

SUBCOMMITTEE NO.1 on Education



Subcommittee No. 1

Chair, Carol Liu

Member, Robert Huff

Member, Roderick Wright

**Friday, May 27, 2011
9:30 a.m. or Upon Adjournment of Session
Room 3191, State Capitol**

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ISSUE 1: CCC Deferrals and Apportionment Funding

Speakers:

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

Issue. The issue before the Subcommittee is trailer bill language to undo \$350 million of the California Community College (CCC) deferrals, and increase CCC apportionments by a like amount.

May Revise Request. The Governor's May Revise requests that the CCC local assistance apportionment funding be **increased by \$350.0 million** Proposition 98 General Fund to restore apportionment funding that has been deferred. This augmentation would reduce the amount deferred from \$961.0 million to \$611.0 million.

Staff Recommendation. Staff recommends that the Subcommittee approve reducing the CCC deferral by \$347 million, and move \$3 million to the Health Fee mandate in order to meet the funding obligation for that mandate.

ISSUE 2: CCC Basic Aid Funding

Speakers:

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

Issue. The issue before the Subcommittee is shifting basic aid funding from three CCC districts to pay for community college mandates.

Basic Aid Districts. An “entitlement”, or apportionment obligation, amount is calculated for all districts based on the number of students they serve. For all districts, the local property taxes and student fee revenue is counted toward the entitlement first. If the local property taxes and student fee revenue fall short of the entitlement amount, the district gets general fund to make up the difference. There are only three districts in the state that have their local property taxes and student fee revenues amount to more than their entitlement. These districts, commonly referred to as “basic aid” districts, can keep the excess local revenue and use it for educational programs and services at their discretion. There are three basic aid community college districts: Marin, MiraCosta, and South Orange.

Excess Funding. Between 1998-99 and 2003-04, the Legislature funded a categorical program known as Partnership for Excellence (PFE). This program had been established in statute. In general, the PFE provided supplementary funding to each district in exchange for its commitment to improve student outcomes in specified areas (such as transfers to four-year institutions). The PFE was allowed to sunset in January 2005. Anticipating this sunset, the Legislature and Governor redesignated PFE monies as apportionment funding in the 2004-05 Budget Act. Since basic aid districts do not receive apportionment funds, the budget included provisional language that allowed three basic aid districts to receive about \$6 million for that year. This language was eliminated the following year. Despite the fact that the provisional language was taken out of the budget, CCC has continued to provide those funds to basic aid districts.

LAO Recommendation. The LAO recommends the Legislature prohibit the Chancellor's Office from making any such future payments to basic aid districts. Depending on the state's fiscal condition, the Legislature may wish to either reallocate the freed-up monies to non-basic aid districts, or use the funds for General Fund savings (a total of \$5.9 million).

Staff Recommendation. Staff recommends the Subcommittee prohibit the Chancellor's Office from using the \$5.9 million for basic aid districts. Staff recommends the Subcommittee shift \$3 million of the basic aid funds to the Financial Aid categorical to pay for two mandates, and utilize the other \$2.9 million to pay for mandates.

ISSUE 3: CalWORKs Child Care Caseload Adjustment

Speakers:

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

Issue. The issue before the Subcommittee is revised caseload estimates for Stage 2 and Stage 3, and adjustments in funding accordingly.

Stage 3 Funding Background. In October 2010, Governor Schwarzenegger vetoed funding for the CalWORKs Stage 3 child care program. Pursuant to a court order, the termination of Stage 3 services were delayed until December 31, 2010, to allow for eligibility screening and possible placement of Stage 3 families in other programs. Families were given the opportunity to participate in a lottery for available openings in other child care programs, provided that they were not already determined eligible for either Stage 1 or Stage 2.

Stage 3 Caseload Decline. While funding for Stage 3 was restored in the current year, the estimated costs reflect a significant decline in caseload. Based upon reported caseload for the months of January through March, average monthly caseload has declined by approximately 70 percent from the level prior to the veto. The transfer of families to Stage 2 and other child care programs funded through the Department of Education (CDE) accounts for a portion of this decline.

May Revise Request. The Governor's May Revise requests that child care programs be **decreased by \$123,474,000** to reflect revised estimates of caseload costs for CalWORKs Stage 2 and Stage 3 child care. These adjustments reflect:

1. Increase of \$64,350,000 to Stage 2, and
2. Decrease of \$187,824,000 to Stage 3.

The decrease to Stage 3 is due mainly to the implementation of the Stage 3 veto reflected in the 2010 Budget Act which terminated funding for the program on November 1, 2010.

