fund to improve and expand student success programs and to strengthen efforts to assist underrepresented students; 2) $1.1 million non-Proposition 98 General Fund plus nine positions for the Chancellor's office; and, 3) $2.5 million Proposition 98 General Fund to provide local technical assistance. In addition, adopt placeholder trailer bill language to codify requirements for Student Equity Plans and specify that the plans include alignment of services, as proposed in the Governor's budget bill language, and appropriate outcome reporting measures. Lastly, the Governor's proposed budget bill language should be revised, as needed, to ensure consistency with the trailer bill.

Issue 10: City College of San Francisco Stabilization

Proposal. Trailer bill language is proposed to provide the San Francisco Community College District with stabilization funding for the next three years as the college works to restore student enrollment and maintain accreditation.

Background. Accreditation for the City College of San Francisco (CCSF) has been terminated by the Accrediting Commission for Community and Junior Colleges (ACCJC), effective June 30th of this year. The CCSF has appealed that decision and is currently working to maintain accreditation. The CCSF remains an accredited institution during the appeal process and pursuant to a court injunction, but enrollment has continued to drop since 2012, when the ACCJC first put the college on "show cause" (prove why the accreditation should not be revoked) status. According to the CCC Chancellor's office, CCSF has made significant progress toward meeting the more than 300 goals it identified to improve effectiveness and has hired new key administrators.

The proposed trailer bill language will provide financial stability for CCSF over the next few years, which is an integral part of the college's efforts to maintain accreditation.

Staff Recommendation. Approve trailer bill language to provide stabilization funding for the City College of San Francisco.

Issue 11: CSAC May Revision Proposals

Governor's Proposal. The May Revision provides no new significant policy changes from the January budget for the California Student Aid Commission (CSAC); rather it includes funding changes to the Cal Grant program primarily due to updated participation and funding swaps. The following chart displays CSAC's May Revision proposals:

CSAC May Revision Proposals		
Cal Grant Program Caseload	$13.9 million GF - 2013-14 $25.1 million GF – 2014-15	Due primarily to an increase in the number of awards in the current year (carried forward as additional new and renewal awards in the budget year).
Loan Assumption Program Caseload	$148,000 GF – 2013-14 $735,000 GF – 2014-15	Reflects revised caseload estimates for the loan assumption programs.
Student Loan Operating Fund Offset (SLOF)	$60 million GF – 2014-15	Reflects notification that SLOF contributions will no longer be provided for Cal Grants.
Temporary Assistance for Needy Families (TANF) Reimbursements	$104.5 million GF – 2014-15	Primarily related to a change in GF requirements for social service programs
Reimbursements For Financial Aid Data	$52,000 in Reimbursements – 2014-15	Provides CSAC the authority to receive reimbursements to cover the costs of fulfilling approved data requests.
Expanding Renewal Award Eligibility*	$15.8 GF – 2014-15	Trailer bill language would allow students who become ineligible because they exceed the income cap in one year to become eligible again in a subsequent year if their income falls below the cap.
Excess Cal Loan Funds	-$6.0 million GF – 2014-15	Reflects utilization of excess Student Loan

		Authority Funds to offset GF loan assumption program costs.
Middle Class Scholarship*	$107 million GF – 2014-15	Begin implementation of the Middle Class Scholarship Program.

*Reflects May Revision amount, however, was proposed in the Governor's budget

Staff Recommendation. Approve as budgeted.

Issue 12: CSAC Legislative Augmentations

Proposal. This item would provide for the following augmentations:

- $9 million General Fund to rescind the budget year reduction of 11 percent in the maximum Cal Grant award level for students attending private non-profit colleges and universities and accredited for-profit institutions.

- $13.4 million General Fund to increase the Cal Grant B Access Award by five percent, from $1,473 to $1,551.

Background.

Cal Grant B Access Award. According to an April 2013 report by the Institute for College Access and Success (TICAS), done in collaboration with more than a dozen other student, civil rights, business, and college access organizations, Cal Grant awards for many qualifying students have been stagnant for decades and many of California's low-income college students are left out of the program entirely. For example, TICAS points out that the original Cal Grant B access award was $900 in 1969-70, equal to $5,900 in 2012-13 dollars. Instead the 2012-13 access award of $1,473, where it remains today, was just one quarter of what the original award would be worth had it kept pace with inflation.

More recently, TICAS has reported that college affordability, as measured by the proportion of family income needed to pay college costs, is inversely related to family income, with lower income families expected to contribute a much larger share of their income to paying for college than higher income families.

The Cal Grant maximum award for students attending private nonprofit colleges and universities is scheduled to decrease by 11 percent in the budget year. The 2012 Budget Act put in place reductions to the Cal Grant award amounts for independent non-profit and accredited for-profit institutions. The Governor's 2014-15 budget proposal accounts for the continued reduction. More than 32,000 California students use Cal Grants to help them attend these schools, allowing access to college for low-income students during a period in which the CSU system is turning away eligible students. The chart below indicates the reduced amount of the Cal Grant for these schools.

Cal Grant Maximum Award for WASC Accredited Private Colleges and Universities					
	2011-12	**2012-13**	**2013-14**	**2014-15**	**Cumulative Change**
Cal Grant Amount Per Student	$9,708	$9,223	$9,084	$8,056	-17%

Staff Comment. The subcommittee heard these issues on March 13th.

Staff Recommendation. Approve this proposal, providing a total of $22.4 million General Fund to rescind the budget year reduction of 11 percent in the maximum Cal Grant award level for students attending private non-profit colleges and universities and accredited for-profit institutions and increase the Cal Grant B Access Award by five percent.

Items Proposed for Discussion/Vote

Issue 1: UC Funding Package

Governor's Proposal. The Governor's budget proposed a base budget increase of five percent, or $142.2 million General Fund, over the current year funding for the University of California (UC). The Governor also proposes new budget language requiring the UC Board of Regents to adopt a three-year sustainability plan by November 30, 2014.

Background. Although generally supportive of the Governor's proposal for additional funding, the UC Board of Regents adopted a budget for the 2014-15 fiscal year that assumes a higher level of General Fund support. Specifically, the UC's budget plan proposes $120.9 million in additional state funding, above the Governor's five percent base budget adjustment, as follows:

- State Share of Employer Contributions to the University's Retirement Program - $64.1 million in state funding beyond the five percent base budget adjustment to cover the state's share of the incremental increase in pension costs consistent with what the state already provides for employees in the California Community Colleges and the California State University.

- Enrollment Growth - The budget plan seeks $21.8 million in additional state support for a one percent increase in funded enrollments. This will permit continued growth at the Merced campus and provide support for growth in California resident enrollment to allow the University to continue to meet its obligation under the Master Plan, as well as to address unfunded enrollments that currently exist on the general campuses and in health sciences programs.

- Reinvestment in Academic Quality - The plan indicates a need to invest an initial increment of $35 million in what will necessarily be a multi-year reinvestment in the quality of UC's core academic programs.

State support for UC remains significantly reduced. Even with the five percent increase in the current year, General Fund support for UC operations remains at least $400 million below 2007-08 levels. UC officials note this drop in funding, which led to major tuition increases, has hurt their ability to hire new faculty and keep up with mandatory costs such as retirement contributions and employee health benefits. Student-faculty ratios, which UC considers a key measurement of the quality of instruction, have risen sharply during this period.

UC Earmarks. The following programs have historically been earmarked in the UC budget because they address legislative priorities. UC has signaled its support for these programs during subcommittee hearings. Despite this, the Governor does not include them in his budget.

Program	UC Budget	Description
UC - Charles R. Drew Medical Program	$8.3 million	The Charles R. Drew University of Medicine and Science (CDU), a private, nonprofit corporation with its own Board of Trustees, conducts educational and research programs in south central Los Angeles.
UC - AIDS Research	$8.8 million	Since its founding in 1983 by the Legislature, the California HIV/AIDS Research Program (CHRP) has supported research that is attentive to the needs of California, accelerating progress towards prevention and treatment for HIV/AIDS.
UC - Subject Matter Projects	$5.0 million	The California Subject Matter Project (CSMP) is a statewide network of subject-specific professional development programs for teachers. CSMP engages K-12 educators with faculty in various disciplines from UC to develop and deliver intensive institutes for education professionals.
UC - Cal Institutes for Science & Innovation (Gray Davis Institutes)	$4.8 million	The state, UC, and hundreds of the state's businesses run the California Institutes for Science and Innovation, using state money and federal and private sources. The four Institutes, each jointly operated by multiple UC campuses, engage UC's world-class research faculty directly with California, national, and international companies in attacking large-scale issues critical to the state's economy and its citizens' quality of life.
UC - COSMOS	$1.7 million	The California State Summer School for Mathematics and Science (COSMOS) provides an intensive academic experience for students who wish to learn advanced mathematics and science and prepare for careers in these areas.

UC Science and Math Teacher Initiative	$885,000	CalTeach encourages students majoring in science, technology, engineering, and mathematics (STEM) to augment their studies with a sequence of CalTeach courses and fieldwork in K-12 classrooms that ready them to pursue teaching credentials after receiving their baccalaureate degrees.
UC - PRIME	$2.0 million	Programs In Medical Education (PRIME) are innovative training programs focused on meeting the health needs of California's underserved populations in both rural and urban areas by combining specialized coursework and clinical training experiences designed to prepare future clinician experts, leaders, and advocates for the communities they will serve.
UC Nursing Programs	$1.7 million	To help meet the state's future nursing needs, both university systems have expanding nursing programs
UC Labor Centers	$2.0 million	The Labor Centers at UC Berkeley and UCLA conduct research on issues such as the implementation of the Affordable Care Act, green jobs, workforce development, the underground economy and low-wage industries.

The proposed Sustainability Plans appear unnecessary and could limit Legislative input. The Governor's proposal raises several concerns. It appears somewhat duplicative of the budget report the UC Regents already adopt each fall, but adds new workload for UC. Perhaps more importantly, the process in which the Administration would provide the UC each fall with its proposed funding for the following budget year creates a public budget negotiation before the Legislature has input. This could limit the Legislature's ability to determine its budget levels and priorities for the UC.

Staff Recommendation. Staff recommends the following actions for UC funding:

1. Augment funding provided to the UC by $60 million General Fund above the Governor's funding level of $142.2 million.

2. Restore the program earmarks, identified in the above chart, to the UC's budget and augment the funding level for the UC Labor Centers by $4 million General Fund, from $2 million to $6 million, to better support the centers' research programs.

Issue 2: UC Research Programs

Proposal. It is proposed that the Legislature provide funding for the following two UC research initiates:

- Provide $5 million in Mental Health Services Act (MHSA) funding annually, for three-years, for Behavioral Health Centers for Excellence of California at UC Los Angeles (UCLA) and UC Davis.

- Provide $2 million General Fund to establish the California Blueprint for Research to Advance Innovations in Neuroscience Act of 2014 or the Cal-BRAIN program.

Background. In 2013, the Obama administration unveiled the BRAIN Initiative, which is a collaborative project that will map the activity of the human brain with a proposed investment of up to $3 billion over 10 years. For federal fiscal year 2014, approximately $100 million is being identified for allocation toward this endeavor with the National Institutes of Health, the National Science Foundation, and the Defense Advanced Research Projects Agency working in close collaboration.

The Cal-BRAIN program will leverage California's research assets and the federal BRAIN Initiative funding opportunities to accelerate the development of brain mapping techniques with the following program goals:

- Maintain California's leadership role in neuroscience innovation.

- Develop a dynamic map of the human brain that provides researchers, physicians, and engineers with the knowledge necessary to develop new treatments and technologies that will improve lives and reduce costs of providing health care.

- Grow California's economy through the expansion of California's high technology and biotechnology sectors.

- Train the next generation of scientists for the neuroscience and engineering jobs of the future.

UC Davis and UCLA are pioneers in neuroscience research leading to discoveries that improve mental and behavioral health and in translating research to community benefit and engaging the community in mental health services research and neuroscience with positive outcomes.

