

# SUBCOMMITTEE NO. 1 on Education



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

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

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**ISSUE 1. K-14 EDUCATION MANDATES WORKING GROUP REPORT**

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

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

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

**BACKGROUND ON WORKING GROUP:**

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

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

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

**SUMMARY OF WORKING GROUP REPORT (WHITE PAPER)**

**PROBLEMS WITH THE CURRENT MANDATE SYSTEM**

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

Figure 1

### Problems With the Current Education Mandate System

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

### THREE WAYS TO IMPROVE OVERALL SYSTEM

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

(1) ***Reduce Cost of Current Mandates to the Extent Appropriate Given Policy Implications.***

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

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

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

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

- **Pay for More Mandates Using RRM.** The first option, developing a formula-based approach to reimbursement called a “Reasonable Reimbursement Methodologies” (RRMs) for each mandate, would standardize reimbursement rates for districts on a case-by-case basis. This particular approach would yield relatively minor benefits because it would continue to fund mandates using the same overall reimbursement system and probably could not apply to all K-14 mandates (due partially to these factors, this option is now available but rarely used for K-14 mandates).
- **Replace Existing Reimbursement System With Block Grant.** The second option, developing an education mandates block grant, would create a new system for funding mandates and has the potential to do even more to address the problems with the current system than an RRM, though a poorly designed block grant could undermine many of these benefits.

***(3) Create More Direct Process for Legislature to Consider Cost of New Mandates.***

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

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

In addition to these three overarching ways for improving the overall mandate system, the group agreed that specific mandates should be maintained only if they serve a fundamental statewide interest. Group members disagreed, however, on how to define “statewide interest,” as well as which mandates fit a particular definition. Given the group was not able to reach consensus on a single definition and associated mandates, we provide three options that could be used to address specific K-12 and shared K-14 mandates. Specifically, some of the work group members recommended defining statewide interest narrowly, for instance limiting funded mandates to those related to parental notification (Option 1). Others supported a somewhat broader definition, for

instance expanding the list of funded mandates to include health, safety, and oversight mandates (Option 2). The LAO’s report takes this approach. By contrast, other members recommended defining statewide interest quite broadly, funding some mandates, reducing the cost of others, and sending most of remaining mandates to policy committees for further review.

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

<b>Figure 2</b>						
<b>Cost Estimates for Three Potential K-14 Mandate Packages</b>						
<i>(In Millions)</i>						
	Definition of “Statewide Interest:”					
	Narrow		Broader		Broadest	
	Number	Cost <sup>a</sup>	Number	Cost <sup>a</sup>	Number	Cost <sup>a</sup>
Fund without modification	6	\$18.3	10	\$14.3	13	\$24.2
Reduce costs and fund <sup>b</sup>	6	20.6	12	31.1	12	49.3
Eliminate	27	—	17	—	2	—
Review by policy committees	—	—	—	—	12	13.4
<b>Totals</b>	<b>39</b>	<b>\$38.9</b>	<b>39</b>	<b>\$45.4</b>	<b>39</b>	<b>\$86.9</b>

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

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

**Option 2: Preserve Only Mandates Related to Accountability, Health, and Safety.**

Another option is to expand the definition of statewide interest to include the above mandates as well as those mandates necessary for the state to oversee and hold schools accountable, as well as keep students safe. This approach would eliminate all but roughly a dozen mandates and reduce

annual costs to roughly \$40 million. This approach has been laid out in detail in a 2008 report by the Legislative Analyst's Office, *Education Mandates: Overhauling a Broken System*.

***Option 3: Reduce Costs for Many Mandates; Send the Rest to Policy Committees.***

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

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

## **REFORM PACKAGE FOR ADDRESSING COMMUNITY COLLEGE MANDATES**

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

## **GENERAL BACKGROUND ON MANDATES**

### **RECENT BUDGET ACTIONS ON K-14 MANDATES:**

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

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

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

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

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

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

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

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

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

#### **RELATED LEGISLATION:**

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

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

**Status:** Senate Appropriations

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

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

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

## SUGGESTED QUESTIONS:

### K-14 Mandates Overall:

1. **Update on LAO Recommendations.** Can the LAO update the Subcommittee on their specific recommendations for mandate reform and how they may relate to some of the options identified by the working group report?
2. **Latest Controller's Claims Costs.** Can the LAO provide an update on the full costs of funding K-14 mandates in 2011-12, as reflected by the final claims from the State Controller's Office for 2009-10? Can the LAO provide some thoughts on the fiscal trade-offs of simply funding the existing system?
3. **Reasonable Reimbursement Methodology.** Can the LAO provide more background on the Reasonable Reimbursement Methodology (RRM), which is referenced in the working group report?
  - a. How has RRM been utilized for K-14 mandates?
  - b. What are the benefits and risks?
  - c. Who is typically at the table negotiating RRM?

### K-12 Mandates:

1. **Status of Behavior Intervention Plan (BIP) Mandate.** What is the status of the BIP mandate?
  - a. Can you review the costs of this mandate – prior year and ongoing?
  - b. Is a RRM process being utilized?
  - c. Who is negotiating the RRM?
  - d. What is the basis of the RRM rate being discussed?
  - e. What are the cost concerns with the rate?
  - f. What steps can the Legislature take to address these concerns?
2. **Status of High School Graduation Mandate.** What is the status of the High School Graduation Mandate?
  - a. Can you review the costs of this mandate – prior year and ongoing?
  - b. Is a RRM process being utilized?
  - c. Who is negotiating the RRM?
  - d. What is the basis of the RRM rate being discussed?
  - e. What are the cost concerns with the rate?
  - f. What steps can the Legislature take to address these concerns?
3. **Finance and Categorical Reform Options.** As discussed later in the Subcommittee Agenda, what opportunities exist for reducing the costs of mandates through school finance and categorical reform? For example, could the costs of annual school fiscal audits – arguably a cost of doing business for most school districts - become a new condition for eligibility for a new revenue limit block grant? Could notification of student absences –

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

### **Community College Mandates:**

1. **Improperly Claimed Mandates:** When the Controller's Office audits the CCC mandate claims, what is the error or disallowance rate that they find?
2. **Enrollment Fee Collection and Waivers Mandate:** Did the mandates working group suggest solutions for how to reduce the cost of the enrollment fee mandate (currently over \$23 million annually)? What would be the policy implication of eliminating the enrollment fee mandate? Would some students potentially lose their BOG waivers? Would campuses be able to afford to allow students to attend for free, especially when state support has been reduced? Would eliminating the enrollment fee mandate promote an unequal system where some colleges charge for classes and others do not?
3. **Health Fees and Services Mandate:** This mandate only applies to those districts that provided health services in 1986-87. How many districts currently have to comply with this mandate? Is there any compelling policy reason to have a mandate that applies only to some community college districts and not to others? If the students were to pay for these health services themselves, approximately how much per semester would a student pay at a college that currently receives a state mandate payment?
4. **Integrated Waste Management:** During the Subcommittee's discussions last year there was no cost discussed for this mandate, and now the mandate has a cost of over \$6 million. When this mandate was suspended, it was because the Subcommittee had reason to think that districts were actually making money from the recycling efforts. The recommendation for this mandate is that community college recycling be made voluntary just like K-12 schools. Does the LAO have information on about what percentage of K-12 schools choose to recycle? Would it be reasonable to anticipate a similar recycling participation rate from community colleges?
5. **New Mandates:** Since the Subcommittee discussed community college mandates last year, has the State Commission on Mandates approved any new mandates for community colleges? Do we know what the cost is for those mandates?

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

**DESCRIPTION:** The Department of Finance (DOF) proposes the following technical adjustments to various K-12 state operations and local assistance items in the 2011-12 budget. These revisions are proposed by the DOF April 1 Budget Letter. These issues are considered technical adjustments, mostly to update federal budget appropriation levels so they match the latest estimates and utilize funds consistent with current programs and policies.

### **Federal Funds – State Operations Items**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- 5. Item 6110-112-0890, Local Assistance, Public Charter Schools Grant Program (Issue 802).** It is requested that this item be increased by ~~\$14,072,000~~ \$14,091,000 Federal Trust Fund to reflect an increase in the federal grant. The PCSGP provides planning and implementation grants to new startup and conversion charter schools. In 2011-12, it is anticipated that 117 new charter schools will receive grants through the PCSGP.
- 6. Item 6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 301).** It is requested that this item be decreased by \$692,000 federal Title I Neglected and Delinquent Children funds to reflect the anticipated federal grant award for 2011-12. Local Education Agencies (LEAs) will use these funds for services to educate neglected and delinquent or incarcerated youth.
- 7. Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 291, 292, 297, and 298).** It is requested that Schedule (1) of this item be increased by \$333,000 federal Title I funds. This adjustment includes a decrease of \$1,367,000 to align the Migrant Education Program with the anticipated federal grant award and an increase of \$1.7 million to reflect the availability of one-time federal

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

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

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

X. Of the funds appropriated in Schedule (1), \$1,700,000 is provided in one-time carryover funds to support the following existing program activities: (1) extended day/week and summer/intersession programs to help prepare middle and secondary students for the high school exit exam, (2) investments aimed at upgrading curricula, instructional materials, educational software, and assessment procedures, (3) tutorials and intensified instruction, and (4) investments in technology used to improve the proficiency of limited English proficient students.