Due to uncertainty in the Stage 3 caseload number, the Administration is proposing to retain approximately \$56.0 million in the current-year appropriation for Stage 3, after accounting for increased current-year costs in Stage 2, and to set aside \$33.645 million in one-time funds to be appropriated for Stage 3 pending receipt of updated caseload data from the CDE.

New Caseload Information. CDE testified on May 25, 2011, that the CalWORKs Stage 3 caseload is underfunded by approximately \$25 million in the budget year. The reserve is sufficient to cover this shortfall.

Staff Recommendation. Staff recommends that the Subcommittee approve the May Revise proposal.

ISSUE 4: Statewide Student Data & Teacher Data Systems

DESCRIPTION: The Governor's May Revise proposes to eliminate **\$3.5 million** in remaining federal funding from the March budget package in order to suspend support and development activities for two statewide data systems – the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Teacher Information Data System (CALTIDES) in 2011-12. The Governor proposes to maintain **\$5.2 million** in one-time funding for the California School Information System to provide data support to school districts in 2011-12.

GOVERNOR'S MAY REVISE PROPOSAL:

- **Eliminate Funding to Suspend Student Data System Development. (Issue 315).** Proposes to reduce **\$2.9 million** in federal Title VI funds and **5.3 positions** to the Department of Education state operations in 2011-12 to reflect suspension of funding for all development and implementation activities for California Longitudinal Pupil Achievement Data System (CALPADS), pending continued review of the system.
- **Eliminate Funding for Teacher Data System (Issue 573).** Reduces **\$560,000** in Federal Trust Funds and **3.0 positions** to the Department of Education state operations in 2011-12 for California Teacher Information Data System (CALTIDES) development amended to reflect the SDE's termination of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) project as previously proposed and to conform with the termination of the CALPADS project.
- **Eliminate Funding for Teacher Data System (Issue 101).** Reduces **\$84,000** in special funds and **1.0 position** to the Commission on Teacher Credentialing state operations in 2011-12 for CALTIDES development to reflect the SDE's termination of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) project as previously proposed and to conform to the termination of the CALPADS project.
- **Shift CALPADS Funding to Student Assessments (Issue 086).** Requests that **\$5.4 million** in federal Title VI funds be used for state student assessment development, administration, and reporting activities instead of CALPADS.
- **Create Proposition 98 Savings in Student Assessment Program (Issue 087).** Reduces Proposition 98 General Fund spending for the student assessment program by **\$5.4 million** to reflect the shift of federal funds redirected from CALPADS for this program.
- **Continue One-Time Proposition 98 Funds for CSIS (Issue 306).** Reappropriates **\$5.2 million** in one-time Proposition 98 General Fund savings for California School Information Services (CSIS) activities. These funds will allow CSIS to provide

technical support to local districts with meeting federal and state student data collection and reporting after the potential termination of CALPADS.

LAO COMMENTS/RECOMMENDATIONS: The LAO recommends that the Legislature reject the Governor's May Revision proposal to eliminate funding for CALPADS and CALTIDES in 2011-12.

More specifically, the LAO recommends funding CALPADS at **\$6.135 million** -- slightly less than CDE-requested level and funding – and funding CALTIDES at the CDE requested level of **\$2.124 million**.

Education Data Systems: Expenditure Options		
<i>2011-12 (In Thousands)</i>		
	CDE Request	LAO Recommendation
CALPADS		
System technical maintenance	\$2,753	\$2,753
System improvements	1,491	1,491
CDE non-CALPADS staff ^a	974	687
CDE CALPADS staff ^b	879	665
Other agency charges (indirect)	405	405
Oversight	134	134
Totals	\$6,636	\$6,135
CALTIDES		
Contracts for CALTIDES development	\$600	\$600
CDE CALTIDES staff	560	560
Technical systems improvement contract	500	500
Other ^c	314	314
CTC staff	150	150
Totals	\$2,124	\$2,124
^a Reflects several non-CALPADS staff positions responsible for federal reporting. ^b Includes operating expenses and equipment (\$89,000). Also includes one-time funding for CDE Technical Lead (\$183,000). ^c Includes indirect costs (\$260,000), training (\$50,000), and other operating expenses. CDE = California Department of Education; CALPADS = California Longitudinal Pupil Achievement Data System; CALTIDES = California Longitudinal Teacher Integrated Data Education System; and CTC = Commission on Teacher Credentialing.		