UCLA and UC Davis have established effective partnerships with LA and Sacramento counties and will enhance these partnerships through the MHSA to meet community needs. The Behavioral Health Centers will increase our understanding of how to address mental health disparities, early intervention in psychosis, and address other concerns such as violence, incarceration and recidivism. The centers will leverage existing resources to greater benefit for California's diverse under-resourced communities by sharing neuroscience research and collaborating with communities to promote best practices, and to improve outcomes, and by building upon policy initiatives including; MHSA and the Affordable Care Act.

Staff Recommendation. Approve $5 million in MHSA funds (annually, for three years) for Behavioral Health Centers for Excellence of California and $2 million General Fund for the Cal-BRAIN program. In addition, adopt placeholder budget bill language to distinguish these programs within the UC's budget and trailer bill language to establish the Cal-BRAIN program.

Issue 3: CCC Augmentations to Governor's May Revision

Legislative Proposal. Based on the Legislative Analyst's Office's revenue estimates, it is proposed that the Legislature adopt additional expenditures of $246 million Prop 98 General Fund in 2014-15 and $34 million Prop 98 General Fund in 2013-14, as outlined in the following chart.

Proposed Augmentations for Community Colleges
2014-15
(In Millions)

Issues	2014-15 Admin May Revise	Proposed Augmentation	2014-15 Total	Comment
Categorical Programs				
Academic Senate	$0.5	**$0.5**	$1.0	Double program funding to enhance work on articulation efforts
Apprenticeship (community colleges)	$7.2	**$8.0**	$15.2	Restore to 2008-09 level and allow for hourly rate increase, BBL
Apprenticeship (school districts)	$15.7	**$5.0**	$20.7	Restore to 2007-08 level and allow for hourly rate increase, BBL
CalWORKs student services	$34.5	**$15.0**	$49.5	Restore to 2007-08 level and codify BBL
Campus child care support	$3.4	**$3.4**	$6.8	Restore to 2007-08 level
Disabled Students Program	$84.2	**$50.0**	$134.2	Restore to 2007-08 level
Economic and Workforce Development	$72.9	**$10.0**	$82.9	Additional funding for CTE, BBL, TBL
EOPS	$88.6	**$18.0**	$106.6	Restore to 2007-08 level, BBL
Part-time Faculty Office Hours	$3.5	**$6.5**	$10.0	Support for part-time faculty office hours
Physical Plant and Instructional Support	$148.0	**$51.3**	$199.3	Allow for flexibility to use for deferred maintenance or instructional equip
Foster and Kinship Care Education	$5.3	**$1.0**	$6.3	Make up for eroding program funds
Student Success for Basic Skills Students	$20.0	**$5.0**	$25.0	$3 million for professional development (support acceleration)
Other Appropriations				
Full-Time Faculty		**$25.0**	$25.0	Plus BBL
COLA	$47.3	**$47.3**	$94.6	Double COLA to1.7%
Total Augmentation 2014-15		**$246.0**		

	2013-14
Paydown Mandates	$34
Total Augmentation 2013-14	**$34**

Background. While the Governor's budget proposal for the CCCs focuses funding on the student success initiative, there are many categorical programs that help students stay in school, complete programs and become employed. During the recession, most of these programs received significant funding reductions. The legislature's proposed augmentation would restore many of these programs to their previous funding levels. In addition, the legislature's plan would augment or change the Governor's proposal, as follows:

- The May Revision provides $50 million Proposition 98 General Fund, on a one-time basis, to augment the Economic and Workforce Development categorical program to support regional planning for career technical education (CTE) programs tied to regional workforce needs, and also support equipment costs and professional development for CTE faculty. The proposal would require the Chancellor's Office to distribute the funding to already-formed regional consortia. The Legislature's plan augments the Governor's proposal by $10 million.

- The May Revision rescinds a January proposal to provide $87.5 million Proposition 98 General Fund for the replacement of instructional equipment, and instead increases funding to allow community colleges to address deferred maintenance by $60.5 million Proposition 98 General Fund. Total funding for deferred maintenance, as of the May Revision, is $148 million. In addition, the May Revise proposes to eliminate a 1 to 1 match for districts who receive this funding. The Legislature's plan augments this amount by $51.3 million and provides flexibility for funds to also be used for instructional equipment.

- The May Revision proposes a cost-of-living adjustment (COLA) of .85 percent or $47.3 million Proposition 98 General Fund. The Legislature's plan would provide a COLA of twice the Governor's amount; 1.7 percent or $94.6 million.

- The Legislature's plan provides $5 million Proposition 98 General Fund to augment the Basic Skills categorical, with $3 million of this funding directed to professional development.

- The Legislature's plan provides $25 million Proposition 98 General Fund to increase the number of full-time faculty.

- The Legislature's plan provides $34 million Proposition 98 General Fund in the current year to pay down mandate liabilities.

- After nearly 30 years, the community college CalWORKs programs still lack statutory guidance related to program standards. As a result, programs lack permanent or full-time staff proficient in the ever changing regulations and requirements of the CalWORKs program. They often rely on adjunct counselors, temporary staff or student help to manage the day-to-day operations of a college CalWORKs program. CalWORKs students' success depends on knowledgeable and timely coordination with county welfare departments. As such, the Legislature's plan includes placeholder trailer bill language to establish statutory program and staffing standards for the CCC CalWORKs program.

- The May Revision proposes trailer bill language that would increase the funding rate in 2015-16 for career development and college preparation noncredit courses to equal the rate of credit courses. These courses, often referred to as enhanced noncredit courses, offer noncredit classes that are tied to specific credit programs. The Legislature's plan would amend the Governor's trailer bill language to include reporting on outcomes in terms of student success gains achieved from this revised policy.

Staff Recommendation. Based on the LAO's revenue projections, approve the proposed augmentations of $246 million Prop 98 General Fund in 2014-15 and $34 million Prop 98 General Fund in 2013-14, as displayed in the above chart. In addition, adopt placeholder budget bill and trailer bill language necessary to implement the Legislature's plan.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 — Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, May 22, 2014
1:30 p.m. – Room 3191

Consultants: Jody Martin, Jen Troia, and Mark Ibele

Senate Proposal May Revision Open Issues and Proposition 98 and K-14 Education Issues
Part A

Proposed Discussion / Vote Calendar

Item	Department	Page
6110	**California Department of Education**	
I	"Fair Start" Early Childhood Education	1
	Reinvestment in Early Learning and Care Systems	1
	Re-envisioning Pre-Kindergarten Opportunities	2
II	Governor's Proposals	3
	Local Control Funding Formula – Continuous Appropriation	3
	Local Control Funding Formula – Calculation of Unduplicated Pupils	4
	Federal Title II Funds: Improving Teacher Quality	5

Proposed / Vote-Only Calendar

I	Governor's Language Proposals	6
II	State Operations	26
III	Local Assistance	36
IV	School Facilities	45
	Attachment	

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

#	Item	Issue	Description	Staff Recommendation	Language	Comments
	I. "FAIR START" EARLY CHILDHOOD EDUCATION					
1	Senate Proposal	**Reinvestment in Early Learning and Care Systems**	In a multi-year re-envisioning and reinvestment package in CA's Early Learning and Care systems, the Senate plans to restore 110K lost slots in current ECE programs, modernize rates for service, provide pre-kindergarten opportunities for all low income 4 year olds, and increase quality in all programs. Over a three year period, the Senate will review the ECE reimbursement rate system and modernize the rates in order to achieve higher quality and equity of access across all programs in the state. Through a dual strategy of slot increases and targeting of pre-kindergarten services, the Senate plans to restore all lost ECE slots by the 16-17 BY, and offer a high quality pre-kindergarten opportunity to all low-income 4 year olds by 19-20. Additional funds will be targeted to provide a full-day, full-year quality care and learning experience for all low-income 4 year olds with working parents.	Conforming to the Prop 98 package, the Senate proposes in the 14-15 BY to increase the RMR to the 85^{th} percentile of the 2010 survey, starting January 1, 2015, and increase the SRR by 7.5% starting July 1, 2014. The proposal increases ECE slots by 40,000 over all programs. The total Budget Year childcare investment package is $550 million in on-going rate and slot increases, and $100 million in one-time quality projects.	TBL	The proposal will also contain trailer bill language to create the California Pre-Kindergarten Program, starting in the 15-16 school year and budget year, a targeted and voluntary pre-K program for all low-income 4 year olds whom are ineligible for kindergarten.

#	Item	Issue	Description	Staff Recommendation	Language	Comments
1	Senate Proposal	**Re-envisioning Pre-Kindergarten Opportunities**	The Senate proposal will finalize the state's transition from a December 2 eligibility date to a September 2 eligibility date for kindergarten entry in CA public schools. The budget will, for the 15-16 BY, replace the Transitional Kindergarten program and launch the new California Pre-Kindergarten Program: a targeted and voluntary pre-K program for all low-income 4 year olds whom are ineligible for kindergarten. The California Pre-Kindergarten program (CPKP) will provide high quality opportunities for over 200K eligible 4 year olds in both school and community preschool settings, preparing these students for Kindergarten and bridging the Achievement Gap before it starts. The current 102,0000 part-day pre-kindergarten slots in the CSPP program will be retained, and continued through community preschool providers, as part of the new CPKP, and reimbursement rate incentives will bring current program quality up to the new CPKP standards by 2021. A new LEA-administered CPKP program, that is voluntary for all eligible low-income 4-year olds, will begin in the 15-16 BY for all eligible children. LEAs will ramp up this program over five years.	Conforming to the Prop 98 package.	TBL	

#	Item	Issue	Description	Staff Recommendation	Language	Comments
	II. GOVERNOR'S PROPOSALS					
2	Omnibus language	**Local Control Funding Formula (LCFF) - Continuous Appropriation** (EC 14002) (January Budget and May Revision)	The Governor's Budget proposed amending EC 14002 to continuously appropriate LCFF implementation funding. The May Revision proposes amendments to this section to clarify that: (1) advance apportionments would be based upon estimates of Proposition 98 funding provided by DOF at the May Revision, and (2) prorated funding would be applied to LCFF implementation funding.	Reject the proposal and TBL, given the role of the Legislature in annual budget determinations, including funding levels for LCFF	TBL	

#	Item	Issue	Description	Staff Recommendation	Language	Comments
3	LCFF language	**LCFF - Calculation of Unduplicated Pupils** (May Revision)	The May Revision proposes the following changes to the calculation of unduplicated pupils under the LCFF: 1) Authorizing schools participating in Provision 2 or 3 of the National School Lunch Program to establish a base-year student eligibility for free or reduced-price meals (FRPM) no less than once every four years, provided that the school annually updates its FRPM eligible student counts for newly enrolled or disenrolled students during the intervening years, and 2) requiring the Superintendent of Public Instruction to revise an LEA's three-year unduplicated student percentage rolling average using 2014-15 student data in place of 2013-14 data, if doing so would increase the LEA's rolling average.	Approve TBL, to be refined as necessary, including a requirement for the SPI to examine and report to the Legislature on differences in FRPM eligibility rates in 2013-14 and 2014-15. Also approve placeholder TBL allowing a revised methodology for the unduplicated count of FRPM-eligible pupils in high school districts, in order to mitigate the negative fiscal impact on high school districts due to high school pupils who are reluctant, because of social stigma reasons, to declare FRPM eligibility	TBL	Administration's proposal would relieve high poverty schools of the burden of collecting data on FRPM-student eligibility annually and remove from the ongoing rolling average calculation the effect of data collection problems that some LEAs faced during the first year of LCFF implementation. Regarding a revised unduplicated pupil count methodology for high school districts, possible adjustments to the actual count of FRPM-eligible students could account for a verified FRPM-eligible sibling living in the same household and students who submit an approved 'alternative application' (similar to provision 2 and 3 schools) in lieu of a FRPM application.