X. Of the funds appropriated in Schedule (2), \$11,500,000 is provided in one-time carryover funds to support the existing program.

**8. Item 6110-134-0890, Local Assistance, Federal Title I Basic Elementary and Secondary Education Act Program (Issue 085).** It is requested that Schedule (4) of this item be increased by \$2,413,000 federal Title I funds to align the Title I Basic Elementary and Secondary Education Act Program appropriation with the anticipated federal grant. LEAs will use these funds to support services that assist low-achieving students enrolled in the highest poverty schools.

**9. Item 6110-134-0890, Local Assistance, Federal Title I Set Aside for the Local Educational Agency Corrective Action Program (Issue ~~087~~ 086).** It is requested that Schedule (2) of this item be ~~decreased~~ increased by ~~\$962,000~~ \$334,000 federal Title I Set Aside funds for the LEA Corrective Action Program to align the appropriation with the anticipated federal grant. The program provides funding for technical assistance to LEAs entering federal Corrective Action.

It is further requested that provisional language be added as follows to identify available one-time carryover funds. This provisional language was omitted from the Governor's Budget:

X. Of the funds appropriated in Schedule (2), \$5,700,000 is provided in one-time carryover funds to support the existing program.

**10. Item 6110-134-0890, Local Assistance, Federal School Improvement Grant Program (Issue ~~086~~ 087).** It is requested that Schedule (3) of this item be ~~increased~~ decreased by ~~\$334,000~~ \$962,000 federal School Improvement funds to align the appropriation with the anticipated federal grant. The School Improvement Grant Program provides grants to the lowest-achieving Title I schools identified for federal Program Improvement, Corrective Action, or Restructuring to implement evidence-based strategies for improving student achievement.

It is further requested that provisional language be added as follows to identify available one-time carryover funds. This provisional language was omitted from the Governor's Budget:

X. Of the funds appropriated in Schedule (3), \$226,000 is provided in one-time carryover funds to support the existing program.

**11. Item 6110-136-0890, Local Assistance, McKinney-Vento Homeless Children Education Program and Title I Even Start Program (Issues 293, 294, 295, and 296).** It is requested that Schedule (1) of this item be increased by \$565,000 federal Title I funds. This adjustment includes a decrease of \$35,000 to align the McKinney-Vento Homeless Children Education Program with the anticipated federal grant award and an increase of \$600,000 to reflect the availability of one-time federal carryover funds. The LEAs will use these funds to provide services to homeless students.

It is also requested that Schedule (2) of this item be increased by \$1,013,000 federal Title I funds. This adjustment includes an increase of \$43,000 to align the Even Start Program with the anticipated federal grant award and an increase of \$970,000 to reflect the availability of one-time carryover funds. The LEAs will use these funds to improve the educational opportunities of low-income families and to support a unified literacy program that integrates early childhood education and parenting education.

It is further requested that provisional language be added as follows to conform to these actions:

X. Of the funds appropriated in Schedule (1), \$600,000 is provided in one-time carryover funds to support the existing program.

X. Of the funds appropriated in Schedule (2), \$970,000 is provided in one-time carryover funds to support the existing program.

**12. Item 6110-137-0890, Local Assistance, Rural and Low Income Assistance Program (Issues 303 and 304).** It is requested that this item be increased by \$28,000 federal Title VI funds. This adjustment includes a decrease of \$34,000 to align the Rural and Low Income Assistance Program with the anticipated federal grant award and an increase of \$62,000 to reflect the availability of one-time federal carryover funds.

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

X. Of the funds appropriated in this item, \$62,000 is provided in one-time carryover funds to support the existing program.

**13. Item 6110-166-0890, Local Assistance, Vocational Education Program (Issue 484).** It is requested that this item be increased by \$6,284,000 federal Title I carryover funds for the Vocational Education Program, which develops the academic, vocational, and technical skills of students in high schools, community colleges, and Regional Occupational Centers and Programs.

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

X. Of the funds appropriated in this item, \$6,284,000 is provided in one-time carryover funds to support the existing program.

**14. Item 6110-180-0890, Local Assistance, Education Technology, (Issues 299 and 300).** It is requested that this item be decreased by \$255,000 Federal Trust Fund. This adjustment includes a decrease of \$748,000 to align the Education Technology program with the anticipated federal grant award and an increase of \$493,000 to reflect the availability of one-time federal carryover funds. A decrease of \$827,000 would be applied to competitive grants and formula grants, while a base increase of \$79,000 would be made available to support the California Technology Assistance Project. One-time carryover funds would be distributed to both competitive and formula grants, as well as the California Technology Assistance Project.

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

(3) 20.10.025.013–California Technical Assistance Project .....  
309,000

X. Of the funds appropriated in Schedule (3), \$309,000 is provided for the California Technology Assistance Project to provide technical assistance and support to the program. Of the funds appropriated in this schedule, \$230,000 is provided in one-time carryover funds.

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

“1. The funds appropriated in Schedule (1) shall be allocated as formula grants to school districts pursuant to the federal Enhancing Education Through Technology program. Of the funds appropriated in this schedule, \$258,000 is provided in one-time carryover funds.  
2. The funds appropriated in Schedule (2) are available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of Division 4 of Title 2 of the Education Code and the federal Enhancing Education Through Technology program. The eligibility criteria for these grants shall be consistent with federal law and target local educational agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal school improvement or demonstrating substantial technology needs. Of the funds appropriated in this schedule, \$5,000 is provided in one-time carryover funds.”

**15. Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issue 563).** It is requested that this item be increased by \$4,065,000 federal Title II funds to reflect \$4.0 million in one-time carryover and a \$65,000 increase in the federal grant. The Mathematics and Science Partnership Program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support to mathematics and science teachers.

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

X. Of the funds appropriated in this item, \$4,000,000 is provided in one-time carryover funds.

**16. Item 6110-195-0890, Local Assistance, Improving Teacher Quality Grant Program and Administrator Training Program (Issues 561 and 562).** It is requested that Schedule (1) of this item be increased by \$866,000 federal Title II funds to reflect \$454,000 in one-time

carryover and a \$412,000 increase in the federal grant. The Improving Teacher Quality Grant Program funds LEAs on a formula basis for professional development activities focused on preparing, training, and recruiting highly-qualified teachers.

It is also requested that Schedule (2) of this item be increased by \$612,000 federal Title II funds to reflect one-time carryover funds. The Administrator Training Program provides K-12 school principals and vice-principals instruction and coaching on leadership skills, financial and personnel management, the inter-relation of academic standards, instructional materials and curriculum frameworks, and the effective use of pupil assessments.

It is further requested that Provisions 4 and 5 be amended as follows to conform to these actions:

“4. Of the funds appropriated in Schedule (1), ~~\$21,000~~ \$475,000 is provided in one-time carryover for Improving Teacher Quality Local Grants. None of these funds shall be used for additional indirect administrative costs.

5. Of the funds appropriated in Schedule (2), ~~\$495,000~~ \$1,107,000 is provided in one-time carryover for the Administrator Training Program. None of these funds shall be used for additional indirect administrative costs.”

- 17. Item 6110-240-0890, Local Assistance, Advanced Placement Fee Waiver Program (Issue 724).** It is requested that this item be increased by \$1,000 Federal Trust Fund to align the appropriation with the federal grant award for the Advanced Placement (AP) Fee Waiver Program, which reimburses school districts for specified costs of AP test fees paid on behalf of eligible students. The AP program allows students to pursue college-level course work while still in secondary school.

## General Fund and Other Adjustments

- 18. Item 6110-001-0001, Support, State Department of Education, Restore Positions Removed in Error (Issue 486).** It is requested that 3.5 limited-term positions that were removed in error be restored to the State Department of Education. Specifically, 1.5 expiring limited-term positions for the Green Technology Partnership Academy Program and 2.0 expiring limited-term positions for the Enhancing Education for Technology Program were removed twice from the Governor’s Budget. The correct amount of funding was removed.

- 19. 19. Item 6110-170-0001, Local Assistance, Add Carryover for the Career Technical Education Program (Issue 485).** It is requested that this item be increased by \$3,486,000 to reflect one-time reimbursement carryover for the Career Technical Education Program, which would allow the completion of four projects that could not be completed in the current year due to contract delays.