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CDE REQUEST TO ADDRESS CSIS SHORTFALL:

CDE requests a one-time appropriation of **\$679,000** for the California School Information Services (CSIS) program in 2011-12 from the Proposition 98 Reversion Account to cover a shortfall in the Education Telecommunications Fund.

The 2010-11 budget appropriates \$2.5 million from the Education Telecommunication Fund. These funds are allocated to the Fiscal Crisis and Management Assistance Team for the purpose of administering the CSIS program and non-CSIS participating school districts for support of maintenance of individual student identifiers.

The budget assumed that the fund would recover \$2.5 million from LEAs based on audit recoveries/settlements; however, the recoveries have fallen short this fiscal year and CDE is projecting a \$679,000 shortfall in 2011-12.

STAFF RECOMMENDATIONS: Adopt LAO recommendation to continue funding for both CALPADS and CALTIDES in 2011-12, as follows:

1. Approve Governor's May Revise proposal (Issue 306) to extend **\$5.4 million** in one-time Proposition 98 funds for CSIS in 2011-12.
2. Approve CDE request to backfill the CSIS shortfall from the Education Telecommunications Fund with **\$679,000** in one-time Proposition 98 funds in 2011-12.
3. Reject Governor's May Revise proposals (Issues 86, 87, and 315) to eliminate CDE funding for CALPADS. Continue federal funding for CALPADS in 2011-12 at **\$6.135 million**, which is slightly below the CDE requested level.
4. Reject Governor's May Revise proposals (Issues 573 and 101) to eliminate CDE and CTC funding for CALTIDES. Continue **\$2.124 million** in federal funds for CALTIDES in 2011-12, which is the level requested by CDE.

ISSUE 5: FEDERAL FUNDS ADJUSTMENTS (Vote Only)

DESCRIPTION: The Department of Finance (DOF) proposes the following technical adjustments to federal programs in the 2011-12 budget to reflect federal grant updates released very recently due to delays in federal appropriations bills.

Budget Item	Program	Adjustment to Tie to Latest Base Grant	Proposed Final Budget Authority
102-0890	Learn and Serve America	-2,219,000	200,000
103-0890	Byrd Scholarship	-5,181,000	0
112-0890	Charter Schools	0	57,799,000
113-0890	State Assessments	-2,974,000	29,223,000
119-0890	Neglected and Delinquent	-8,000	1,761,000
125-0890 (1)	Migrant Education	-278,000	135,457,000
125-0890 (2)	Education of LEP	-7,471,000	170,669,000
125-0890	Item Total	-7,749,000	306,126,000
134-0890 (1,2)	Title I Program Improvement	-15,609,000	56,558,000
134-0890 (3)	School Improvement	-6,024,000	62,920,000
134-0890 (4)	Title I -Basic	-83,076,000	1,584,780,000
134-0890	Item Total	-104,709,000	1,704,258,000
136-0890 (1)	Homeless Education	-772,000	7,368,000
136-0890 (2)	Even Start	240,000	1,210,000
136-0890	Item Total	-532,000	8,578,000
137-0890	Rural/Low-Income School Program	-2,000	1,291,000
156-0890	Adult Education	-2,205,000	87,659,000
161-0890 (1-3)	Special Education-Entitlements	534,000	1,111,114,000
161-0890 (4 & 7)	Special Education -OSLA	1,000	77,408,000
161-0890 (5)	Special Education-Preschool (619)	-94,000	37,747,000
161-0890 (6)	Special Education-Program Improvement	0	2,716,000
161-0890 (8)	Special Education-Newborn Hearing	0	100,000
161-0890	Item Total	441,000	1,229,085,000
166-0890	Vocational Education	-8,414,000	116,218,000
180-0890 (1)	Education Technology-Formula Grants	-1,000	258,000
180-0890 (2)	Education Technology-Competitive Grants	-1,000	5,000
180-0890 (3)	California Technical Assistance Project	-1,000	230,000
180-0890	Item Total	-3,000	493,000
193-0890	Math and Science Partnerships	-1,140,000	23,501,000
195-0890	Teacher Quality - Local Grants	-56,510,000	255,309,000
195-0890	Teacher Quality- State Activities	-1,062,000	7,357,000
	Item Total	-57,572,000	262,666,000
197-0890	21st Century Community Learning	6,679,000	157,605,000
240-0890	Advanced Placement	1,000	7,232,000

STAFF RECOMMENDATION: Staff recommends approval of all federal grant adjustments proposed by DOF, as displayed on the previous page. These are technical adjustments only. No issues have been raised for any of these adjustments.