#	Item	Issue	Description	Staff Recommendation	Language	Comments
4	6110-195-0890 (Issues 365, 366, 367, and 371)	**Federal Title II Funds: Improving Teacher Quality** (April Letter and May Revision)	Combined between the April Letter and the May Revision, the Administration proposes the following adjustments to this local assistance item: (1) Decrease of $14,613,000 for the Local Grant Program to align to the available federal grant award; (2) Increase of $627,000 for the University of California Subject Matter Projects ($224,000 one-time carryover and $403,000 federal grant award increase); and (3) Decrease of $71,000 to the Higher Education Grants Program due to a net reduction in the federal grant award and the availability of one-time carryover funds.	Approve as budgeted with this modification: (1) Reject the April letter request to increase Schedule 2 by $403,000 to correct for SDE's technical error; (2) Approve an additional $600,000 in one-time carryover funds for appropriation in a new Schedule 5, Administrator Induction Programs, for purposes of Administrator Induction programs that are approved by the Commission on Teacher Credentialing and add conforming provisional language (see staff comments).	BBL	The staff recommendation includes the adoption of this provisional language: Of the funds appropriated in Schedule (5), $600,000 is provided in one-time carryover funds for purposes of Administrator Induction programs that are approved by the Commission on Teacher Credentialing.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
	I. GOVERNOR'S LANGUAGE PROPOSALS					
1	Omnibus language	**County School Service Fund Contingency Account** (Education Code Section (EC) 14035) (January budget)	County superintendents of schools are reimbursed from this account for the actual and necessary travel expenses incurred in connection with cooperative county publication projects and emergency grants to districts. $100,000 is annually carved out for this purpose from Local Control Funding Formula (LCFF) apportionments made to county offices of education. The Governor proposes to repeal the section of law that creates that carve-out in order to conform to the flexibility envisioned within the County Office of Education (COE) LCFF and eliminate the administrative burden for COEs to file reimbursement claims.	Approve TBL, to be refined as necessary	TBL	Proposal is technical and/or clarifying of the intent of LCFF.

#	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
2	Omnibus language	**Suspension of the K-12/CCC Split** (Amends EC Section 41203.1) (January budget)	To maintain the flexibility to prioritize within the segments of education, the Administration and Legislature customarily suspend the statutory split of Proposition 98 expenditures. This section has been suspended each year since 1992-93.	Approve TBL, to be refined as necessary	TBL	No overall fiscal impact.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
3	Omnibus language	**Rescheduling of the Statutory Settle-up Payment** (EC 41207.3)	Current statute requires an appropriation of the outstanding 2006-07 settle-up balance ($212 million) in 2014-15. This section authorizes the outstanding balance to be appropriated in 2015-16 instead of 2014-15. (Amends Education Code Section 41207.3)	Adopt the Governor's proposed delay of the K-14 settle-up		Settle-up payments are made with Non-Proposition 98 GF. The Administration proposes using these Non-Proposition 98 GF resources to address other state priorities, allowing $212 million in Non-Proposition 98 GF available for use toward other programs.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
4	Omnibus language	**Technical Clean-up to Remove References to Repealed Code Sections related to Mental Health Services** (EC 47644, 56836.06, 56836.07, 56836.08, 56836.095, 56836.11, 56836.15) (January budget)	Chapter 403, Stats. of 2010 (AB 184) repealed EC 56836.155, which provided a special disability adjustment, also referred to as an "incidence multiplier", to Special Education Local Plan Areas (SELPAs) that were serving a disproportionately high number of students with high cost disabilities. Chapter 43, Stats. of 2011 (AB 114) repealed EC 56331, which shifted the responsibility of providing educationally related mental health services from county mental health agencies to school districts. Various sections in the EC need to be amended to remove the reference to these code sections.	Approve TBL, to be refined as necessary	TBL	No fiscal or programmatic impacts.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
5	Omnibus language	**Quality Education Investment Act (QEIA):** The Governor proposes to provide the final payment of $409.6 million non-Proposition 98 GF to fulfill the CTA v. Schwarzenegger settlement agreement, appropriated as follows: K-12 QEIA program ($267 million), Community Colleges QEIA Career Technical Education program ($48 million), and the Emergency Repair Program (ERP) ($94.6 million) pursuant to the Williams settlement agreement. (Amends EC Section 52055.770) (January budget)	Current statute identifies that the balance of QEIA funding owed shall be appropriated in 2014-15. As proposed, this payment includes one-time funding for deferred maintenance through the ERP, which the Administration indicates is also intended to satisfy an obligation under the *Williams* settlement agreement.	Approve overall total of QEIA payment ($409.6 million), but hold open trailer bill language with more specific appropriations pending decisions on the overall Proposition 98 package	TBL	

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
6	Omnibus language	**AB 484 Clean-up to Standards-Based Test in Spanish (STS) Provisions** (EC 60640 and 60640.2) (January budget)	These sections clarify the entity responsible to pay for the administration of the STS until the new primary language other than English assessment is operational. Specifically, amendments make clear that administration of this test to English learners is funded by the state, including contract and per-pupil apportionment costs. Local educational agencies (LEAs) administering this test to non-English learners in dual immersion classrooms shall do so at their own expense by contracting with the testing contractor directly, and will not receive a per-pupil apportionment from the state. According to DOF, the changes are necessary because current statute (60640(b)(5)(B)) establishes a conflicting payment structure. It allows LEAs to administer this test at their own expense, but requires the State Department of Education (SDE) to reimburse local educational agencies with a per-pupil apportionment.	Approve TBL, to be refined as necessary	TBL	No fiscal impact as the Governor's Budget proposes a funding level that assumes these changes, consistent with the intent of AB 484.
7	Omnibus language	**Special Education GF Backfill due to Redevelopment Agency (RDA) Variances** (Uncodified) (January budget)	RDA revenues offset General Fund (GF) revenues in the calculation of special education apportionments. This section provides a mechanism for backfilling or reducing the special education GF appropriation should RDA revenue estimates change.	Approve TBL, to be refined as necessary	TBL	The costs or savings of Proposition 98 GF resulting from these changes are not yet known. This language has been used for the past two years.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
8	Omnibus language	**Special Education Maintenance of Effort** (May Revision)	The proposed TBL would specify that $32,806,000 provided in the 2012 Budget Act and $60,546,000 provided in the 2013 Budget Act count towards fully funding the federal IDEA maintenance of effort for 2010-11.	Approve proposed TBL with the following modification: change $60,546,000 to $46,943,000 provided in the 2013 Budget Act	TBL	The change to the amount specified in the staff recommendation was agreed upon by SDE, DOF, and LAO in conversations subsequent to the release of the May Revision.
9	Omnibus language	**Extension of Encumbrance Period for 2013 Funding of the California Collaborative on Educational Excellence-** (Amends the Budget Act of 2013) (January budget)	This section extends the encumbrance period for $10 million appropriated in the 2013 Budget Act to the 2014-15 fiscal year. According to DOF, it is unlikely that the SDE will enter into a contract with a fiscal agent for the Collaborative this fiscal year.	Approve TBL, to be refined as necessary	TBL	Proposal is technical; allows for the expenditure of funds already appropriated but not yet expended.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
10	Omnibus language	**Suspend Creation of New Federal Workforce Investment Act Affiliated Charter Schools including Schools Serving Adults in Correctional Facilities** (May Revision)	The May Revision requests that TBL be added to, commencing with 2014-15, suspend LEAs from establishing new federal Workforce Investment Act (WIA)-affiliated charter schools until a more comprehensive adult education plan can be developed. Currently, these schools can claim LCFF based funding for adult average daily attendance, which no other LEA may claim. According to DOF, this proposal would not affect federal WIA-affiliated charter schools existing prior to the 2014-15 school year.	Adopt placeholder TBL to address funding inequities for adult students	TBL	The staff recommendation to adopt placeholder TBL is intended to send this issue to Conference in light of the concerns stakeholders have raised about the May Revision proposal.

CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY						
#	Item	Issue	Description	Staff Recommendation	Language	Comments
11	Omnibus language	**Transfer School Building Aid Funds to Emergency Repair Program** (May Revision)	The May Revision requests that trailer bill language be adopted to transfer all remaining School Building Aid Funds to the Emergency Repair Program. These funds have historically been used to fund the Deferred Maintenance Program, which was consolidated within the LCFF.	Approve TBL, to be refined as necessary	TBL	
12	LCFF language	**Homeless Students** (EC 2576) (January budget)	This section clarifies the district of residence determination for homeless students and associated LCFF funding provided to COEs. Specifically, this technical adjustment clarifies that the determination is based on the largest (in terms of average daily attendance) non-basic aid district serving the student's grade level.	Approve TBL, to be refined as necessary	TBL	No overall fiscal impact.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
13	LCFF language	**Charter Schools** (EC 42238.02) (January budget)	This section requires charter schools to annually report their physical location to the SDE no later than November 30 of each fiscal year, and specifies that the physical location is considered final as of the second principal apportionment (unless an audit report requires a revision) for the purpose of establishing a charter school's concentration cap.	Approve TBL, to be refined as necessary	TBL	No fiscal impact.
14	LCFF language	**Changes to LCFF Calculation** (EC 42238.03) (January budget)	The proposed changes: 1) set the point-in-time (P-2/Annual) for calculations for revenue limits, charter grants, necessary small schools, LCFF gap funding percentage, and charter school physical location, and 2) remove one-time RDA revenue from the basic aid fair share calculation applied to categorical programs. According to DOF, the SDE requested that points-in-time be specified for clarity and to ensure that LCFF calculations would not be affected by possible changes to ADA in the future. Also, removing one-time RDA funding ensures that no district receives less than it did in 2012-13.	Approve TBL, to be refined as necessary	TBL	The Governor's Budget includes $16 million Proposition 98 funding to account for the RDA adjustment in the basic aid fair share calculation.
15	LCFF language	**ADA Charter School Block Grant** (Amends EC 42238.05 and repeals EC 47634.3) (January budget)	The proposed changes remove an invalid reference to ADA calculations for the former Charter School Block Grant and repeal the invalid section.	Approve TBL, to be refined as necessary	TBL	No fiscal impact.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
16	LCFF language	**Declining Enrollment/All-Charter Districts** (Adds EC 42238.054 and repeals EC 42238.53) (January budget)	The proposed changes clarify that all-charter districts can continue to receive declining enrollment under LCFF, and repeal previously enacted language that allowed all-charter districts to receive declining enrollment under the former Charter School Block Grant.	Approve TBL, to be refined as necessary	TBL	No fiscal impact.
17	LCFF language	**COE Special Day Class Longer Day/Time Penalty** (Adds EC 46200.5 and 46201.5, and repeals EC 46200.5 and 46201.5) (January budget)	The proposed changes sections conform existing COE instructional day and minute requirements and penalties to the LCFF. The changes would continue, through 2014-15, authorization for COEs to reduce the minimum required school year by up to five days of instruction or the equivalent number of instructional minutes without incurring penalties, and repeal obsolete statewide funding reductions that authorized reduced instructional days and minutes.	Approve TBL, to be refined as necessary	TBL	No fiscal impact.
18	LCFF language	**County Program Charter** (EC Section 47631) (January budget)	The proposed changes add juvenile court students to the list of students for which a county program charter can receive a county rate (which is consistent with the students a COE is authorized to serve) and clarifies LCFF apportionments for county students attending a county program charter. According to DOF, they are intended to clarify that COE-authorized charter schools serving students who are on probation, probation-referred or mandatorily-expelled, receive COE LCFF rates for those students and district LCFF rates for all other students.	Approve TBL, to be refined as necessary	TBL	No fiscal impact.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
19	LCFF language	**State Board of Education Adoption of Local Control and Accountability Plan (LCAP) Template** (EC 52604) (January budget)	The proposed changes would allow the Board to adopt the LCAP template pursuant to the Bagley-Keene Open Meeting Act, instead of going through the regulations process. According to DOF, the template might otherwise be adopted too late in the year for LEAs to utilize it.	Reject the proposal, given the importance of a full process for public input	TBL	No fiscal impact.
20	LCFF language	**Local Control and Accountability Plan Adoption for Counties with Jurisdiction Over a Single School District** (EC 52070) (January budget)	Current law requires the Superintendent to review and approve the budget for a district which is the only district in a county, such as San Francisco. However, the LCFF legislation requires the Superintendent to designate an adjoining county to perform the duties required to approve an LCAP. The proposed amendments would instead align the LCAP approval process for those counties with the budget approval process by requiring the Superintendent to perform both functions.	Approve TBL, to be refined as necessary	TBL	This section shifts an unknown cost from adjoining counties identified by the Superintendent to the Superintendent.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
21	LCFF language	**Out-of-State Tuition** (Uncodified) (January budget)	The proposed changes would reimburse school districts or COEs (whichever incurred the cost) for out-of-state tuition costs incurred in the 2013-14 fiscal year. These LEAs had to enter into out-of-state contracts prior to the enactment of the LCFF and, therefore, could not plan for the education of those students in the 2013-14 fiscal year within the context of the LCFF. The changes would provide those LEAs a one-time hold harmless.	Approve TBL, to be refined as necessary	TBL	

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
22	LCFF language	**LCFF - Economic Recovery Target (ERT)** (EC 42238.025) (January budget)	The proposed language would specify that 2013-14 ADA is final as of the second principal apportionment (P-2) for purposes of establishing ERTs, clarify that the full ERT amount shall be added on to the LCFF when the LCFF is fully implemented (should LCFF implementation occur in less than 8 years), and that ERT shall (rather than may) be subject to property tax offsets. According to DOF, these technical adjustments are needed to equitably and accurately calculate ERT payments, which ensure that most districts get back to pre-recession levels of funding, adjusted for inflation, upon full implementation of the LCFF.	Approve TBL, to be refined as necessary	TBL	SDE, DOF, and LAO consider this a technical change to ensure internal consistency in the calculation of the ERT across its two components: the floor portion of the formula (which is based on 2012-13 fiscal data and ADA) and the target portion of the formula (which is based on 2013-14 funding dollars but 2012-13 ADA). The language would modify the target portion of the formula to be based on 2013-14 ADA.

CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY

#	Item	Issue	Description	Staff Recommendation	Language	Comments
23	LCFF language	**LCFF - Federal Impact Aid Funds for Two Districts** (Amends EC 46610 and repeals EC 46611) (January budget)	These sections repeal the unique revenue limit funding adjustment of two school districts and clarify that the unique inter-district transfer is solely for the purpose of federal impact aid funds. These sections further clarify that the former revenue limit adjustment is included within the district's LCFF floor and LCFF minimum state aid. These changes conform to the LCFF, ensuring that no district receives less funding than it did in 2012-13, and allow these two districts to continue to receive federal impact aid funding.	Approve TBL, to be refined as necessary	TBL	No fiscal impact.

#	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
24	LCFF language	**In-Lieu Payments to Charter Schools** (EC 47635 and 47663) (January budget)	These sections: (1) specify that excess in-lieu payments made to charter schools be used to offset state aid, (2) simplify the gap funding calculation for countywide charter schools with students from basic aid districts by requiring in-lieu payments equal to the county in-lieu average in 2012-13 per student plus COLA during the transition to full LCFF implementation, (3) for the purpose of these calculations, authorize the use of a district's prior year basic aid designation, and (4) authorize county charter programs to seek in-lieu payments from the district of residence for students not funded under the county rate (treats county program charters in the same manner as COEs). According to DOF, proposed technical amendments clarify that: (1) a charter school located in a basic aid district cannot receive in-lieu property tax payments that would cause the school to receive revenues in excess of their entitlement, and (2) the in-lieu property taxes transfer from basic aid districts to countywide charter schools be based on an amount equal to the 2012-13 countywide average in-lieu property tax per unit of ADA (annually adjusted for COLA) for students attending a countywide charter school whose district of residence is a basic aid district.	Approve TBL, to be refined as necessary	TBL	No fiscal impact.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
25	LCFF language	**Williams Requirement for Sufficient Instructional Materials** (EC 60119) (January budget)	According to DOF, this section preserves the requirement that school districts hold a public hearing and make a determination as to whether the district has sufficient textbooks or instructional materials. Also, amendments incorporate language from EC 1240.3 and the former 42605 that further define "sufficiency." The requirements in this section are tied to a funding source that no longer exists because it has been included in the LCFF. DOF indicates that EC 1240.3 and the former 42605 were incorporated to preserve the definition of "sufficiency" since these sections are either eliminated or will become inoperable in July 2015.	Adopt placeholder TBL to modify the language as necessary to clarify the intent for local adoption of instructional materials	TBL	No fiscal impact. The staff recommendation to adopt placeholder TBL is intended to send this issue to Conference in light of the concerns stakeholders have raised about the Administration's proposal.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
26	Omnibus language	**State Board of Education Student Board Member Recruitment and Selection Process** (Amends EC 33000.5) (January budget)	Current law requires the Governor to appoint, with consent of two-thirds of the Senate, a student member to the State Board of Education for a term of one year from three finalists recommended by the Board. The Governor proposes to provide the Board more time for this recruitment and selection by repealing prescriptive deadlines, the requirement for a fixed number of candidates at each selection stage, and specified notification requirements. According to the Department of Finance (DOF), the Board is requesting this workload relief.	Reject without prejudice	TBL	These changes would be more appropriately proposed through the policy process.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
27	Omnibus language	**State Board of Education Delegation of Charter Oversight Authority** (Amends EC Section 47605) (January budget)	The proposed changes would authorize the State Board of Education to delegate Board-authorized charter school oversight authority, upon agreement, to any district or county office of education in the state. The Board is responsible for oversight of a charter school that it authorizes. Oversight activities are currently funded via a reimbursement to the authorizing entity of one percent of the charter school's annual revenue. Currently, 23 charter schools operate under the oversight of the Board. The SDE provides oversight activities for these charters, but has indicated that it has had difficulties providing effective oversight within the oversight fee revenue and additional resources provided by the state. According to DOF, the proposed changes would relieve future workload pressure on the SDE.	Reject without prejudice	TBL	These changes would be more appropriately proposed through the policy process. The Subcommittee heard this issue in a prior hearing and no action was taken then.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
28	Omnibus language	**Parent-Child Engagement Pilot Project** (Adds WIC Section 11338, 11338.5) (January budget)	The budget proposes a three-year, six-county pilot project to serve 2,000 low-income families, and to connect 3,200 preschool-age children between the ages of two and five with licensed child care. Pilot counties would be selected through an application process. A selected pilot county will identify participant cohorts of CalWORKs children and families through an initial assessment and screening. Under the pilot, child care will be provided in a stable environment, and parents must work with their child for an average of ten hours per week for at least six months. Child care providers will work directly with parents through mentoring. The proposal assumes the first cohort of families to enroll in March 2015 and the second cohort in 2016. The budget projects a $9.9 million General Fund (GF) cost in 2014-15, and a total of $115.4 million GF over three years.	Reject without prejudice	TBL	The Subcommittee heard this issue in a joint hearing with Subcommittee 3-Health & Human Services, and no action was taken then. The LAO recommends rejecting the proposal for the following reasons: a) the pilot provides duplicative services; b) there is unknown impact of parental involvement on employment outcomes; and c) it is unclear if a pilot necessary to prove positive outcomes for educational focus for low-income children.
29	Omnibus language	**State Median Income** (Amends EC Section 8263.1)(May Revise)	Adopt trailer bill language to continue the policy of setting the SMI, for purposes of qualifying for child care programs, at the level in 2007-08.	Approve TBL	TBL	

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
	II. SDE STATE OPERATIONS					
30	6110-001-0001	**Positions to Support Local Control Funding Formula Accountability** (January Budget)	The Governor's Budget provides $1,140,000 GF and 8.0 positions to support implementation of the LCFF accountability system pursuant to Chapter 47 of the Statutes of 2013.	Approve as budgeted and also approve an additional $285,000 GF for the indirect and facilities costs associated with the positions that was not provided in the Governor's Budget. Also approve BBL to require SDE, in collaboration with SBE, to report to the Legislature by February 1, 2015 regarding the status of LCFF implementation (see adjacent language).	TBL	TBL: The department, working in collaboration with the State Board of Education (SBE), shall report to the Legislature no later than February 1, 2015 regarding the status of implementation of the Local Control Funding Formula (LCFF). At a minimum, the report shall describe the implementation roles and responsibilities of the department, SBE, the California Collaborative for Educational Excellence, the Fiscal Crisis Management and Assistance Team, and county offices of education for LCFF oversight and technical assistance to local education agencies. The report shall also describe implementation challenges to date and efforts made by statewide and local entities to address the challenges. The report shall include observations of the department and SBE about the first year that local education agencies completed their local control and accountability plans.

CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY

#	Item	Issue	Description	Staff Recommendation	Language	Comments
31	6110-001-0001	**Positions to Support Local Control Funding Formula Apportionment and Fiscal Oversight** (January Budget)	The Governor's Budget provides $852,000 GF and 6.0 positions to support the apportionment of, and fiscal oversight of, funding through the LCFF, pursuant to Chapter 47 of the Statutes of 2013.	Approve as budgeted and also approve an additional $205,000 GF for the indirect and facilities costs associated with the positions that was not provided in the Governor's Budget	BBL	
32	6110-001-0001 and 6110-491 (Issue 461)	**Reappropriation to Support LCFF Apportionment and Fiscal Oversight** (May Revision)	A reappropriation of $227,000 GF is requested for the costs of reprogramming apportionment software to align with LCFF requirements.	Approve as budgeted		This funding was initially provided in 2013-14, but some of the work will be completed in 2014-15.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
33	6110-003-0001, 6110-491 (Issue 608)	**Standardized Account Code Structure (SACS) Replacement Project** (January Budget and May Revision)	The January budget provides a total of $3.6 million ($1.1 million in GF and $2.5 million in federal funds) for the SACS Replacement Project. The May Revision proposes additional funding through a reappropriation of $2.5 million GF that was provided for this purpose in 2013-14 but will be unspent this year.	Approve the Governor's proposals to fund the SACS replacement project. Also adopt placeholder TBL to require that the School Accounting Manual be revised to ensure that LEAs uniformly identify and report LCFF apportionments by base entitlements and supplemental grant and concentration grant funding.	TBL	Project funding is justified since the project has already been approved. Staff recommends the placeholder TBL for purposes of public transparency of information about school funding provided through the LCFF. The language would require SDE to assign standard accounting codes for LCFF apportionments to enable interpretation of the data beyond the individual-LEA level.

CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY

#	Item	Issue	Description	Staff Recommendation	Language	Comments
34	6110-001-0001, 6110-001-0890, 6110-161-0890 (Issue 128)	**Accessible Instructional Materials for the Visually Impaired** (January Budget and May Revision)	The May Revision rescinds the Governor's January TBL proposal (1) to shift the responsibility for the provision of accessible instructional materials from SDE to local education agencies in 2014-15 and (2) to authorize SDE to operate the materials clearinghouse as a fee-based structure supported by fees paid by LEAs. Instead, the May Revision proposes $4.5 million in federal Individuals with Disabilities Act (IDEA) funds ($3.0 million ongoing and $1.5 million one-time basis) to support SDE continued provision of the accessible instructional materials to LEAs. This is a shift of IDEA funds from local assistance to state-level activities.	Approve $4.5 million (one-time) in federal IDEA funds to support the provision of accessible instructional materials to LEAs in 2014-15. Adopt LAO alternative for the technical changes to how these funds are scheduled in the items. Adopt BBL to specify intent that LEAs pay a portion of the costs for these materials beginning in 2015-16 and SDE should develop a plan to institute fees based on consultation with stakeholders. **see attachment for BBL*	BBL	The Subcommittee already rejected the Governor's January proposal for a fee-based structure in 2014-15. The subcommittee directed staff to work on language for a fee-based structure beginning in 2015-16. The BBL recommended for adoption would specify that the amount charged to each LEA that accesses materials from the statewide clearinghouse shall be similar to the amount the LEA pays for the comparable materials for non-visually impaired students.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
35	Control Section 3.61, 6110-161-0890, 6110-005-0001	**State Special Schools Deferred Maintenance** (January Budget)	The Governor's Budget proposes $5 million non-Proposition 98 funds for deferred maintenance projects in the State Special Schools as part of $100 million in a new Control Section 3.61 for deferred maintenance projects in various state-run facilities. Subcommittee 4 already rejected the control section and directed the Administration to return with a proposal that allows the Legislature to approve funding for individual departments' deferred maintenance projects through the regular budget process. The Administration did not revise its January proposal.	Approve $1.8 million one-time in federal reimbursements to continue to restore a prior GF reduction to State Special Schools with one-time federal Individuals with Disabilities Education Act (IDEA) carryover funds. These funds should be scheduled as an increase of $1.8 million to 6110-161-0890 Schedule 2 and a corresponding reimbursements authority increase to 6110-005-0001. Also approve related BBL to 6110-161-0890 (as shown in staff comments).	BBL	Recommended BBL: Of the funds appropriated in Schedule (2), $1,800,000 in federal Individuals with Disabilities Education Act (20 U.S.C. Sec 1400 et seq.) carryover funds shall be available for transfer to the state special schools on a one-time basis. This action would send this item to conference, since the Assembly approved the Governor's proposal. This action is consistent with the Legislature's actions in 2012-13 and 2013-14 to backfill an ongoing $1.8 million GF reduction in the State Special Schools budget with the same amount of one-time federal IDEA funds. Staff believes this action would support SDE's current practice to set aside $2.4 million from the State Special Schools operations budget annually to fund ongoing and deferred maintenance projects.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
36	6110-005-0001, 6110-006-0001 (Issue 127)	**State Special Schools Reimbursement Authority** (May Revision)	The May Revision proposes technical changes to BBL to allow the State Controller to transfer reimbursement funds to the State Special Schools from school districts. These are charges that school districts pay for the excess cost of educating students at the State Special Schools.	Adopt the proposal with the technical change proposed by SDE to strike the phrase "in the first principal apportionment of that fiscal year"	BBL	The proposal adds BBL to the appropriate budget bill item where the reimbursement authority is presently scheduled. Staff believes DOF and LAO agree with the technical change proposed by SDE.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
37	6110-001-0001 & 6110-001-0890 (Issue 602)	**Child Nutrition Program Training and Oversight, State Support** (May Revision)	The May Revision requests to increase Item 6110 001-0890 by $2,887,000 Federal Trust Fund and to amend Item 6110-001-0001 to reflect the availability of one-time funds to provide statewide training, technical assistance, and oversight for school food authorities regarding nutritional standards contained in the federal Healthy, Hunger-Free Kids Act of 2010. The May Revision also includes corresponding BBL.	Approve as budgeted	BBL	
38	6110-001-0001 & 6110-001-0890 (Issue 604)	**Child and Adult Care Food Program, State Support** (May Revision)	The May Revision requests that provisional language be added to this Item to specify that $174,000 of existing Federal Trust Fund and two existing positions be available to coordinate training and provide technical assistance to Child and Adult Care Food Program agencies regarding requirements of the federal Healthy, Hunger-Free Kids Act of 2010. Additional funding is not being requested because the SDE has existing funding authority to accommodate this workload.	Approve as budgeted	BBL	

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
39	6110-001-0001 & 6110-001-0890 (Issue 605)	**Child Nutrition Administrative Reviews, State Support** (May Revision)	The May Revision requests that budget bill language be added to specify that $1,335,000 of existing Federal Trust Fund and 15 existing positions are available to address increased child nutrition program administrative review workload required by the federal Healthy, Hunger-Free Kids Act of 2010. Specifically, the United States Department of Food and Agriculture (USDA) redesigned the administrative review process and increased the review cycle of school food authorities from every five years to every three years. Additional resources are not being requested because the SDE has existing funding authority and vacant positions to accommodate this workload.	Approve as budgeted	BBL	
40	6110-001-0001 & 6110-001-0890 (Issue 609)	**Free and Reduced-Price Meal Direct Certification, State Support** (May Revision)	The May Revision requests that one ongoing and two three-year limited term positions be authorized to implement a free and reduced-price meal direct certification process using Medi-Cal data. This project is pending California's selection to participate in a Medicaid demonstration project, which would exempt states from current federal regulations that restricts the use of Medi-Cal data for direct certification.	Approve proposed positions, but one ongoing and two two-year limited term positions (rather than three-year limited term positions).	BBL	Two-year limited term positions (rather than three-year limited term positions) are appropriate to conform to CalHR policies related to limited-term positions.

CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY						
#	Item	Issue	Description	Staff Recommendation	Language	Comments
41	6110-001-0001 (Issue 547)	**Information Technology Support for California Assessment of Student Performance and Progress, State Support** (January Budget and May Revision)	The Administration proposes the following for state support of the assessment program: (1) $432,000 one-time GF to support contracts for an Independent Verification and Validation consultant and Independent Project Oversight Consultant to oversee the development and implementation of the Smarter Balanced Testing Hosting Solution; (2) $262,000 GF and 2.0 three-year limited term positions with specified conditions in BBL; and (3) up to $232,000 GF and 2.0 positions (existing positions authority) with specified conditions in BBL.	Approve as budgeted with this modification: (1) Approve 2.0 positions as permanent rather than three-year limited term; (2) Amend Provision 20 to add the language as specified in the staff comments.	BBL	Add the following language to the end of Provision 20 in Item 6110-001-0001: The approved positions may be authorized not sooner than 30 days after notification in writing to the committees in each house of the Legislature that consider appropriations, the chairpersons of the committees and the appropriate subcommittees in each house of the Legislature that consider the State Budget, and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may in each instance determine. The notification shall state the basis for the determination by the Department of Finance that the approved positions are justified.

CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY

#	Item	Issue	Description	Staff Recommendation	Language	Comments
42	6110-001-0001	**Adding a College and Career Readiness Indicator to the Academic Performance Index** (SDE Funding Request)	The Administration's budget does not contain $135,000 non-Proposition 98 General Fund that SDE requests for its one-time costs in 2014-15 to contract with the National Student Clearinghouse (NSC) to purchase national postsecondary enrollment data. According to SDE, this data is necessary for the analysis required for the State Board of Education to evaluate making postsecondary enrollment as part of a multi-measure college and career readiness indicator added to the Academic Performance Index (API), pursuant to the requirements of SB 1458 (Chapter 577, Statutes of 2012).	Approve $135,000 one-time non-Proposition 98 GF for SDE's costs to contract with the NSC for postsecondary enrollment data. Approve BBL as follows: Of the funds appropriated in Schedule (x), $135,000 is available on a one-time basis for the department to contract with the National Student Clearinghouse for postsecondary enrollment data related to the addition of a college and career readiness indicator to the Academic Performance Index.	BBL	The Subcommittee previously heard this issue but took no action. SDE does not have postsecondary enrollment data since SDE does not track students after they leave high school. While SDE has other options for obtaining CA-specific postsecondary enrollment data, NSC is the only source of national postsecondary enrollment data. Further, it is standard practice for the Public Schools Accountability Act Advisory Committee, which advises SBE about API, to analyze the impact of potential revisions to API to all K-12 public schools in the state. It is uncertain whether PSAA would be able to recommend postsecondary enrollment as a college readiness measure for API if SDE does not obtain the NSC data.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
43	6110-001-0001, 6110-001-0995	**CalPADS Data Request Processing** (SDE Funding Request)	The Administration's budget does not contain $126,000 ($41,000 non-Proposition 98 GF and $85,000 fee-collection reimbursements) that SDE requests to support 1.0 position to develop and maintain the CalPADS data request process, and respond to custom ad-hoc requests for CalPADS data.	Approve $126,000 ($41,000 non-Proposition 98 GF and $85,000 fee-collection reimbursements) to support the addition of 1.0 position to develop and maintain the CalPADS data request process, and respond to custom ad-hoc requests for CalPADS data.		

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
44	6110-001-0001	**General Fund Support for English Learner State Activities and Uniform Compliant Procedures** (SDE Funding Request)	The Administration's budget does not contain $664,000 non-Proposition 98 GF that SDE requests to support positions that perform state-required activities but are currently funded with federal Title III funds. This amount includes $514,000 for positions that work on English Learner State Activities and $150,000 for positions that work on Uniform Complaints Procedures. SDE is required to change the funding source for these positions to GF to address a 2013 Title III federal monitoring finding of non-compliance with the supplement, not supplant provisions.	Approve $664,000 non-Proposition 98 GF to support positions that have been previously funded with federal Title III funds but must be transferred to support by the GF due to federal audit findings. Also approve BBL to require SDE to provide an analysis of local English Learner reclassification standards and recommendations on state reclassification standards.		Absent this GF support, SDE indicates it would be unable to conduct state-required activities related to programs for English Language Learners and Uniform Complaints Procedures.
45	6110-200-0890 (Issue 855)	**Race to the Top--Early Learning Challenge Grant** (May Revision)	The Administration proposes to increase state operations by $3.2 million and amend the corresponding budget bill language to reflect this change and changes in indirect cost rates and grant carryover, available from 2013-14 from the RTT-ELC grant.	Approve as budgeted	BBL	
	III. LOCAL ASSISTANCE					
46	6110-194-0001 (Issue 853)	**Adjust CalWORKs Child Care Caseload Funding** (May Revision)	The May Revision requests $14.6 million to reflect revised cost estimates for CalWORKs Stage 2 (-$15.6 million) and Stage 3 child care ($30.2 million) to reflect a higher projected cost per case in Stages 2 and 3 than in the Governor’s January budget, as well as decreased caseload of 4,000 in Stage 2 and increase caseload of 3,700 in Stage 3.	Approve as budgeted	BBL	

#	Item	Issue	Description	Staff Recommendation	Language	Comments
	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
47	6110-194-0001 (Issue 856)	**Adjust non-Proposition 98 Child Care Programs** (May Revision)	The May Revision proposes to adjust the non-Proposition 98 child care programs for growth, specifically, to increase local assistance by $481,000 to reflect a revised growth adjustment of 0.49 percent. The Governor's January demographic information indicated a 0.42 percent increase in the 0-4 year old population.	Approve as budgeted	BBL	
48	6110-194-0001 (Issue 858, 859, 860, and 861)	**Adjust Federal Child Care Funds** (May Revision)	The May Revision proposes an increase of $24.4 million to reflect the adjustments in federal Child Care Funds (increase of $7.1 million in one-time federal funds, available from prior years and an increase of $17.3 million in ongoing federal funds, which will off-set a like-amount in non-Proposition 98 General Fund in the CalWORKs Stage 3 childcare. Additionally, the May Revision adjust the total available carryover funds to $27.8 million.	Approve as budgeted	BBL	
49	6110-194-0001 (Issue 862)	**Remove Excess Authority from Child Care** (May Revision)	The May Revision requests a decrease of $15.9 million excess authority, which was associated to backfill an anticipated sequester of federal child care funds that did not materialize.	Approve as budgeted	BBL	
50	6110-196-0001 (Issue 857)	**Adjust State Preschool for Growth** (May Revision)	The May Revision seeks to adjust State Preschool funding by $356,000, reflecting a revised growth adjustment of 0.49 percent increase in the 0-4 year old population	Approve as budgeted	BBL	
51	6110-200-0890 (Issue 854)	**Race to the Top--Early Learning Challenge Grant** (May Revision)	The May Revision proposes to increase $1.8 million in local assistance to reflect changes in indirect cost rates and grant carryover, available from the 2013-14 RTT--ELC. The additional authority does not increase the total amount of the grant but instead, shifts the funds between grant years.	Approve as budgeted	BBL	