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

X. Of the funds appropriated in this item, \$3,486,000 is provided in one-time reimbursement carryover funds to support the existing program.

- 20. Item 6110-001-3170, Support, Provide Authority to Fund Heritage School Registration (Issue 471).** It is requested that expenditure authority of \$40,000 in fee revenue from the

Heritage Enrichment Resource Fund be approved to partially address costs incurred in the current year and to cover costs estimated for the budget year related to the registration of heritage schools, pursuant to Chapter 286, Statutes of 2010 (SB 1116). Heritage schools offer foreign language education or cultural education relating to a foreign country to school-age children.

It is further requested that Item 6110-001-3170 be added as follows to conform to this action:

6110-001-3170—For support of Department of Education, payable from the Heritage Enrichment Resource Fund.....40, 000

Provisions:

X. The funds appropriated in this item shall be available to the State Department of Education to process payments for the registration of heritage schools and to provide necessary technical assistance, pursuant to Chapter 286 of the Statutes of 2010. Of the amount appropriated in this item, \$16,200 may be used to mitigate costs incurred in the 2010-11 fiscal year to develop and administer the registration process.

X. The department shall ensure that the registration fee for the 2011-12 fiscal year not exceed the costs of registering heritage schools pursuant to Section 33195.5 of the Education Code.

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

### **ISSUE 3. Fiscal Status of School Districts – Presentation from Fiscal Crisis and Management Assistance Team**

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

#### **BACKGROUND:**

**Interim Financial Status Reports.** Current law requires local educational agencies (LEAs) -- school districts and county offices of education -- to file two interim reports annually on their financial status with the California Department of Education. First Interim Reports are due to the state by January 15 of each fiscal year; Second Interim reports are due by April 15 each year. Additional time is needed by the Department to certify these reports.

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

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

**First Interim Report.** According to the First Interim Report for 2010-11 – the most recent report available – there are currently **13 school districts with negative certifications** (compared to 12 school districts last year) and **97 school districts with qualified certifications** (compared to 114 districts last year). In summary, the total number of school districts on the negative list have increased by one district from 2009-10 to 2010-11. In contrast, the number of districts on the qualified list actually fell by 17 districts during this same period.

The 13 school districts with negative certifications at First Interim in 2010-11 – listed below -- will not be able to meet their financial obligations for 2010-11 or 2011-12.

## Negative Certifications, First Interim Report, 2010-11

	District	County	Budget (\$)
1	Hayward Unified	Alameda	195 million
2	Inglewood Unified	Los Angeles	128 million
3	Vallejo City Unified	Solano	138 million
4	Natomas Unified	Sacramento	69 million
5	Cotati-Rohnert Park Unified	Sonoma	50 million
6	Banning Unified	Riverside	42 million
7	Travis Unified	Solano	40 million
8	Hollister Elementary	San Benito	40 million
9	Southern Kern Unified	Kern	25 million
10	King City Joint Union High	Monterey	19 million
11	Dos Palos-Oro Loma Unified	Merced	19 million
12	Healdsburg Unified	Sonoma	18 million
13	Cloverdale Unified	Sonoma	12 million

Attachment C provides a complete list of LEAs with negative or qualified certifications for the First Interim Report for 2010-11.

**Preliminary FCMAT Reports for Second Interim.** According to FCMAT, the Second Interim Report for 2010-11 will provide a more complete assessment of school district financial status and the number of districts on the negative and qualified list will probably increase when published by June or July. The First Interim Fiscal Reports for 2010-11 were prepared by LEAs in Fall 2010, prior to release of the Governor’s January 2011-12 budget, which included an additional inter-year payment deferral of \$2.1 billion for K-12 LEAs in 2011-12. This new deferral was enacted last March by SB 70 (Chapter 7; Statutes of 2011).

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

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

- The State Superintendent of Public Instruction (SPI) shall assume all the legal rights, duties, and powers of the governing board of the district.
- The SPI shall appoint an administrator to act on behalf of the SPI.
- The school district governing board shall be advisory only and report to the state administrator.
- The authority of the SPI and state administrator shall continue until certain conditions are met. At that time, the SPI shall appoint a trustee to replace the administrator.

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

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

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

Of the six districts with current emergency loans from the state, four remain on the negative or qualified lists at First Interim 2010-11. (King City Joint Union Higher and Vallejo City Unified are on the negative list; Emery Unified and Oakland Unified are on the qualified list.) The remaining two districts -- West Fresno Unified and West Contra Costa Unified – are not currently on either the negative or qualified certification lists for the 2010-11 First Interim Report.

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

**Legislative Review of Qualifying Districts.** Statute added by AB 1200 (Chapter 1213; Statutes of 1991) states intent that the legislative budget subcommittees annually conduct a review of each qualifying school district. Specifically, Education Code 41326 (i) states the following:

*It is the intent of the Legislature that the legislative budget subcommittees, annually conduct a review of each qualifying school district that includes an evaluation of the financial condition of the*

*district, the impact of the recovery plans upon the district's educational program, and the efforts made by the state-appointed administrator to obtain input from the community and the governing board of the district.*

#### **STAFF COMMENTS:**

- **Number of LEAs with Qualified Fiscal Status Will Likely Increase Between First and Second Interim.** According to FCMAT, the number of school districts with qualified certifications will likely increase between First Interim and Second Interim to reflect the Governor's January Budget deferral, as enacted last March. Very preliminarily, FCMAT predicts the number of districts on the negative list will likely **remain at 13 districts** at Second Interim; however, the number of number of districts on the qualified list will likely **increase from 97 districts to 124 districts**. It is not uncommon to see increases in the number of districts on the qualified lists at Second Interim, because it reflects more up-to-date budget information.
- **Number of LEAs with Negative or Qualified Fiscal Status at Second Interim Could Be Lower than Prior Year.** A comparison of FCMAT's preliminary figures for Second Interim also indicates that the total number of districts qualified status may drop from **160 districts** in 2010-11 – the highest ever - to **124 districts** in 2010-11. However, FCMAT believes that the number of districts on their preliminary qualified list will likely increase when Second Interim is certified by CDE in late June or July.

#### **SUGGESTED QUESTIONS:**

1. FCMAT predicts that the number of districts on negative list will remain at about 13 districts and the number of districts on the qualified list will increase from 97 to 124 districts between First Interim and Second Interim. How have districts built their budgets for their Second Interim reports? Are districts already assuming additional cuts of about \$350/pupil if the tax extensions do not pass? How would the number of districts on the negative or qualified list change if further reductions were needed?
2. Per FCMAT's preliminary estimates, the number of districts on the qualified list may decrease from 160 at Second Interim in 2009-10 – an all-time high -- to 124 districts at Second Interim in 2010-11. Can you explain this drop?
3. Why is it important for LEAs to avoid state emergency loans? Where does the financial burden fall for state emergency loans – on LEAs or the state?
4. What is the extent of FCMAT's work with the six school districts currently receiving state emergency loans? How are these districts progressing?

5. Attachment D of this Subcommittee Agenda summarizes the interest rates for LEAs with emergency loans. Can you discuss why the emergency loan interest rate is so much higher for the King City Unified School District than for other districts? How does this higher rate affect the ability of King City Unified to make loan repayments and recover financially?
6. Are you aware of any other LEAs that may be facing financial insolvency and requiring a state emergency loan? For example, a FCMAT letter to the Los Angeles County Office of Education on April 14, 2011, recommends that the Inglewood Unified School District begin the process of securing a state emergency loan.
7. How are payment deferrals affecting LEAs, especially in light of the new intra-year and inter-year deferrals enacted in March for 2011-12? Are there some types of districts that face more of a challenge with deferrals than others?
8. Do the hardship provisions for the new intra-year and ongoing June to July inter-year deferrals in 2010-11 provide adequate protection for districts and charter schools facing serious financial problems?
9. Can you describe the most common problems faced by school districts on the negative list?
10. Has categorical flexibility helped LEAs balance their budgets? Would additional categorical flexibility be helpful to LEAs moving forward?
11. The 2009 budget package reduced the minimum state requirement for reserves for economic uncertainty for districts to one-third of the previously required level for 2009-10. As proposed by the Governor in January, Chapter 7 enacted in March 2011, extended these provisions through 2011-12, or two additional years. What is the effect of these changes on the fiscal health of districts?
12. There are more than 1,000 school districts of all sizes in California. As a result of budget shortfall, is there any movement among school districts toward unification as a means of achieving efficiencies?