ISSUE 6: K-12 Mandate Funding

DESCRIPTION: The Governor's May Revise proposal reduces K-12 mandates by **\$32.3 million** to reflect adoption of a specific option from the K-14 mandate work group report on mandate reform created by Chapter 724, Statutes of 2010. The Administration intends to pursue additional long-term reform options in collaboration with the Legislative Analyst's Office to streamline future funding of K-14 mandates through a block grant approach. (Together with **\$5.9 million** in reductions for community colleges, the May Revise K-14 mandate reduction proposal totals **\$38.2 million** in 2011-12.)

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes the following changes to K-12 mandates in 2011-12: These proposals reflect the adoption of one specific option from the report of the K-14 mandate reform workgroup created by Chapter 724:

Suspended Mandates

- **Suspends Additional Mandates.** Suspends an additional **11 mandates** in the short term. In the long-term, the Administration proposals to eliminate these mandates.

Preserved Mandates

- **Reduces Mandate Costs.** Proposes changes for another approximately **11 mandates** that would preserve the underlying mandate but reduce unnecessary costs.
- **Continues Funding for Public Health, Safety and School Accountability Mandates.** Provides funding for an additional **11 mandates** involving pupil health, safety, and school accountability functions.
- **Updates Mandate Funding Estimates.** Adjusts funding levels for all funded mandates scheduled in the budget to reflect updated claims reports from the State Controller's Office.

All together, these changes would result in **\$38.2 million** in savings in 2011-12, bringing total funding for K-12 mandates from **\$80.4 million** in the March package to **\$48.0 million** at May Revise.

The Governor's proposal achieves approximately **\$57 million** in savings in 2011-12 compared to the actual costs of K-12 claims.

The Governor's proposal is intended to devolve mandates funding to the local level. In the short-term, the Governor proposes to suspend some mandates, reduce the costs of other mandates, and continue other mandates based upon annual claims.

In the longer run, the Governor is interested in eliminating suspended mandates and developing a block grant – similar to what has been proposed by the LAO in recent years - for funded mandates.

List of Mandates Proposed for Suspension by Governor's May Revise Proposal:

The May Revise Budget Letter proposes to suspend the following additional mandates in 2011-12:

1. Caregiver Affidavits (Ch. 98, Stats. 1994)
2. Notification of Truancy (Ch. 498, Stats. 1983)
3. Pupil Suspensions, Expulsions, Expulsion Appeals (Ch. 498, Stats. 1983, et al)]
4. Physical Performance Tests (Ch. 975, Stats. 1995)
5. Consolidation of Law Enforcement Agency Notifications (LEAN) and Missing Children Reports (MCR) (Ch. 1117, Stats. 1989)
6. Habitual Truants (Ch. 1184, Stats. 1975)
7. Consolidation of Notification to Teachers: Pupils Subject to Suspension or Expulsion I and II, and Pupil Discipline Records (Ch. 1306, Stats. 1989)
8. Financial and Compliance Audits
9. Agency Fee Arrangements (Ch. 893, Stats. 2000; Ch. 805, Stats. 2001)
10. The Stull Act (Ch. 498, Stats. 1983; Ch. 4, Stats. 1999) (98-TC-25)
11. Prevailing Wage (Ch. 1249, Stats. 1978)

LAO COMMENTS: According to the LAO, the mandate working group required by Chapter 724 was nearly unanimous in recognition of several major problems with the K-14 mandates system:

- System not responsive to changing needs.
- State costs can be higher than anticipated.
- Regulations can create mandates, increasing costs without legislative input.
- High percentage of audited claims disallowed.
- Districts face uncertainty over timing/amount of reimbursement.
- Reimbursement process ignores effectiveness.
- Reimbursement process can reward inefficiency.
- Reimbursement rates vary without justification.
- Claiming process creates administrative burden for districts.