#	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
52	6110-194-0001 (Issue 846)	**Federal Child Care and Development Fund Provisions** (April Letter)	The April Letter requests BBL changes to clarify Provision 1, which requires SDE to obtain DOF approval, and to provide legislative notification, of the state CCDF expenditure plan that has been approved by the federal government, before SDE may spend the federal Child Care and Development Fund (CCDF) for child care quality programs.	Approve alternative BBL for Provision 1 that clarifies the quality funds must be spent in accordance with the plan developed pursuant to EC Section 8206.1. Also approve placeholder TBL to amend Section 8206.1 with more specific requirements for SDE to submit the draft plan and the final plan to DOF and the Legislature. **see attachment for language*	BBL & TBL	EC Section 8206.1 currently specifies the process SDE must follow to develop the state CCDF expenditure plan prior to the plan's submittal to the federal government, including collaboration with DOF and legislative notification before the May Revision for alignment with the annual budget process. In light of these statutory requirements, both SDE and LAO believe the BBL requirements for additional DOF approval and legislative notification of the approved plan (post-federal approval) is unnecessary and could create delay in spending the federal CCDF funds.
53	6110-193-0890 (Issue 364 and 370)	**Federal Title II Funds: Mathematics and Science Partnership Program** (April Letter and May Revision)	The April Letter requests to increase this local assistance item by $507,000 federal Title II funds to align to the available federal grant award. In addition, the May Revision requests an additional $2 million in one-time federal Title II carryover funds. These funds will provide competitive grants to partnerships of low-performing schools and institutions of higher education to provide staff development and curriculum support to mathematics and science teachers.	Approve as budgeted	BBL	

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
54	6110-170-0001 (Issue 360)	**Career Technical Education** (April Letter)	The April Letter requests to increase reimbursements in this local assistance item by $800,000 to reflect one-time reimbursement carryover funds for the Career Technical Education (CTE) program. The Administration proposes to spend these funds as follows: $400,000 for completion of three projects that were delayed in 2013-14; $200,000 for an evaluation of the Linked Learning Pilot Program; and $200,000 for allocation to existing participants of the Linked Learning Program.	Approve $400,000 for completion of the three projects; up to $275,000 for the Linked Learning Program evaluation with BBL requiring a competitive bid process to select an evaluator; and $125,000 for existing participants. In addition, the BBL should specify that any funds not spent on the evaluation should be redirected for existing participants (see staff comments for recommended BBL).	BBL	Recommended BBL: Of the funds appropriated in this item, $800,000 reflects one-time reimbursement carryover funds. Specifically, $400,000 is to complete unfinished projects of the Leadership Development Institutes, the New Teacher Workshops, and the Career Technical Student Organizations, up to $275,000 is to contract for an evaluation of the pilot Linked Learning Program, and $125,000 is for grants to the existing participants of the pilot Linked Learning Program. The department shall conduct a competitive bid process to select an evaluator for the Linked Learning Program evaluation. Any funds not spent on the evaluation shall be redirected to program participants.

CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY

#	Item	Issue	Description	Staff Recommendation	Language	Comments
55	Item 6110-113-0001 (Issues 551, 553, 557, 559, and 560)	**Student Assessment Program** (January Budget and May Revision)	The January Budget proposes $46,477,000 Proposition 98 GF in this local assistance Item for the assessment program. The May Revision requests that this Item be decreased by $1,922,000 Proposition 98 GF. Of this amount, it is requested that Schedule (3) be decreased by $883,000, Schedule (5) be decreased by $889,000, and Schedule (2) be decreased by $150,000. These adjustments: (1) reflect anticipated savings from the California English Language Development Test contract to offset Proposition 98 GF provided to develop the English Language Proficiency Assessments for California, (2) conform to an increase in federal Title VI funds for student assessments, and (3) reflect a decrease in funds needed to score and report the 2014 Test Administration.	Approve as budgeted, and subject to conform to Senate Proposition 98 package		

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
56	6110-113-0890 (Issues 549, 554, and 555)	**Student Assessment Program** (April Letter)	The April Letter requests that Schedule (5) of this item be increased by $889,000 federal Title VI funds to align to the available federal grant award. It is also requested that provisional language be amended to clarify contingency language that makes funding available for the California Assessment of Student Performance and Progress upon Department of Finance review of supporting contract material. In addition, it is requested that an amendment to provisional language be made to eliminate unnecessary redundancies in budget bill language.	Approve as budgeted. Also approve BBL to require annual meetings twice each year with the vendor or vendors of the state's California Assessment of Student Performance and Progress contract (see staff comments for recommended BBL).		Recommended BBL: The Department of Finance, State Department of Education, Legislative Analyst's Office and legislative staff, and the vendor or vendors of the state's California Assessment of Student Performance and Progress contract shall meet on an annual basis every October and April to review detailed fiscal information regarding the current components and costs of the contract. The group also shall explore ways to make annual improvements to the state's assessment system or achieve related savings.

CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY

#	Item	Issue	Description	Staff Recommendation	Language	Comments
57	6110-113-0001 (Issues 551 and 553)	**Student Assessment Program** (April Letter)	The May Revision requests that provisional language be amended to remove unnecessary provisional language that is repeated in statute and to make conforming changes by referencing the Standardized Testing and Reporting Program when the California Assessment of Student Performance and Progress is referenced, which allows approved apportionment costs to be paid in prior fiscal years. It is further requested that provisional language be amended to clarify contingency language that makes funding available for the California Assessment of Student Performance and Progress upon Finance review of supporting contract material. It is also requested that provisional language be amended to clarify contingency language that makes funding available for the English Language Proficiency Assessments for California upon Finance review of supporting contract material and to better reflect the intended use of funds allocated in this schedule.	Approve as budgeted. Also approve BBL to require annual meetings twice each year with the vendor or vendors of the state's California Assessment of Student Performance and Progress contract (see staff comments for recommended BBL).		Recommended BBL: The Department of Finance, State Department of Education, Legislative Analyst's Office and legislative staff, and the vendor or vendors of the state's California Assessment of Student Performance and Progress contract shall meet on an annual basis every October and April to review detailed fiscal information regarding the current components and costs of the contract. The group also shall explore ways to make annual improvements to the state's assessment system or achieve related savings.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
58	6110-113-0890 (Issue 556)	**Student Assessment Program** (May Revision)	The May Revision requests that Schedule (2) of this item be increased by $1,153,000 federal Title VI funds to develop the new English Language Proficiency Assessments for California. These funds are available as a result of English Language Development Test contract savings in 2013-14. The May Revision further requests that budget bill language be amended to conform to this action and to require the SDE to submit a multi-year implementation timeline, with associated costs, for the development of the English Language Proficiency Assessments of California.	Approve the proposal, but with the following modification: (1) change the due date of the implementation timeline to October 1, 2014; and (2) require SDE to also submit the timeline to the fiscal and education policy committees of the Legislature (see staff comments for recommended BBL).	BBL	Recommended BBL: The State Department of Education shall submit to the Department of Finance and the fiscal and education policy committees of the Legislature an implementation timeline with activities and associated cost estimates regarding the development of the English Language Proficiency Assessments for California by September October 1, 2014.
59	Item 6110-102-0231 (Issue 611)	**Tobacco-Use Prevention Education Program** (May Revision)	The May Revision requests that this Item be decreased by $1,313,000 Health Education Account to reflect declining revenue estimates from the Cigarette and Tobacco Products Surtax Fund (Proposition 99). These funds are used for health education efforts aimed at the prevention and reduction of tobacco use. Activities may include tobacco-specific student instruction, reinforcement activities, special events, and cessation programs for students.	Approve as budgeted		
60	Item 6110-107-0001 (Issue 440)	**Fiscal Crisis and Management Team (FCMAT)** (May Revision)	The May Revision requests that this Item be increased by $500,000 Proposition 98 GF to support the operations of the FCMAT, which helps local educational agencies fulfill their financial and management responsibilities. This funding would provide FCMAT with resources to support LCFF workload.	Approve as budgeted, and subject to conform to Senate Proposition 98 package		

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
61	Item 6110-119-0001 (Issue 289)	**Foster Youth Program** (May Revision)	The May Revision requests that this Item be decreased by $2,000 Proposition 98 GF to reflect the revised cost-of-living adjustment applied to grants for the Foster Youth Program.	Approve as budgeted, and subject to conform to Senate Proposition 98 package		
62	Item 6110-203-0001 (Issues 614 and 615)	**Child Nutrition Program** (May Revision)	The May Revision requests to increase this Item by $10,000 Proposition 98 GF to reflect a revised cost-of-living adjustment applied to the per-meal reimbursement rates. The May Revision also requests to increase this Item by $2,930,000 Proposition 98 GF to reflect a revised estimate of meals served. The resulting appropriation would fully fund, at the specified rates, all meals projected to be served in 2014 15. There are corresponding BBL adjustments.	Approve as budgeted, and subject to conform to Senate Proposition 98 package	BBL	
63	Item 6110-161-0001 (Issues 129, 134, 135, and 136)	**Special Education Program** (May Revision)	The May Revision requests that this Item be increased by $3,475,000 Proposition 98 GF. This adjustment includes a decrease of $8,276,000 to reflect increased offsetting property tax revenues; an increase of $12,017,000 to reflect growth in average daily attendance estimates; and a decrease of $266,000 to reflect a decrease in the cost-of-living adjustment. The May Revision also requests that Provision 2 of this item be amended to remove the requirement to spend a portion of these funds on low incidence disabilities career technical education or services. Many local educational agencies do not offer this program and are unable to spend these funds.	Approve as budgeted, and subject to conform to Senate Proposition 98 package	BBL	

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
64	Items 6110-161-0001, 6110-488, and 6110-602-0001 (Issue 138)	**Reappropriation for Special Education** (May Revision)	The May Revision requests that Item 6110-161-0001 be decreased by $12,890,000 Proposition 98 GF. The May Revision also requests that Provision 5 of Item 6110-488 be added, as specified, and Item 6110-602-0001 be increased to reappropriate $12,890,000 in one-time Proposition 98 GF savings for special education activities, to offset the reduction of ongoing funds to Item 6110-161-0001.	Approve as budgeted, and subject to conform to Senate Proposition 98 package	BBL	
65	Items 6110-182-0001, 6110-488, and 6110-602-0001 (Issue 612)	**Reappropriation for the K-12 High-Speed Network** (May Revision)	The May Revision requests that Provision 6 of Item 6110-488 be added, as specified, and non-Budget Act Item 6110-602-0001 be increased to reappropriate $26,689,000 in one-time Proposition 98 GF savings to support common core implementation with network connectivity infrastructure grants and a statewide report of network connectivity infrastructure by the K-12 High-Speed Network, in consultation with the SDE and SBE. The May Revision further requests that provisional language in Item 6110-182-0001 be amended and added to conform to this request.	Conform to Senate Proposition 98 package	TBL/BBL	Staff notes the need to revisit the language associated with this proposal.
66	Item 6110-295-0001 (Issue 606)	**Mandate Reimbursement Funding and Add New Mandates to the Mandates Block Grant** (May Revision)	The May Revision requests to increase this Item by $5,000 Proposition 98 GF to reflect the addition of five mandates to the mandate claiming process. Specifically, $1,000 is provided for each of the following new mandates that are proposed for addition to the Mandates Block Grant: (1) Parental Involvement Programs, (2) Williams Case Implementation I, II, and III, and (3) Developer Fees. An additional $1,000 is provided for both the existing Student Records and Graduation Requirements, which were inadvertently omitted from the claims process item last year.	Approve as budgeted, and subject to conform to Senate Proposition 98 package	TBL & BB Program Schedule Changes	The LAO recommends that the Legislature reject the proposals to add funding and TBL related to the three new mandates and instead repeal most activities in those three new mandates, as well as consolidate one activity with an existing mandate. Correspondingly, they recommend rejecting the $3,000 for the three new mandates and approving $2,000 for the two existing mandates.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**Comments**
67	Item 6110-296-0001 (Issue 616)	**Mandate Block Grant** (May Revision)	The May Revision requests to increase this Item by $1,579,000 Proposition 98 GF to align mandate block grant funding with revised attendance estimates. This additional funding is required to maintain statutory block grant funding rates assuming 100 percent program participation.	Approve as budgeted, and subject to conform to Senate Proposition 98 package		
68	Items 6110-139-8080, 6110-639-0001 and 6110-698-8080 (Issues 771, 773, 774, and 775)	**Proposition 39**	The May Revision requests that Item 6110-139-8080 be decreased by $9 million Clean Energy Job Creation Fund to reflect decreased projected revenues in 2014-15 tied to the corporate tax changes enacted by Proposition 39. The May Revision also requests that provisional language be added to Item 6110-139-8080 to extend the encumbrance period for Clean Energy Job Creation funds through 2017-18, as specified.	Approve as budgeted	BBL	
69	Item 6110-492 (Issue 760)	**Reappropriation, Proposition 39 Encumbrance Period**	The May Revision requests that Item 6110-492 be added to reappropriate the unencumbered balance of Clean Energy Job Creation Funds through 2017-18 to allow local educational agencies adequate time to implement energy efficiency projects, as specified.	Approve as budgeted		

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
70	6110-488	**Reappropriation, General Fund** (May Revision)	The May Revision requests that Item 6110-488 be amended to reflect updated balances from various Items that are available for reappropriation.	Approve the amendments for the updated balances available for reappropriation with specified technical changes *(see attachment for language)* , subject to conform to Senate Proposition 98 package.	BBL	
	IV. SCHOOL FACILITIES					
71	6110-485, 6110-488	**Emergency Repair Program** (January Budget and May Revision)	The Administration proposes a total of $188.5 million one-time Proposition 98 funding to pay some of the state's outstanding obligation for the Emergency Repair Program, which was created in response to the Williams v California settlement in 2004. New funding would be disbursed to districts in the order in which they were originally submitted and approved. The Administration has expressed intent to retire the state's remaining ERP obligation of $274 million in 2015-16.	Approve as budgeted, and subject to conform to Senate Proposition 98 package		The Subcommittee previously heard the January budget proposal but took no action.