## **ISSUE 4. Long-Term Categorical Flexibility -- LAO Report on School District Finance & Flexibility**

**DESCRIPTION:** The Governor’s January budget proposed to extend for two years a number of K-12 program and funding flexibility options for local educational agencies (LEAs) that were enacted in 2009. These options were intended to give LEAs more flexibility in handling ongoing budget reductions. The Legislature approved the Governor’s January proposals - enacted by SB 70 (Chapter 7; Statutes of 2011) – that extend most categorical flexibility options from 2008-09 through 2014-15 or seven years.

While the Legislature has taken important action to signal the continuation of categorical flexibility in the short-term, the LAO will present other short-term and long-term options categorical flexibility. These options are the result of findings and recommendations from a two-year survey of LEAs published in the February LAO report entitled *Update on School District Finance in California*. The LAO will present findings and recommendations from this report to the Subcommittee.

### **GOVERNOR’S BUDGET PROPOSAL RECENTLY ENACTED BY CHAPTER 7, STATUTES OF 2011:**

**Categorical and Program Flexibility Options.** In an effort to ease local impacts of state budget cuts, the February and July 2009 budget packages included a number of significant flexibility options intended to loosen program funding restrictions and to give school districts more control over spending decisions. Most of these flexibility options were authorized for a **five year period** -- from **2008-09 through 2012-13**. Some options had shorter timeframes. As proposed by the Governor’s January Budget, Chapter 7 extends most of these program and funding flexibility options for local educational agencies (LEAs) by two additional years – **through 2014-15** -- or **seven years** total, as follows:

- **Categorical Program Flexibility.** Allows LEAs to use funding from about 40 K-12 categorical programs for any education purpose through 2014-15 (seven years), instead of 2012-13, as currently authorized. Since 2008-09, funding for these categorical programs have been combined into a budget “flexibility item” and were also subject to across-the-board funding reductions. Under categorical flexibility, a district’s allocation for each program is based on its share of total program funding either in 2007-08 or 2008-09 -- with the earlier year being used for certain participation-driven programs.
- **Instructional Time Requirements.** Authorizes school districts to reduce the number of instructional days by five – from 180 to 175 days per year -- through 2014-15 without losing longer-year incentive grants.
- **Instructional Material Purchases.** Allows LEAs to use standards-aligned instructional materials adopted prior to July 1, 2008, instead of purchasing new materials, through 2014-15.

- **K-3 Class Size Reduction (CSR).** Continues the existing reduction in penalties for not meeting the K-3 CSR requirements through 2013-14, which is one year less than the flexibility provided for most other flexibility programs. Existing penalty reductions are currently authorized through 2011-12.
- **Sale of Surplus Property.** Allows school districts to direct the proceeds from the sale of surplus property for general fund purposes through January 1, 2014, instead of 2012 per current law. Only proceeds from the sale of non-state funded property are eligible for this additional flexibility, which commenced in 2009-10.
- **Routine Maintenance Contributions.** Suspends the remaining routine maintenance reserve requirement of one percent for school districts that meet the facility requirements of the Williams settlement 2014-15. Allows remaining LEAs to reduce contributions for routine maintenance of school facilities from three percent to one percent of General Funds through 2014-15.
- **Deferred Maintenance Program Matching Requirements.** Suspends previously required General Fund set-asides for LEAs receiving Deferred Maintenance funds for school facilities through 2014-15.

**Fiscal Oversight Relief.** The Governor also proposed to extend one other provision - originally enacted in 2009 - that lessens fiscal oversight for school districts that reduce their reserves for economic uncertainty. This proposal was also enacted by Chapter 7, as follows:

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

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

## **LAO Report on School Finance and Flexibility**

**LAO COMMENTS:** To help the Legislature in crafting its 2011-12 education budget, the LAO surveyed school districts for a second year to gather information regarding how they were affected by recent federal and state actions. The results of the survey are contained in the LAO report

entitled *Update on School District Finance in California*. Overall, the LAO survey results found that many districts:

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

Given these survey findings, the LAO identifies several ways the Legislature could provide school districts with more flexibility in the short term. However, even with the extra flexibility, the LAO believes that many underlying problems would remain with California's system of K-12 finance. As a result, the LAO provides the Legislature with the following approach for making more lasting improvements to California's K-12 finance system.

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

The LAO's recommendations are based on its survey findings as well as its ongoing assessment of the state's K-12 programs and statutory requirements. The LAO will discuss each of these recommendations – as summarized below - in more detail at the Subcommittee hearing.

- **Increase Flexibility in Short Term**

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

- **Improve K-12 Finance System Moving Forward**

- ✓ Consolidate virtually all K-12 funding into revenue limits and a few block grants moving forward

- **Align State Operations With New Finance System**

- ✓ Minimize California Department of Education's (CDE) focus on compliance monitoring
- ✓ Refocus CDE's mission on data, accountability, and dissemination of best practices

## STAFF COMMENTS:

- **Per LAO Survey, Districts Relying Heavily on Flexibility Options.** The LAO's survey responses largely confirm that districts are relying heavily on one-time federal funds and deferrals to support more programmatic spending. However, districts also are relying heavily on categorical flexibility provisions—dismantling or significantly downsizing certain categorical programs to redirect support to core classroom instruction. Most respondents also are taking advantage of other flexibility options, such as shortening the school year, to balance their budgets. Survey responses indicate these flexibility provisions are helping districts protect certain local priorities in the midst of shrinking budgets. Per LAO, nonetheless, districts still have had to make notable programmatic reductions for example, increasing class sizes, instituting employee furloughs, and laying off staff.
- **Governor's Categorical Flexibility Proposal – As Enacted - Locks Most Programs into 2008-09 Proportions for Seven Years.** Since 2008-09, funding for about 40 categorical programs has been combined into a budget “flexibility item” that applies to across-the-board funding reductions. Under categorical flexibility, a district's allocation for each program is based on its share of total program funding – at the reduced level – either in 2007-08 or 2008-09, with the earlier year being used for certain participation-driven programs. Under the categorical flexibility program, no growth funding is been provided for growing districts, and districts with negative growth are held harmless from any loss of funding associated with lower student attendance.
- **LAO Continues to Recommend Mandate Reforms.** In addition to removing strings attached to certain categorical programs, the LAO also continues to recommend the state eliminate certain mandated education activities. (Per the LAO, categorical programs and education mandates are very similar functionally, with the primary difference being that the state typically funds categorical programs up front whereas it funds mandates only on a reimbursement basis.) Although the state removed some requirements associated with certain K-12 mandated activities in 2010-11, the LAO recommends that additional requirements be removed in 2011-12. Specifically, in its 2009 report, *Education Mandates: Overhauling a Broken System*, the LAO highlighted 26 mandates that the state could eliminate (that have not already been eliminated), including Notification of Truancy, The Stull Act, and Intra-District Transfers. Given all other competing priorities, the LAO thinks these types of activities are lower priority and requiring districts to undertake them, particularly in this environment and potentially at the expense of other higher priority student services, makes little sense and places unneeded pressure on limited districts resources. Furthermore, the LAO continues to recommend that the state consider options for simplifying the process of funding whatever mandates it continues to require. For example, for several of the active mandates, the state could create a block grant that would provide a standard rate to every district. In addition to simplifying the mandate finances system for districts and the state, a block grant approach would help reduce the notable inequities in the amounts districts now receive for performing the same mandated services.

**STAFF RECOMMENDATIONS:** The extension of short term flexibility options through Chapter 7 sends an important signal to the LEAs. More specifically, extending most existing flexibility options for another two years – seven years total -- provides a timely signal that will assist LEAs in making budget plans in the short term.

Staff makes the following recommendations to the Subcommittee as it considers possible refinements to categorical funding enacted to date for 2011-12 and beyond.

- **Consider Additional Short Term Actions Suggested per LAO, Especially if Additional Budget Reductions are Necessary.** The LAO has suggested a few additional flexibility options that the LAO believes would give districts more tools to address immediate budget shortfalls. Based upon the LAO's survey, staff believes these additional options would be particularly useful to LEAs if K-12 programmatic funding drops below the Governor's January levels. However, the LAO believes these additional options would benefit districts in any fiscal climate. Moreover, per the LAO, taking these actions now will set the foundation for comprehensive improvements to the state's education finance structure moving forward.
- ✓ **Add K-3 CSR and Home-to-School Transportation Programs to Flexibility Program.** Per LAO, K-3 CSR and HTS transportation are strong candidates to be placed in the flex program based upon their recent survey of school districts. More than 60 percent of school districts support additional flexibility for these two programs. The Senate took these actions last year which was also supported by the LAO's district survey findings at that time.

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

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

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

to such a system also would be less disruptive if most existing state funding already were linked to students and adjusted annually according to changes in the student population.

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

#### **RELATED LEGISLATION:**

**SB 140 (Lowenthal).** Establishes a streamlined process for the state-level adoptions of instructional materials that are aligned with the common core academic standards and expands the authority of local school boards to adopt instructional materials to include K-8 schools. **Status:** Senate Appropriations.