LAO RECOMMENDATIONS: The LAO recommends that Legislature adopt the Governor's proposal to undertake mandates reforms. Per the LAO, the May Revise package:

- Provides clear framework for identifying which types of activities are worth requiring of all districts.
- Prioritizes activities related to health, public safety, oversight, and accountability that serve a fundamental statewide interest.
- Funds ongoing mandates while reducing costs by more than 50 percent.
- Sets the groundwork for a system that is more transparent and equitable as well as less cumbersome for school districts.
- Does not prevent policy committees from being involved in determining fate of suspended mandates.

STAFF COMMENTS:

Governor's Proposal Achieves \$32 Million in Savings; But Costs Higher if Proposal Not Adopted. The Governor's proposal achieves **\$32.3 million** in savings in 2011-12. However, if the Governor's proposal is not adopted, a total of **\$57 million** would need to be added to the 2011-12 budget to reflect updated costs from the State Controller's Office for mandates funded in the March package.

Role for Policy Committees: As the LAO points out, the Governor's proposal does not prevent policy committees from being involved in mandate suspension. Similarly, the policy committees are not prevented from involvement in mandate reductions, as well as, the Administration's long term proposal to develop a block grant approach for funding K-12 mandates.

STAFF RECOMMENDATION: Approve the Governor's May Revise Proposal to achieve **\$32.3 million** in K-12 annual mandate savings in 2011-12. Send the Administration's trailer bill language to suspend mandates and reduce mandate costs to the Senate Education Committee for review.

ISSUE 7: Federal Title I Carryover Funds (6110-134-0890)

DESCRIPTION: The Governor's May Revise proposes to allocate **\$21.3 million** in 2011-12 from one-time, federal Title I Set-Aside carryover funds to all Title I local educational agencies using the state's Title I, Part A Basic program distribution methodology.

GOVERNOR'S MAY REVISE PROPOSAL:

- 1. Item 6110-134-0890, Local Assistance, Federal Title I, Part A Basic Program (Issue 081).** Requests that Schedule (4) of this item be increased by **\$21.3 million** federal Title I Set Aside carryover funds for allocation to all Title I local educational agencies (LEAs) and schools using the state's standard Title I, Part A Basic Program distribution methodology. Distributing the one-time carryover to all Title I schools and LEAs is consistent with federal law and guidance and would provide additional resources to schools and LEAs at a time of limited General Fund resources.

The 2010 Budget Act provided \$56.5 million federal Title I Set Aside funds for the LEA Corrective Action Program. Only 58 LEAs in Cohort 3 will receive grants totaling \$35.2 million in 2010-11, resulting in \$21.3 million that could be carried over to 2011-12.

Federal law and guidance authorizes the use of these funds for the LEA Corrective Action Program or the funds can be distributed to all Title I schools and LEAs for classroom and instructional support activities.

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

- X. Of the funds appropriated in Schedule (4), \$21,300,000 is provided in one-time carryover funds for allocation to all Title I local educational agencies and schools using the state's standard distribution methodology for the federal Title I, Part A Basic Program.

LAO COMMENTS/RECOMMENDATIONS: The LAO recommends adopting the Governor's May Revise proposal to distribute \$21.3 million in carryover funds to all Title I school districts based on their low-income student counts. This approach is permissible under federal law and will provide some fiscal relief for all Title I districts. Data also suggest that anticipated 2011-12 funding will be sufficient to cover associated 2011-12 costs. (These funds are primarily used for a district Corrective Action program.)

STAFF RECOMMENDATION: Approve Governor's May Revise proposal.

ISSUE 8: Categorical Program Growth Adjustments

DESCRIPTION: The Governor's May Revise proposes additional adjustments in 2011-12 for several categorical programs selected to receive growth funding in the March budget package.

GOVERNOR'S MAY REVISE BUDGET PROPOSALS: The Governor proposes the following growth adjustments:

Charter Schools (Issue 806). Proposes an additional increase of **\$19.5 million** to reflect revised attendance estimates for charter schools. Of this amount, **\$2.7 million** is provided for the Charter Categorical Block Grant and **\$16.7 million** is provided for Charter Economic Impact Aid. These funds provide charter schools with categorical funding in lieu of separate funding for specific categorical programs and funding for disadvantaged students.