	CALIFORNIA DEPARTMENT OF EDUCATION - ITEMS FOR VOTE ONLY					
#	Item	Issue	Description	Staff Recommendation	Language	Comments
72	School Facilities Language	**School Facilities Program Funds Transfer** (Adds Ed Code 17070.965, 17078.78, and 17079.40 and amends Ed Code 101012) (January Budget)	The Governor's budget proposes to transfer unexpended bond authority from four specialized school facility programs (estimated to be a total of $211 million) to the new construction and modernization programs. The impacted programs are the Overcrowded Relief Grant (ORG), Seismic Mitigation (SM), Career Technical Education Facilities (CTE), and High Performance Incentive Grant (HPI) programs. Under the proposal, half of any remaining bond authority on June 30, 2014, would be equally redirected to new construction and modernization. Any funds that revert to these programs from rescinded projects or project savings in the future would also be equally redirected.	Approve the proposal to redirect funds that remain in the CTE and HPI programs as of June 30, 2014, but reject the rest of the proposal and approve this alternative: Redirect funds that remain as of April 1, 2015 in the ORG and Charter School Facility (CSF) programs; and Require the Office of Public School Construction to report to the State Allocation Board and the Legislature by March 1, 2015 on efforts to streamline and speed up the award of SM program funds.	TBL	The Subcommittee previously heard this issue but took no action. The staff recommendation to delay the redirection of funds remaining in the ORG and CSF programs would allow current pending applications to finish the review and State Allocation Board approval process.

Attachment: Staff Recommendation Clarification

#34 Accessible Instructional Materials for Visually Impaired Pupils (6110-001-0001, 6110-001-0890, 6110-161-0890 - Issue 128)

6110-161-0890

Decrease amount in Schedule (1) by $4,500,000; Increase amount in Schedule (2) by $3,861,000

Adopt provisional language as follows:

X. Of the funds appropriated in Schedule (2), up to $3,861,000 in federal Individuals with Disabilities Education Act (20 U.S.C. Sec 1400) et. Seq.) funds shall be available for the State Department of Education to provide accessible instructional materials to local educational agencies.

X. It is the intent of the Legislature that beginning in fiscal year 2015-16, local educational agencies shall pay a portion of the state's costs to produce instructional materials for visually impaired students. The amount charged to each local educational agency that accesses materials from the statewide clearinghouse shall be similar to the amount the local educational agency pays for the comparable materials for non-visually impaired students.

6110-001-0890

Increase amount by $639,000

Adopt provisional language as follows:

X. Of the funds appropriated in this item, up to $639,000 in federal Individuals with Disabilities Education Act (20 U.S.C. Sec 1400) et. Seq.) funds shall be available to the State Department of Education for warehouse costs related to providing accessible instructional materials to local educational agencies.

X. By October 1, 2014, the department shall submit to the Department of Finance and the fiscal committees of the Legislature a plan for assessing fees to local educational agencies for utilizing accessible instructional materials from the statewide clearinghouse. The fees, which would take effect in fiscal year 2015-16, shall be similar to the amounts that local educational agencies pay for comparable materials for non-visually impaired students. The department shall consult stakeholders when developing the plan.

#52 Federal Child Care and Development Fund Provisions, 6110-194-0001 (Issue 846)

Reject the Governor's Budget and April Letter proposals for Provision 1.

Adopt the following language for Provision 1:

1. Funds in Schedules (1.5)(g), Resource and Referral, (1.5)(k), California Child Care Initiative, (1.5)(l), Quality Improvement, and (1.5)(n), Local Planning Councils, shall be allocated to meet federal requirements to improve the quality of child care and shall be used in accordance with the approved California state plan for the federal Child Care and Development Fund that is developed pursuant to the requirements under Education Code Section 8206.1.

Adopt placeholder TBL to amend Education Code Section 8206.1 as follows:

(a) The Superintendent shall collaborate with the Secretary of Health and Human Services, with the advice and assistance of the Child Development Programs Advisory Committee, in the development of the state plan required pursuant to the federal Child Care and Development Fund, before submitting or reporting on that plan to the federal Secretary of Health and Human Services.

(b) (1) For purposes of this section, "Child Care and Development Fund" has the same meaning as in Section 98.2 of Title 45 of the Code of Federal Regulations.

(2) For the purposes of this section, "collaborate" means to cooperate with and to consult with.

(c) As required by federal law, the department shall develop an expenditure plan that sets forth the final priorities for child care. The department shall coordinate with the State Department of Social Services, the California Children and Families Commission, and other stakeholders, including the Department of Finance, to develop the Child Care and Development Fund (CCDF) Plan. On or before February 1 of the year that the CCDF Plan is due to the federal government, the department shall release a draft of the plan. The department shall then commence a 30-day comment period that shall include at least one hearing and the opportunity for written comments. ~~Before the May budget revision~~By April 1 of the year that the plan is due, the department shall provide the revised CCDF Plan and a description of any changes to the earlier draft to the Director of Finance and the chairs of the fiscal committees of ~~each house of~~ the Legislature ~~that~~

~~consider appropriations, and shall provide a report on the plan to the committees in each house of the Legislature that consider the annual Budget Act appropriation~~.

(1) After the plan is approved by the U.S. Department of Education, the department shall provide to the Department of Finance and the fiscal committees of the Legislature a copy of the final plan and a description of any changes made since submitting the draft plan for review.

(2) Should the annual state budget act require changes to the approved plan, the department shall submit an amended plan to the federal government.

#70 Reappropriation, General Fund, 6110-488

Subject to conform to the Senate Proposition 98 package, approve the following amendments to the May Revision proposal for Item 6110-488:

6110-488-Reappropriation, Department of Education. Nothwithstanding any other provision of law, the balances from the following items are available for reappropriation for the purposes specified in Provisions 1 to ~~4~~ 6:

0001-General Fund

(22) $~~15,000~~ ~~64,000~~ 15,000 or whatever greater or lesser amount of the unexpended balance of the amount appropriated for Supplemental Instruction, Low STAR, Grades 2-6, for the purposes of Section 37252.8 of the Education Code in Schedule (3) of Item 6110-104-0001 of the Budget Act of 2011 (Ch. 33, Stats. 2011), as amended by Section 50 Chapter 7 of the Statutes of 2011.

(23) $~~64,000~~ ~~15,000~~ 64,000 or whatever greater or lesser amount of the unexpended balance of the amount appropriated for Supplemental Instruction, Core Academic, K-12, for the purposes of Section 37253 of the Education Code in Schedule (4) of Item 6110-104-0001 of the Budget Act of 2011 (Ch. 33, Stats. 2011), as amended by Section 50 Chapter 7 of the Statutes of 2011.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland

Thursday, May 22, 2014
1:30 p.m.
Room 3191, State Capitol

Consultant: Joe Stephenshaw
Part B

Item	Department
6120	**California State Library**
6610	**California State University (CSU)**
6645	**Health Benefits for CSU Annuitants**
6980	**California Student Aid Commission (CSAC)**
6910	**Awards for Innovation in Higher Education**

Vote Only Item

Item 1	State Law Library Special Account	Page 2
Item 2	CSAC Technical Adjustment and TBL	Page 2
Item 3	Performance Measurement Reporting Language	Page 3
Item 4	Innovation Awards	Page 3
Item 5	CSU Trailer Bill Language	Page 4
Item 6	CSU Capital Outlay Reappropriation	Page 5
Item 7	Health Benefits for CSU Annuitants	Page 5
Item 8	CSU Infrastructure	Page 5

Discussion Items

Item 1	CSU Budget Package	Page 8

Public Comment

Items Proposed for Vote Only

6120 CALIFORNIA STATE LIBRARY
6610 CALIFORNIA STATE UNIVERSITY
6645 HEALTH BENEFITS FOR CSU ANNUITANTS
6980 CALIFORNIA STUDENT AID COMMISSION
6910 AWARDS FOR INNOVATION IN HIGHER EDUCATION

Issue 1: State Law Library Special Account

Governor's Proposal. The Governor's budget includes trailer bill language that would extend the sunset date of a filing fee that supports the California State Law Library.

Background. Current law requires that $65 of each fee collected in civil cases filed in each state court of appeals be paid into an account to support the law library. The funds are appropriated each year by the Legislature to the law library. The Governor's budget proposes $454,000 for the law library for 2014-15.

Current law sunsets this fee on January 1, 2015. Trailer bill language would extend the sunset date until January 1, 2020.

Staff Recommendation. Approve as proposed.

Issue 2: CSAC Technical Adjustment and TBL

Proposal. The California Student Aid Commission (CSAC) has requested $133,250 General Fund to cover the full-year funding for the costs of positions approved in the current budget.

In addition, the CSU has requested that the subcommittee consider adding placeholder trailer bill language that would modify an existing exemption to Cal Grant performance requirements. The exemption allows institutions with a three year cohort default rate less than 10 percent and a graduation rate above 20 percent to remain eligible for the Cal Grant program through the 2016-17 fiscal year. The Subcommittee has been asked to remove the language regarding the cohort default rate.

Background. In the current budget, $610,050 is included for CSAC to support seven positions needed to handle mailroom responsibilities. The funding amount provided represented nine months of salary for the positions, given the expected hiring schedule. The additional funding is needed to provide for full-year funding in the budget year.

Staff Recommendation. Approve $133,250 General Fund to provide full-year funding for previously authorized CSAC positions. In addition, adopt placeholder trailer bill language regarding Cal Grant performance requirements.

Issue 3: Performance Measurement Reporting Language

Background. AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, requires the University of California and the California State University to submit an annual report every March 1, to the Legislature, regarding the composition of the student body and performance outcomes. Due to differences in the way the two segments interpreted the reporting requirements, the Assembly Budget Subcommittee on Education directed staff to work with the segments, the Department of Finance (DOF), and the Legislative Analyst's Office (LAO) to clarify and improve the reporting language.

Based on input from DOF, the segments, and the LAO, the following changes to the reporting language are suggested:

- Require the segments to report on the number of California Community College transfer students and low-income students as a percentage of their overall student body, and in relation to the incoming freshman class.

- Require the segments to report the average number of course credits accumulated by students at the time they complete their degrees, including units accrued at other colleges.

- For CSU, add a requirement to report the four-year graduation rate of California Community College transfer students, in addition to the two- and three-year graduation rates.

- Change the annual reporting date from March 1 to March 15 to allow the segments more time to gather and report the data.

Staff Recommendation: Approve the trailer bill language.

Issue 4: Innovation Awards

Governor's Budget. The Governor's budget proposed $50 million General Fund, on a one-time basis, to create the Awards for Innovation in Higher Education program.