**AB 18 (Brownley).** Consolidates funding, commencing in 2014-15, for most categorical programs into three categorical block grants. More specifically, this measure would place combine 25 revenue limit and other categorical programs into a Total Revenue Limit Grant distributed on pupil average daily attendance (ADA); combine eight categorical programs into a Targeted Pupil Equity Grant distributed on the basis of low-income and English learner students; and combine nine other categorical programs into a Quality Instruction Grant distributed based upon ADA. **Status:** Assembly Education Committee

#### **SUGGESTED QUESTIONS:**

1. Can the LAO clarify its recommendations for categorical reform in the short term, since the two year extension of categorical flexibility options proposed by the Governor last January have already been enacted in Chapter 7?
2. The LAO thinks the time is right to rethink the overall K-12 finance system and craft a better system. Rather than extending current categorical flexibility for two more years, the LAO recommends that the Legislature improve the state's K-12 finance system on a lasting basis. What process does the LAO envision (who, what, when), for achieving these long term recommendations?

3. In the long term, the LAO specifically recommends the Legislature consolidate virtually all K-12 funding into revenue limits and a few block grants which would provide flexibility while also allowing more opportunity for the state to ensure that at-risk and/or high-cost students continue to receive the services they need.
  - a. How would the LAO recommended system be more equitable, efficient, or effective than maintaining approximately 60 separate state categorical funding programs?
  - b. How does the LAO recommended system compare to the conclusions of the 23 research studies summarized as a part of California's Getting Down to Facts report in March 2007?
  - c. How does the LAO recommended system compare to the recommendations of the Governor's Committee on Education Excellence published in November 2007?
4. In the short term, does the LAO have any concerns about provisions of Chapter 7 that allow LEAs to retain lower reserves for economic uncertainty – without inviting fiscal oversight - for an additional two years?
5. As a part of its survey, did the LAO determine if the public hearing and expenditure reporting provisions of the original categorical flexibility statute enacted in 2009 (and continued in Chapter 7) were being implemented?

## **ISSUE 5. Federal Striving Readers Program**

**DESCRIPTION:** The California Department of Education (CDE) will provide an update on California's State Literacy Plan – pursuant to the new, federal Striving Readers Comprehensive Literacy (Striving Readers) program. The State Board of Education submitted a first draft of the State Literacy Plan to the U.S. Department of Education on April 1<sup>st</sup>. The Department of Education will also present a draft application for competitive Striving Readers discretionary grants, which could result in up to **\$70 million** in one-time federal funds for our state. The draft application was released on May 2<sup>nd</sup> and is due to the U.S. Department of Education on May 9<sup>th</sup>.

### **BACKGROUND:**

The Striving Readers Comprehensive Literacy (Striving Readers) program is authorized as part of the Federal Fiscal Year (FFY) 2010 Consolidated Appropriations Act, which originally provided **\$250 million** for the program. Ultimately, \$50 million of this amount was redirected to the federal Education Jobs Funds, leaving a total of **\$200 million** for the Striving Readers program in FFY 2010. These funds are available to our state beginning in state fiscal year 2010-11.

Of the \$200 million provided, **\$10 million** is reserved for **formula grants** to assist states in creating or maintaining a State Literacy Team with expertise in literacy development and education for children from birth through grade 12 and to assist states in developing a comprehensive literacy plan.

Of approximately \$190 million in remaining Striving Readers funds, **\$178 million** are available for state **discretionary grants** for the purpose of creating a comprehensive literacy program to advance literacy skills, including pre-literacy skills, reading, and writing, for students from birth through grade 12, including limited-English-proficient students and students with disabilities.

No funding has been provided for the Striving Readers program in federal FFY 2011 budget appropriations. Future funding for the program, including state discretionary grants, is very unclear at this time.

### **Formula Grants for Comprehensive Literacy Plan.**

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

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

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

In its concurrence with the DOF Section Letter request, the Joint Legislative Budget Committee (JLBC) requested that CDE provide the State Literacy Plan to the JLBC and legislative policy committees when the plan is submitted to the State Board for review or by March 1, 2011, whichever is earlier. The USDE ultimately extended California's deadline for submitting the State Literacy Plan from March 16, 2011 to April 1, 2011. (The original deadline was February 1, 2011.)

### **Status of State Literacy Plan.**

The State Literacy Team – composed of 28 members selected by the State Board of Education -- commenced work on development of the State Literacy Plan on **February 17, 2011**. In **March 2011**, the State Board authorized the Board President, in consultation with the Superintendent of Public Instruction, to submit a draft State Literacy Plan as developed by the State Literacy Team to the USDE for review and consideration.

The Legislature received a copy of the first pre-draft of the State Literacy Plan on **March 30, 2011**; a final first draft was forwarded to the USDE on **April 1, 2011**. The State Literacy Plan was also posted on the CDE website on April 1, 2011. An email account was established to receive public comment on the plan.

According to CDE, California's first draft State Literacy Plan submitted to the USDE is a living document that will be updated and refined in future months by the State Literacy Team.

### **Discretionary Grants.**

Discretionary grants will be awarded competitively to State Educational Agencies (SEAs) that must sub-grant at least 95 percent of the funds to Local Educational Agencies (LEAs) and early childhood providers. An SEA may use up to 5 percent of the awarded funds to provide leadership activities, including technical assistance and training, data collection, reporting, and administration.

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

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

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

Of the SRCL discretionary grants, sub-granted funds to LEAs and other eligible entities are as follows:

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

According to the grant application, the USDE expects to award \$178 million for 3 to 18 state grants under this competition, which are expected to be awarded in August 2011 (no later than August 30<sup>th</sup>). USDE expects that state grants will range between \$3 million and \$70 million for a four-year period with average size of awards being \$25 million. The USDE will award the grants on a competitive basis for a project period of up to five years.

If successful in the competition, the USDE grant application lists California and Texas as the only two states eligible for up to **\$70 million** in discretionary grant funds.

### **Status of State Discretionary Grant Application.**

The USDE released the Striving Readers discretionary grant application to states on **March 10, 2011**. State applications are due back to the USDE by **May 9, 2011**.

The State Literacy Team reviewed the grant application and discussed priorities for the application on March 16, 2011 and March 23, 2011. The CDE began work on a preliminary competitive grant draft. On April 19, 2011, the State Literacy Team reviewed an initial draft of the discretionary grant application prepared by CDE.

On April 21, 2011, the State Board of Education delegated authority to Board President Michael Kirst to submit California's Striving Readers discretionary grant application to the USDE by May 9, 2011. The CDE staff continued to revise the application and prepare a final document for the State Board President's review on April 27, 2011.

The CDE released a draft grant application to the State Literacy Team on **Monday, May 2nd**, which was shared with legislative staff following transmittal to the team. Per CDE, the state grant application focuses efforts on:

- Infusing the California Common Core Standards, the Infant Toddler Learning and Development Foundations, and the Preschool Learning Foundations into the education system through a feeder pattern of schools within the LEAs and early childhood center providers.
- Addressing the language and literacy needs of economically disadvantaged students.

Further per CDE, the grant application stresses the building of early literacy skills, moving students from early literacy to advanced literacy through a Response to Instruction and Intervention (RtI<sup>2</sup>) approach, and assisting educators with infusing the literacy skills into the secondary content courses.

CDE has outlined the following timeline for review and completion of the draft application during the coming week.

<u>Date</u>	<u>Event/Activity</u>
May 3, 2011	State Literacy Team review of grant application and public comments.
May 4, 2011	All comments due to the CDE.
May 6, 2011	Final draft application completed. All documents uploaded to grants.gov site.
May 9, 2011	Review and submit application to USDE by 4:00 p.m.

If California is successful in receiving a federal grant, CDE has outlined the following timeline for Striving Readers sub-grants to LEAs and non-profit early childhood education providers.

<u>Date</u>	<u>Event/Activity</u>
August 2011	Anticipated announcement of state discretionary grant recipients
Late Sept. 2011	Anticipated state sub-grant application released
Nov. 2011	Anticipated applications due from sub-grantees
Mid-late Jan 2011	Grant award letters to sub-grantees

### **Federal Criteria of Selection of Discretionary Grants.**

The Striving Readers discretionary grant application identifies the following priorities for states:

- **Absolute Priorities:** These priorities are absolute priorities. Only applications that meet these priorities will be considered.

#### **Priority 1: Improving Learning Outcomes.**

To meet this priority, an applicant must propose a project that is designed to improve school readiness and success through grade 12 in the area of language and literacy development for disadvantaged students.