New Charter Schools (Issue 807). Proposes an increase of **\$8 million** in 2011-12 to provide charter schools that commenced operations between 2008-09 and 2011-12 with categorical funding. This funding provides new charter schools with a supplemental grant of \$127 per pupil in lieu of categorical funding that charter schools were eligible for prior to categorical flexibility and in addition to what is included in the charter categorical block grant. Since these charter schools did not exist prior to categorical flexibility, they have no access to funding for these programs under current law. This supplemental fund source ensures that funding for new charter schools is commensurate with that of charter schools that existed prior to 2008-09.

The amount requested reflects updated charter school attendance estimates and growth funding consistent with other charter categorical fund sources. This amount also excludes all new conversion charter schools from receiving this funding. Instead, the school district within which the school is located would be required to pass through an amount equal to the supplemental grant (\$127 per pupil) to new conversion charter schools.

Special Education (Issue 644). The May Revise proposes an additional **\$399,000** for Special Education caseload growth in 2011-12 to reflect growth in average daily attendance estimates.

CDE REQUEST FOR NUTRITION GROWTH FUNDING:

CDE requests growth funding for the state Child Nutrition program in 2011-12. The department's request for \$4.8 million in growth funding was not approved by DOF.

STAFF COMMENTS: According to the LAO, the methodology typically utilized by the DOF for child nutrition growth relies upon a two average of child nutrition caseload. Using this methodology, Child Nutrition growth is estimated at \$3.7 million in 2011-12, somewhat lower than the \$4.8 million proposed by CDE.

STAFF RECOMMENDATIONS:

- (1) Approve Governor's May Revise growth proposals.
- (2) Approve growth funds for the state Child Nutrition program in 2011-12 at **\$3.7 million**, which is somewhat lower than the level requested by CDE, but reflects the traditional caseload growth methodology utilized by DOF.

ISSUE 9: Clean Technology Partnership Academies

DESCRIPTION: The Governor’s May Revision proposes an increase of **\$3.2 million** to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention program, which creates school-business partnerships that provide occupational training for at-risk high school students in areas such as conservation, renewable energy, and pollution reduction.

BACKGROUND:

Chapter 2, Statutes of 2011, First Extraordinary Session (SBX1 1/Steinberg) established the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program. More specifically, Chapter 2 directs the State Energy Resources Conservation and Development Commission to dedicate \$8 million annually from the Renewable Resources Trust Fund (RRTF) – or related fund - to support 100 California Partnership Academies that focus on skills and knowledge needed for successful employment in the clean technology and renewable energy fields. The program sunsets in 2017.

To qualify for competitive grants, schools must partner with regional business or industry in the clean technology or renewable energy sectors. Schools and their business partners must each put up a dollar amount equal to the grant. Grants are reviewed and awarded by the California Department of Education in consultation with the Energy Commission, to ensure that programs are consistent with California energy policy and priorities.

Clean Technology Partnership Academies target at-risk students by ensuring that at least half of each academy’s incoming class meets three of four criteria: having disadvantaged economic status, a history of irregular attendance, low motivation, or low achievement levels.

GOVERNOR’S MAY REVISE PROPOSAL:

Item 6110-166-0001, Local Assistance, Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program (Issue 500). Requests that this item be increased by \$3,240,000 Proposition 98 General Fund to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program established pursuant to Chapter 2, Statutes of 2011, First Extraordinary Session (SBX1 1).

The new program creates school-business partnerships that provide occupational training for at-risk high school students. The training focuses on job skills in clean technology such as energy conservation, renewable energy, and pollution reduction.

It is further requested that a new schedule for “Clean” Technology Partnership Academies be added in the amount of \$3,240,000 and that provisional language be added as follows to conform to this action:

X. Notwithstanding Provisions 1 and 2, the funds appropriated in Schedule (2.5) shall be available consistent with Article 5.5 (commencing with Section 54698) of Chapter 9 of Part 29 of Division 4 of Title 2 of the Education Code.

LAO RECOMMENDATIONS: The LAO recommends rejecting the Governor's May proposal to provide \$3.2 million in Proposition 98 General Fund for Clean Technology Partnership Academies in lieu of funding from the Renewable Resource Trust Fund (RRTF). Though the RRTF is scheduled to sunset in December, the fund will likely have a balance sufficient to support implementation costs for the CTPA program in 2011-12.

STAFF COMMENT: Chapter 2 makes funding for the new program created by Chapter 2 subject to annual Legislative appropriations from the Renewable Resources Trust Fund (RRTF), or the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF). If funds from the RRTF are insufficient, Chapter 2 requires the State Controller to allocate funds from the ARFVTF. Both of these two special funds identified in Chapter 2 – the RRTF and ARFVTF -- are currently in structural imbalance.