Background. The Governor proposes that applications for awards can be submitted by a UC, CSU, community college, or a group of any of these entities. These incentive awards are proposed to encourage and recognize models of innovation in higher education that focus on increasing bachelor's degrees, improving the time it takes to complete a bachelor's degree or easing the transfer process. Winning applications will be selected by a committee chaired by the Department of Finance. The May Revision makes clarifying changes to the budget bill language but no substantive changes.

While the goals of this new program are laudable, staff notes that all three higher education segments are emerging from significant cutbacks in state funding. All three face major cost pressures, including retirement and infrastructure.

Additionally, the LAO has raised multiple concerns, including that by earmarking a relatively small amount of one-time funding for individual campuses or groups of campuses to address state priorities, the state seems to be implying this is somehow different from how the segments should be using the remainder of their funding. The LAO also states that this proposal is poorly timed, coming too soon after funding discussed in last year's budget to expand the use of technology to remove course bottlenecks and reduce the costs of education. The results of those efforts are not yet clear, and the LAO suggests that expanding in this area, before giving the existing efforts time to show results would be premature.

Staff also notes that this proposal sets up a significant bureaucratic infrastructure to determine "winners," which will require staff time for both the newly-created committee and the campuses and segments writing grant proposals. Finally, it is unclear what the Administration's intent is for the funding: is it to expand programs or projects, create new programs or projects, or reward innovation? What will this relatively small amount of funding actually buy?

Staff Recommendation. Reject the Governor's proposal. Provide $15 million each to the UC and CSU to fund deferred maintenance projects.

Issue 5: CSU Trailer Bill Language

Governor's Proposal. The Governor's budget includes trailer bill language that would make the following changes:

- Allow the State Fire Marshall to designate a campus fire official on each CSU campus to enforce building standards and other fire regulations on each campus. This authority has previously been granted to the University of California, and creates greater efficiency in state government by allowing CSU fire officials, instead of a separate state agency, to oversee building standards and fire regulations on campuses.

- Allows CSU to receive bids for the construction of public works projects on multiple CSU campuses as a single project. CSU already uses a single contract for multiple projects on a single campus; this language would allow CSU to do the same for projects on multiple campuses. CSU argues that this language would allow it to reduce time and costs within the procurement process and could increase the competitive environment because larger projects would attract more bidders.

- Allows CSU to publish notices of upcoming construction bid opportunities on CSU's website instead of newspapers. CSU argues this proposal will reduce procurement costs and reach the same number or more potential bidders, who already receive notices of potential projects via the Internet.

Staff Recommendation. Approve as proposed.

Issue 6: CSU Capital Outlay Reappropriation

Governor's Proposal. A Spring Finance Letter requests the reappropriation of $75 million in lease-revenue bond authority to support a new administration building on the CSU Pomona campus.

Background. The 2013 Budget Act authorized $76.5 million in lease-revenue bond spending to support the planning and construction of a new administration building on the CSU Pomona campus. The project was not approved to proceed to encumber preliminary design funds until October 2013, which will likely mean that working drawings and the awarding of a construction contract will not be complete until the 2014-15 fiscal year.

Staff Recommendation. Approve as proposed.

Issue 7: Health Benefits for CSU Annuitants

Governor's Proposal. The Administration has proposed provisional language to ensure that final health rates for CSU employees can be updated after they are adopted at the end of June 2014. The budget currently includes an estimated $270.1 million General Fund for this cost. Provisional language is proposed as follows:

- The Director of Finance may adjust this item of appropriation to reflect the health benefit premium rates approved by the Board of Administration of the California Public Employees' Retirement System for the 2015 calendar year. Within 30 days of making any adjustment pursuant to this provision, the Director of Finance shall report the adjustment in writing to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committees in each house of the Legislature that consider appropriations.

Staff Recommendation. Adopt the provisional language.

Issue 8: CSU Infrastructure

Governor's Proposal. Similar to a new capital outlay process approved for UC last year, the Governor proposes to shift general obligation and lease-revenue bond debt-service payments into CSU's main appropriation. Moving forward, the state no longer would adjust CSU's budget for changes in debt-service costs. Instead, the state would provide annual, unallocated base increases and the university would be responsible for funding all maintenance and debt-service from within its main appropriation.

Budget bill and trailer bill language would allow CSU to issue its own university bonds for various types of capital and maintenance projects and could restructure its existing lease-revenue bond debt. To use its new authority, CSU would be required to submit project proposals to DOF for approval, with a 60-day notification period provided to the Joint Legislative Budget Committee. The CSU's capital and maintenance projects no longer would be reviewed as part of the regular budget process. CSU would be limited to using 12 percent or less of its state appropriation for capital infrastructure projects.

The May Revision proposes a decrease of $340,000 General Fund to reflect an updated estimate of state general obligation bond debt service for CSU projects.

Background. For 2014-15, debt service related to CSU projects amounts to $188 million for general obligation bonds and $99 million for lease-revenue bonds. This amount is folded into CSU's main appropriation in the Governor's Budget.

The Subcommittee last discussed this issue at its March 27th hearing. CSU has a major infrastructure problem. According to its five-year capital improvement plan, CSU has more than $7 billion in need during the next five years. It faces $1.8 billion in deferred maintenance costs alone. Concerns regarding the Governor's proposal include:

- The proposal does not solve CSU's serious infrastructure problems and may make them worse. As the LAO has noted, CSU's infrastructure woes are largely due to a lack of funding, not a problem with the capital outlay process. The Governor's proposal would provide CSU with essentially the same amount of funding for debt service, and thus all infrastructure costs, in perpetuity. CSU officials note that this is despite upcoming increased debt service costs: the current amount will be $40 million less than needed for debt service in 2016-17, for example. Thus, it does appear that the Governor's proposal will allow CSU to address capital needs in the short term.

- The proposal limits the Legislature's oversight of CSU capital projects. The LAO notes the Governor's approach diminishes the Legislature's role in capital and maintenance decisions for the university by removing the traditional public review of CSU projects through the regular budget process. The DOF would approve the university's projects through an abbreviated review process, further reducing transparency and precluding public input.

- The proposal will require CSU to make debt service its first priority in its operations budget. In years when debt service costs are high or state support for CSU operations diminishes, CSU will still be obligated to make debt service payments. They are not obligated to enroll students or provide classes; thus, debt service becomes the highest priority for CSU's funding in tight budget years.

Given these concerns, and given available funding, the Subcommittee could consider options that would allow CSU to begin addressing deferred maintenance issues in 2014-15. In its fall budget proposal, the CSU Trustees proposed using $15 million from state funds in each of the next three years to finance $750 to $800 million worth of deferred maintenance projects.

Staff Recommendation:

- Reject the Governor's budget proposal. This action does not reduce the amount of funding provided to the CSU pursuant to the Governor's budget increase of $142.2 million.

- Re-create the separate line-item in CSU's budget for lease-revenue bond debt service costs, and return CSU's GO bond debt service costs to the statewide GO debt service appropriation. The proposed May Revision adjustment of $340,000 should be incorporated into this action.

- Adopt placeholder trailer bill language that allows CSU to finance deferred maintenance and improvement projects by pledging its main General Fund appropriation and requiring an annual report from CSU to the Governor and Legislature on completed deferred maintenance projects, details on financing used to fund these projects, and ongoing deferred maintenance needs and costs.

Items Proposed for Discussion

6610 CALIFORNIA STATE UNIVERSITY

Issue 1: CSU Budget Package

Governor's Budget. The Governor's budget proposed a base budget increase of five percent, or $142.2 million General Fund, over the current year funding for CSU. The Governor also proposed new budget language requiring the CSU Board of Trustees to adopt a three-year sustainability plan by November 30, 2014.

Background. The Subcommittee discussed the CSU budget at its March 27th hearing. Concerns related to funding for CSU include:

- Thousands of eligible California students are being turned away. The chart below indicates the number of qualified undergraduate applicants admitted and denied for CSU.

	Fall 2008	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013
Admitted Students	167,606	193,928	173,562	178,615	194,564	212,152
Denied Eligible Students	6,174	10,435	28,803	21,697	22,123	26,430

Note: The numbers indicate undergraduate student headcount

This supply and demand imbalance is more profound at some CSU campuses. Campus or program impaction occurs when a campus or program has exhausted existing capacity in terms of the instructional resources and physical capacity of the campus. When campuses or specific programs receive more eligible applicants than they have resources for, impaction occurs and campuses or programs restrict enrollment. For 2014-15, all programs are impacted at CSU Fullerton, CSU Long Beach, San Diego State University, San Jose State University, and Cal Poly San Luis Obispo.

- There are numerous concerns with so-called student success fees. Twelve CSU campuses have implemented student success fees, which charges students between $162 and $630 annually for various campus activities, including expanded library hours, the hiring of more academic counselors, technology upgrades, and athletics. Concerns about these fees include that it is difficult to find information about how these fees are being used, they are an end-run around the tuition freeze, they create have- and have-not campuses and could pressure all campuses to enact these fees, and it is difficult to tell whether students are able to voice concerns before these fees are enacted.

- Legislative priorities have been removed from the budget. Despite historical practice of placing conditions on the CSU budget reflecting statewide priorities determined by the Legislature and Governor, the current Administration has removed these conditions through line-item veto the previous two years. These priorities have covered such programs as nursing and medicine, student outreach, and science and math teaching initiatives.

Staff Comments. There are significant indications that the Governor's proposal does not allow CSU to address enrollment and completion concerns. CSU is clearly failing to meet its Master Plan obligation of allowing admission to the top one-third of graduating California high school students. In addition, CSU's first performance report, submitted to the Legislature in March, indicated only 16 percent of its students graduate in four years, while 53 percent graduate in six years. CSU has a proposal to spend $50 million to address student success issues, but this initiative would be dramatically underfunded under the Governor's Budget. Other concerns regarding the Governor's proposal for the CSU include:

- The Governor's proposal does not address student success fees. Despite the Governor and Legislature's desire to hold tuition levels flat at CSU, student success fees are being implemented or contemplated at more campuses. This seems to undercut the principal of holding down students' costs.

- The Governor's proposal does not include other priority programs. Similarly to UC, the Legislature has traditionally included earmarks in CSU's budgets to ensure funding of statewide priority programs. Aside from the student outreach programs referenced above, these programs include:

Program	CSU Budget	Description
CSU Mathematices and Science Teacher Initiative	$2,700,000	The initiative seeks to (1) recruit new students into teaching, (2) increase new credential pathways, (3) provide financial support, (4) align programs with community colleges, (5) provide online resources and preparation, (6) develop partnerships with federal labs and industry, and (7) identify successful approaches to replicate on other campuses.
CSU Nursing Programs	$4,600,000	To help meet the state's future nursing needs, both university systems have expanding nursing programs.

Staff also notes a proposal to institutionalize the California Legislative Staff Educational Institute (CLSEI) through a partnership with the Center for California Studies at CSU

Sacramento. For nearly the past decade, Capitol Impact, LLC, has organized and implemented the CLSEI, delivering an educational program and professional development for Senate, Assembly, Democrat and Republican policy and fiscal staff in the areas of K-12 and higher education, health, and local governance and fiscal policy.

Staff Recommendation:

- Augment General Fund support for CSU by $95 million over the Governor's budget proposal.

- Add provisional budget bill language requiring five percent enrollment growth. Provisional budget language would require the CSU to increase enrollment of California students by five percent over 2013-14 levels, which would allow nearly 20,000 more students into CSU campuses.

- Adopt placeholder trailer bill language declaring an 18-month moratorium on new student success fees, requiring the CSU to examine modifying the student success fee development process and describing essential elements of the process, including the consideration of impacts on low-income students. In addition, the CSU should be required to report to the Legislature by January 15, 2015, regarding proposed revisions to their student success fee policies.

- Add $500,000 General Fund and budget bill language to establish the California Legislative Staff Educational Institute within the Center for California Studies.

- Add provisional language re-inserting statewide priorities into the budget. Both the CSU Math and Science Teacher Initiative and the Nursing Program should stay at current funding levels.

- Reject the Governor’s Sustainability Plan proposal.