#### **Priority 2: Enabling More Data-Based Decision-Making.**

To meet this priority, an applicant must propose a project that is designed to collect, analyze, and use high-quality and timely data, especially on program participant outcomes, in accordance with privacy requirements, to improve instructional practices, policies, and student outcomes in early learning settings and in elementary and secondary schools.

- **Competitive Preference Priorities:** The following priority is a competitive preference priority. States can be awarded up to an additional five points to an application that meets this priority.

**Competitive Preference Priority: Effective Use of Technology.**

To meet this priority, an applicant must (1) propose to use technology, which may include technology to support principles of universal design for learning to address student learning challenges; and (2) provide, in its application, an evidence-based rationale that its proposed technology program, practice, or strategy will increase student engagement and achievement or increase teacher effectiveness.

The USDE will consider each state's literacy plan as part of the Striving Readers discretionary grant program application.

**LAO COMMENTS:** Based upon their review of the May 2nd draft grant application, the LAO offers the following comments.

- **Significant timing challenges with inclusion of California Common Core Standards (CCCS) as a priority for all sub-grantees.** Although the CCCS have been adopted, much work needs to be done so that LEAs have what they need to implement them in the classroom (including curriculum frameworks, instructional materials, professional development, and assessment tools).
- **Eligible applicant pool is too large.** CDE plans to use an LEA's low income status as a proxy for high literacy needs, with districts that have 40 percent or more of their students receiving free or reduced priced meals eligible for the grant. Under this proposed threshold, over 600 school districts and many charters that are considered LEAs are eligible for the funds.
- **Selection criteria and budget details are vague.** The grant application specifies that 30 LEAs will be grant recipients, but did not specify the target amount for the grant or how CDE will determine the dollar amount for each sub-grantee.

**STAFF COMMENTS:**

- **Timing of State Grant Application Makes Legislative Analysis and Input Difficult.** The Striving Readers draft discretionary grant application was released **late on May 2nd** and does not provide enough time for a thorough analysis in this agenda. This is an important grant application, which could provide significant, new funding – albeit one-time thus far -- available as a part of a statewide literacy program to address struggling readers, birth to grade 12, in our state. It will be important for the State Board and CDE to have input from the Legislature on further development of the state literacy plan and the discretionary grant proposal being presented today.

## SUGGESTED QUESTIONS:

1. The first draft of the state literacy plan submitted to USDE on April 1<sup>st</sup> is considered a living document that will be updated by the State Literacy Team in the coming months. However, this literacy plan will also be used to evaluate our state's discretionary grant application due to USDE on May 9th. How will this work?
2. The State Literacy Team met on Tuesday, May 3rd to review the draft grant application released on late Monday, May 2nd. Can CDE summarize the Literacy Team's comments on the grant application? Is the grant application being changed as a result of any of these changes?
3. The final grant application is due to the USDE by Monday, May 9<sup>th</sup>. Given the draft application was just released on late May 2<sup>nd</sup>, are CDE and the State Board open to Legislative review and comment?
4. Both the state literacy plan and state discretionary grant application focus on "infusing Common Core standards into the education system". According to CDE, this focus will be achieved in large part through professional development. While Common Core standards were adopted in California last August, they have not been fully implemented statewide. Per LAO much work needs to be done so that LEAs have what they need to implement Common Core standards in the classroom, i.e., LEAs need curriculum frameworks, instructional materials, professional development, and assessment tools. This situation raises some questions:
  - a. Could the focus on Common Core standards limit the participation of some high-need LEAs?
  - b. Given a particular emphasis on professional development per CDE, how will Common Core standards training be provided and who will provide this training?
5. The federal application appears to allow sub-grantees to use funding for direct instruction. Can CDE confirm this? Does the grant application allow for direct instruction by sub-grantees?
6. Per the federal program, state sub-grantees must serve high need children and youths, including limited-English proficient students and students with disabilities. Per a preliminary review of the grant application, the treatment of economically disadvantaged students, English learners, students with disabilities, as well as, struggling readers, appears inconsistent and confusing.
  - a. How does the application define eligible sub-grantees for purposes of serving high-need children and youth?
  - b. How does the application address English learner students?
  - c. How does the application address students with disabilities?
  - d. How does the application address struggling readers?

7. The state grant application stresses moving students from early literacy to advanced literacy through a Response to Instruction and Intervention (RtI<sup>2</sup>) approach. Why is the RtI<sup>2</sup> approach given so much emphasis? Does this approach address the needs of all student subgroups, at all grade levels? Will sub-grantees be allowed to use other interventions?
8. How does the grant application allocate discretionary grant funds among eligible sub-grantees? For example, how many grants will be provided? How much funding will be provided for each grant? Does the application address grant size issues to reflect “sufficient size” on an LEA or per pupil basis?
9. How will sub-grants be selected by the State Board? What factors will be given the highest weight among eligible sub-grantees? Will the State Board give weight to LEAs already doing a good job or LEAs that need to do a better job – or both?
10. Given the broader priorities of the federal grant application on improving learning outcomes, use of data, and use of technology -- how much flexibility will LEAs be allowed in their applications?
11. Can CDE clarify how long local sub-grantees will have to expend Striving Readers funds? The application indicates grants will be available over four years, for a five year project period? Earlier reports indicated funds would only be available for about 27 months?
12. How much funding does the grant application set aside for state administration and how will these funds be utilized? (States are allowed to use up to 5 percent of the awarded funds to provide leadership activities, including technical assistance and training, data collection, reporting, and administration.)
13. Under the previous federal Reading First program, the Legislature had trouble accessing basic information about Reading First, such as the number and type of teachers participating and student outcomes. This was due in part to the decentralized governance structure that involved implementation centers and six regional lead agencies. How will these issues be overcome with the Striving Readers program?
14. What is the role of the higher education institutions in the discretionary grant application? Did the higher education representatives on State Literacy Team have any comments on this issue at their meeting on Tuesday, May 3<sup>rd</sup>?
15. What is the outlook for future discretionary grants funding for the Striving Readers program?

## ATTACHMENT A

**Figure 3**  
**Three Potential Packages by Specific K-14 Mandate<sup>a</sup>**

Mandate	Definition of Statewide Interest:		
	Narrow	Broader	Broadest <sup>b</sup>
County Office of Education Fiscal Accountability Reporting	Fund	Fund	Fund
High School Exit Examination	Fund	Fund	Fund
Intradistrict Attendance	Fund	Fund	Review
Pupil Promotion and Retention	Fund	Fund	Fund
School District Fiscal Accountability Reporting	Fund	Fund	Fund
Annual Parent Notification	Reduce	Reduce	Reduce
Charter Schools I, II, III	Reduce	Reduce	Reduce
Criminal Background Checks	Reduce	Reduce	Reduce
Criminal Background Checks II	Reduce	Reduce	Reduce
Mandate Reimbursement Processa	Reduce	Reduce	Reduce
School Accountability Report Cards	Reduce	Reduce	Reduce
Agency Fee Arrangementsa	Eliminate	Eliminate	Review
AIDS Prevention Instruction II	Eliminate	Reduce	Review
California State Teachers' Retirement System (CalSTRS) Service Credita	Eliminate	Reduce	Review
Caregiver Affidavits	Eliminate	Eliminate	Review
Collective Bargaininga	Eliminate	Fund	Fund
Comprehensive School Safety Plans	Eliminate	Reduce	Reduce
Differential Pay and Reemployment	Eliminate	Fund	Fund
Expulsion of Pupils Transcript Cost for Appeals	Eliminate	Eliminate	Fund
Financial and Compliance Audits	Eliminate	Eliminate	Fund
Habitual Truant	Eliminate	Eliminate	Review
Immunization Records	Eliminate	Reduce	Reduce
Immunization Records–Hepatitis B	Eliminate	Reduce	Reduce
Juvenile Court Notices II	Eliminate	Fund	Fund
Law Enforcement Agency Notification	Eliminate	Eliminate	Review
Notification of Truancy	Eliminate	Eliminate	Review
Notification to Teachers: Pupils Subject to Suspension or Expulsion	Eliminate	Eliminate	Reduce
Physical Education Reports	Eliminate	Eliminate	Review
Physical Performance Tests	Eliminate	Eliminate	Review
Prevailing Wage Rate <sup>a</sup>	Eliminate	Eliminate	Review
Pupil Health Screenings	Eliminate	Reduce	Reduce
Pupil Residency Verification and Appeals	Eliminate	Eliminate	Eliminate
Pupil Safety Notices	Eliminate	Fund	Fund
Pupil Suspensions, Expulsions, and Expulsion Appeals	Eliminate	Eliminate	Fund
Removal of Chemicals	Eliminate	Eliminate	Review
School District Reorganization	Eliminate	Fund	Fund
Scoliosis Screening	Eliminate	Eliminate	Eliminate
The Stull Act	Eliminate	Eliminate	Review

<sup>a</sup> Shared K-14 mandates.  
<sup>b</sup> Mandates designated as review would be sent to policy committees for deliberation. Mandates designated as "reduce" would have their costs reduced going forward.