ISSUE 10: K-3 Class Size Reduction Program Deficiency

DESCRIPTION: The Governor’s May Revise does not fully score all of the savings associated with the basic aid “fair share” reductions enacted in the March budget package for the 2010-11 and 2011-12 fiscal years. At the same time, statutory appropriations for the K-3 Class Size Reduction program (CSR) exceed budgeted levels. While statutory appropriations for K-3 CSR are automatic, unless unbudgeted costs are addressed, there will be shortfalls for other K-12 programs.

GOVERNOR’S MAY REVISE BUDGET:

In 2010-11, payments for the K-3 CSR program were **\$43.3 million** more than budgeted. At the same time, the Governor’s May Revise budget does not propose to score the additional \$65 million in savings from basic aid “fair share” reductions enacted in the March budget package.

The final CSR payment for the 2010-11 program is scheduled for the end of July (this is the deferred payment). Based on CDE’s current estimates, the July payment will be **\$42.3 million** higher than budgeted. These additional \$42 million in costs are also not accounted for in the May revision. In addition, the March budget package reduced budgeted levels for the K-3 CSR program by an additional **\$20 million** in 2011-12. This results in a budget shortfall of **\$62.3 million** in 2011-12.

Expenditure Changes Not Reflected in Governor's May Revision		
(In Millions)		
	2010-11	2011-12
Basic aid "fair share" reductions	-65.0	-65.0
K-3 Class Size Reduction costs	43.3	62.3
Totals	-21.7	-2.7

STAFF COMMENTS:

While statutory appropriations for K-3 CSR are automatic, unless unbudgeted costs are addressed, there will be shortfalls for other K-12 programs. Basic Aid savings can be directed to offset existing budget costs in 2010-11 and 2011-12.

STAFF RECOMMENDATIONS: Score \$65 million in 2010-11 and 2011-12 basic aid savings to offset the estimated costs of the K-3 CSR program statutory appropriation that currently exceed budgeted levels for each of these years. This action will align budget planning amounts with estimated statutory appropriations to avoid budget shortfalls for K-12 programs. Remaining savings are directed as a “balancer” to cover other Subcommittee actions.

ISSUE 11: Quality Education Investment Act (QEIA) Language

DESCRIPTION: The Governor's May Revise proposes trailer bill language to set-aside savings from the Quality Education Investment Act (QEIA) program and to reappropriate these savings to participating schools in 2014-15.

GOVERNOR'S MAY REVISE PROPOSAL:

Quality Education Investment Act, Proposition 98 Settle-Up. The Administration proposes separate trailer bill legislation to reappropriate QEIA program savings to participating schools in 2014-15, the final year of the program.

The QEIA program is a result of the *CTA v. Schwarzenegger* lawsuit settlement agreement and provides participating districts and community colleges with \$450.0 million in Proposition 98 General Fund settlement funding annually through 2014-15. School districts have discretion over the expenditure of these funds but must meet program requirements for class size reduction, high-quality teachers, and student-counselor ratios. Current statute requires savings from the program to be reappropriated only for purposes of the QEIA, with first priority given to cost-of-living adjustments for participating schools.

LAO COMMENTS/RECOMMENDATIONS:

The LAO recommends rejecting the Governor's May proposal to set aside about \$40 million in unused 2010-11 QEIA funding for use by QEIA schools in 2014-15, the final year of the program.

Instead, the LAO recommends recognizing the savings now and reappropriating the funds in 2011-12 for other Proposition 98 purposes. The state used this latter approach in 2010-11 (recognizing QEIA savings from 2008-09 and reappropriating the funds for other Proposition 98 purposes).

STAFF COMMENTS:

Estimated Savings: Due to declining participation and workload in the QEIA program, the Department of Finance estimates annual savings of approximately **\$40 million** for the QEIA program beginning in 2010-11. Per DOF, savings of approximately **\$120 million** would be set-aside in a separate savings account for several years and reappropriated in 2014-15 for support of the QEIA program during the final year of the program.

Federal Bonus Payment: In 2009-10, school districts participating in QEIA received \$153 million in federal school improvement funds on behalf of their schools beyond funding contemplated by authorizing statute for the program.

STAFF RECOMMENDATIONS: Adopt LAO recommendation.