## ATTACHMENT B

Figure 4

### Mandates Work Group—California Community Colleges (CCC)

(Dollars in Thousands)

Mandate	2008-09 Claims <sup>a</sup>	Requirements	Work Group Members' Conclusions/Recommendations
Sex Offenders: Disclosure by Law Enforcement Officers	—	Campus police must register students who are sex offenders living on campus.	There was broad agreement to fund this mandate, which serves a compelling public-safety purpose with negligible, if any, costs to the state.
Cal Grant Grade Point Average	—	Districts must calculate students' grade point average (GPA) and submit information to the California Student Aid Commission to determine eligibility for Cal Grant awards.	The group came to a general understanding that leaving these two mandates on the books would not be particularly problematic because costs likely would be covered by a district's financial aid administration funding. Specifically, budget bill language specifies that the funding each district receives annually for financial aid administration must first be used to offset any costs associated with the Cal Grant GPA and Tuition Fee Waiver mandates.
Tuition Fee Waivers (Exemption from Nonresident Tuition)	\$637	Districts must determine students' residence status and charge specified fees to non-residents. Certain students (such as nonresident members of the military and AB 540 students) are entitled by law to pay the in-state resident fee. Districts must waive enrollment fees entirely for non-resident dependents of victims of the 9/11 attacks.	
Enrollment Fee Collection and Waivers	23,810	Districts must collect enrollment fees and waive fees for financially needy students.	The group did not reach consensus on this mandate. The CCC Chancellor's Office maintains that, to the extent the Legislature desires CCC to perform these duties, the mandate should be fully funded. The LAO recommended the state eliminate the mandate and instead create a strong incentive for districts to perform these duties by reducing their General Fund support by the amount of fee revenues they decline to collect. A third approach would be to retain the mandate but reduce claim costs by inserting new language into the annual budget act. Such language could specify that the funds districts receive for financial aid administration be counted as an offset to district costs for waiving enrollment fees—similar to how the Cal Grant GPA and Tuition Fee Waiver mandates are currently treated (see above). While the precise fiscal impact is unknown, this approach could reduce the cost of claims by millions of dollars.

Mandate	2008-09 Claims <sup>a</sup>	Requirements	Work Group Members' Conclusions/Recommendations
Health Fees/ Services	\$6,094	Each district is required to provide students at least the level of health services it provided in 1986-87. Fee that districts may charge for health services is capped.	Members of the work group did not reach consensus on whether to eliminate or fully fund this mandate. Instead, it was proposed that various options be considered. Among other things, the Legislature could consider whether to eliminate the mandate and health-fee cap, and instead authorize CCC students to hold campus-wide elections to determine whether they want to impose a health-center fee on themselves, and if so, (1) the level of the fee, (2) which types of students would be required to pay it, and (3) the level of service that would be provided. (Statute already permits such elections for purposes of determining whether a transit fee should be imposed on students.)
Sexual Assault Response Procedures	3	Districts must adopt policies and procedures on campus response if students are sexually assaulted.	The group generally agreed that these three mandates appear to be unnecessary. Federal law addresses each issue through the Clery Act, which establishes detailed activities and reporting requirements with regard to campus safety and law enforcement. Moreover, as a result of federal, state, and local policies, campuses have undertaken as standard operating procedures activities to prevent, mitigate, and report crimes on campus.
Student Records	—	Districts must inform the alleged victim of sexual assault or physical abuse whether the alleged perpetrator was subject to campus disciplinary actions.	
Law Enforcement College Jurisdiction Agreements	160	Campus police must develop and update (as needed) agreements with local law enforcement agencies concerning which agency has responsibility for investigating violent crimes occurring on campus.	
Integrated Waste Management	6,050	Districts must divert from landfills a specified percentage of their solid waste through reduction, recycling, and composting activities, and develop and report annually on their ability to meet solid-waste diversion goals.	There was broad agreement to eliminate this mandate. (It is currently suspended.) In so doing, CCC would be treated the same way as K-12 districts, which are encouraged—but not required—to comply with diversion goals. Like K-12 schools, it is likely that colleges would continue to participate in waste-diversion programs.
Reporting Improper Governmental Activities	5	Districts must pay for all costs of State Personnel Board hearings (as well as certain other related activities) if an employee files a complaint with the Board alleging retaliation by the district for whistleblowing.	The work group did not reach consensus on this mandate. The LAO and some others in the group recommend its elimination, arguing that state law already provides protections and legal recourses for whistleblowers. By eliminating this mandate, CCC would be treated the same as K-12 schools. Others in the group are inclined to retain and fully fund the mandate, reasoning that potential benefits of the requirement for district employees are worth the relatively small annual costs the state has incurred to date for this mandate.

<sup>a</sup> Unaudited.

## **ATTACHMENT C**

### **California Department of Education First Interim Status Report, FY 2010-11**

<http://www.cde.ca.gov/fg/fi/ir/first1011.asp>



Curriculum & Instruction		Testing & Accountability		Professional Development	
Finance & Grants		Data & Statistics		Learning Support	
				Specialized Programs	

Home » Finance & Grants » Fiscal Oversight » Fiscal Status

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## First Interim Status Report, FY 2010-11

Listing of local educational agencies receiving negative or qualified certification for fiscal year 2010-11 first interim.

### List of Negative and Qualified Certifications Local Educational Agencies 2010-11 First Interim Report

#### NEGATIVE CERTIFICATION

A negative certification is assigned to a local educational agency when it is determined that, based upon current projections, the local educational agency will not meet its financial obligations for fiscal year 2010-11 or 2011-12.

Number	County	Local Educational Agency	Total Budget (\$)
1	Alameda	Hayward Unified	194.56 million
2	Kern	Southern Kern Unified	25.15 million
3	Los Angeles	Inglewood Unified	128.32 million
4	Merced	Dos Palos-Oro Loma Unified	19.14 million
5	Monterey	King City Joint Union High	19.40 million
6	Riverside	Banning Unified	41.76 million
7	Sacramento	Natomas Unified	68.61 million
8	San Benito	Hollister Elementary	40.21 million
9	Solano	Travis Unified	40.21 million
10	Solano	Vallejo City Unified	138.19 million
11	Sonoma	Cloverdale Unified	11.80 million
12	Sonoma	Cotati-Rohnert Park Unified	50.02 million
13	Sonoma	Healdsburg Unified	17.52 million

#### QUALIFIED CERTIFICATION

A qualified certification is assigned to a local educational agency when it is determined that, based upon current projections, the local educational agency may not meet its financial obligations for fiscal year 2010-11, 2011-12, or 2012-13.

Number	County	Local Educational Agency	Total Budget (\$)
1	Alameda	Emery Unified	11.41 million
2	Alameda	Oakland Unified	432.80 million
3	Amador	Amador County Office	9.65 million
4	Amador	Amador County Unified	29.71 million
5	Butte	Chico Unified	104.82 million
6	Contra Costa	John Swett Unified	13.50 million

7	Contra Costa	Mt. Diablo Unified	300.20 million
8	El Dorado	Black Oak Mine Unified	13.25 million
9	El Dorado	Gold Oak Union Elementary	4.58 million
10	El Dorado	Gold Trail Union Elementary	3.66 million
11	El Dorado	Rescue Union Elementary	27.70 million
12	Fresno	Raisin City Elementary	3.15 million
13	Fresno	Sierra Unified	16.76 million
14	Glenn	Willows Unified	12.73 million
15	Humboldt	Mattole Unified	1.94 million
16	Humboldt	Scotia Union Elementary	1.60 million
17	Kern	El Tejon Unified	9.26 million
18	Kern	Muroc Joint Unified	18.63 million
19	Kern	Panama-Buena Vista Elementary	126.60 million
20	Lake	Kelseyville Unified	14.50 million
21	Los Angeles	Antelope Valley Union High	210.64 million
22	Los Angeles	Bellflower Unified	109.51 million
23	Los Angeles	El Rancho Unified	87.20 million
24	Los Angeles	Lawndale Elementary	51.59 million
25	Los Angeles	Los Angeles Unified	6.369 billion
26	Los Angeles	Lynwood Unified	129.81 million
27	Los Angeles	Newhall Elementary	52.20 million
28	Los Angeles	Norwalk-La Mirada Unified	186.97 million
29	Los Angeles	William S. Hart Union High	170.37 million
30	Madera	Yosemite Unified	18.62 million
31	Mendocino	Round Valley Unified	3.86 million
32	Mendocino	Ukiah Unified	28.61 million
33	Monterey	North Monterey County Unified	38.68 million
34	Napa	Napa Valley Unified	115.23 million
35	Orange	Anaheim City Elementary	157.79 million
36	Orange	Centralia Elementary	36.56 million
37	Orange	Fullerton Elementary	106.91 million
38	Orange	Fullerton Joint Union High	140.92 million
39	Orange	Garden Grove Unified	455.94 million
40	Orange	Saddleback Valley Unified	229.31 million
41	Orange	Santa Ana Unified	523.39 million
42	Orange	Westminster Elementary	76.14 million
43	Placer	Colfax Elementary	3.09 million
44	Placer	Loomis Union Elementary	16.64 million
45	Placer	Placer Hills Union Elementary	6.81 million
46	Riverside	Alvord Unified	157.45 million
47	Riverside	Coachella Valley Unified	179.33 million
48	Riverside	Desert Sands Unified	228.32 million
49	Riverside	Nuview Union (Elementary)	13.62 million
50	Riverside	Riverside Unified	344.63 million
51	Sacramento	Elk Grove Unified	477.27 million
52	Sacramento	Folsom-Cordova Unified	145.41 million

53	Sacramento	Sacramento City Unified	397.54 million
54	Sacramento	San Juan Unified	361.38 million
55	Sacramento	Twin Rivers Unified	262.94 million
56	San Bernardino	Bear Valley Unified	21.75 million
57	San Bernardino	Chino Valley Unified	232.27 million
58	San Bernardino	Colton Joint Unified	189.97 million
59	San Bernardino	Cucamonga Elementary	19.51 million
60	San Bernardino	Fontana Unified	342.94 million
61	San Bernardino	Mt. Baldy Joint Elementary	1.03 million
62	San Bernardino	Victor Union High	88.77 million
63	San Bernardino	Yucaipa-Calimesa Joint Unified	72.17 million
64	San Diego	Borrego Unified	5.65 million
65	San Diego	Mountain Empire Unified	17.01 million
66	San Diego	Ramona Unified	53.95 million
67	San Diego	San Marcos Unified	141.10 million
68	San Joaquin	Stockton Unified	344.97 million
69	San Luis Obispo	Atascadero Unified	37.49 million
70	San Luis Obispo	Lucia Mar Unified	85.15 million
71	San Luis Obispo	Paso Robles Joint Unified	54.90 million
72	San Luis Obispo	Pleasant Valley Joint Union Elementary	1.10 million
73	San Luis Obispo	San Miguel Joint Union (Elementary)	4.53 million
74	San Luis Obispo	Shandon Joint Unified	3.59 million
75	Santa Clara	Berryessa Union Elementary	61.28 million
76	Santa Clara	East Side Union High	198.19 million
77	Santa Clara	Franklin-McKinley Elementary	76.52 million
78	Santa Clara	Gilroy Unified	88.45 million
79	Santa Clara	Los Altos Elementary	43.05 million
80	Santa Clara	Orchard Elementary	6.67 million
81	Santa Cruz	Santa Cruz City Elementary	62.66 million*
82	Santa Cruz	Santa Cruz City High	*
83	Shasta	Anderson Union High	16.66 million
84	Shasta	Cascade Union Elementary	12.39 million
85	Shasta	Cottonwood Union Elementary	7.58 million
86	Shasta	Pacheco Union Elementary	4.88 million
87	Solano	Dixon Unified	26.76 million
88	Solano	Fairfield-Suisun Unified	161.44 million
89	Sonoma	Geyserville Unified	3.00 million
90	Sonoma	Sebastopol Elementary	5.90 million
91	Sonoma	West Sonoma County Union High	21.37 million
92	Stanislaus	La Grange Elementary	.27 million
93	Stanislaus	Stanislaus Union Elementary	23.90 million
94	Stanislaus	Waterford Unified	18.43 million
95	Tehama	Reeds Creek Elementary	1.11 million
96	Tulare	Citrus South Tule Elementary	.57 million
97	Ventura	Santa Paula Elementary	31.28 million

\* Santa Cruz City Elementary and Santa Cruz City High School Districts are two districts with joint administration and

fiscal reporting. The amount shown in the column is the combined budget.

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California Department of Education  
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Last Reviewed: [Monday, April 18, 2011](#)

**ATTACHMENT D**

**California Department of Education,  
California State Emergency Loans to  
School Districts, 1991 to 2010**

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

CALIFORNIA STATE EMERGENCY LOANS TO SCHOOL DISTRICTS, 1991 to 2010

July 2, 2010

District	Tenure of State Administrators and State Trustees	Legal Authority (in addition to AB 1200)	Date of Issue	Amount of Original State Loan	Interest Rate	Date/Amount of I-Bank Refinance & Remaining General Fund Loan	Outstanding Balance of I-Bank and General Fund Loans	Amount of Annual Loan Payment; Due Date	Amount Paid By District Including Principal & Interest	Pay Off Date
King City Joint Union High School District	Administrator 7/23/09 – Present	SB 130 Ch 20/09	7/22/09 3/11/10	\$2,000,000 \$3,000,000	1% 1%	7/22/09 \$2,000,000 GF 3/11/10 \$3,000,000 GF	\$5,000,000 total GF as of 3/11/10	\$110,831 due starting 7/22/10 \$166,246 due starting 3/11/11	\$0 \$0	7/22/29 3/11/30
Vallejo Unified	Administrator 6/22/04 – Present Trustee 7/13/07 – Present	SB 1190, Ch 53/04	6/23/04 8/13/07	\$50,000,000 \$10,000,000 \$60,000,000	1.500%	12/1/05 \$20,642,992 refinanced by sale of I-Bank bonds of \$21,205,000 (principal and accrued interest) \$25,000,000 – GF 8/13/07 2 <sup>nd</sup> draw of \$10,000,000 - GF	\$45,480,517 as of 7/2/10	I-Bank: \$1.3 million total due during the period July through January, 2006-2024; GF: \$1.6 million due each June, 2007 – 2024; GF: \$670,797 due each August, 2008- 2024	\$18,691,921	6/24/24 GF
Oakland Unified	Administrator 6/16/03 – 6/28/09 Trustee 7/1/08 - Present	SB 39, Ch 14/03	6/4/03 6/28/06	\$65,000,000 \$35,000,000 \$100,000,000	1.778%	12/1/05 \$0,830,859 refinanced by sale of I-Bank bonds of \$59,565,000 (principal and accrued interest) 6/28/06 2 <sup>nd</sup> draw of \$35,000,000 – GF	\$73,754,847 as of 7/2/10	I-Bank: \$3.9 million total due during the period July through January, 2006-2023; GF: \$2.1 million due each June, 2007-2026	\$35,613,350	January 2023 I-Bank 6/29/26 GF
West Fresno Elementary	Administrator 3/19/03 – Present Trustee 8/26/08 – 12/4/09	AB 38, Ch 1/03	12/29/03	\$1,300,000 (\$2,000,000 authorized)	1.93%	N/a	\$549,988 as of 7/2/10	\$144,195 due each December, 2004-2013	\$865,170	12/30/13 GF
Emery Unified	Administrator 8/7/01- 6/30/04; Trustee 7/1/04 - Present	AB 96, Ch 135/01	9/21/01	\$1,300,000 (\$2,300,000 authorized)	4.19%	N/a	\$902,924 as of 7/2/10	\$97,273 due each September, 2002-2021	\$778,184	9/30/21 GF
Compton Unified	Administrators 7/93-12/10/01 Trustee 12/11/01-6/2/03	AB 657, Ch 78/93 AB 1708, Ch 924/93	7/19/93 10/14/93 6/29/94	\$3,500,000 7,000,000 9,451,259 \$19,951,259	4.40% 4.313% 4.387%	N/a	-0-	N/a	\$24,358,061	6/30/01 GF
Coachella Valley Unified	Administrators 5/26/92-9/30/96 Trustee 10/1/96-12/20/01	SB 1278, Ch 59/92	6/16/92 1/26/93	\$5,130,708 2,169,292 \$7,300,000	5.338% 4.493%	N/a	-0-	N/a	\$9,271,830	12/20/01 GF
Richmond/ West Contra Costa Unified	Pre-AB 1200 5/1/91; Trustee 7/1/90 – 5/1/91; Administrator 5/2/91-5/3/92; Trustee 5/4/92- Present	AB 1202, Ch 171/90 Superior Court Order	8/1/90 1/1/91 7/1/91	\$2,000,000 7,525,000 19,000,000 \$28,525,000	1.532% 2004 ref rate	12/1/05 \$15,475,263 refinanced by sale of \$15,735,000 in I-Bank bonds (principal plus accrued interest)	\$10,627,181 as of 7/2/10	\$1.4 million total due during the period July through January, 2006-2018	\$36,714,809	January 2018 I-Bank