

SUBCOMMITTEE NO. 1 on Education



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

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

Consultant: Kim Connor

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Public Comment

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

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

BACKGROUND:

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

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

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

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

GOVERNOR’S BUDGET SUMMARY:

The Governor's budget proposes total General Fund support of **\$81.5 million** for the state’s three special schools in 2012-13. Of this amount, **\$48.3 million** is provided in Proposition 98 General Fund and **\$33.3 million** is provided by Non-98 General Fund. The state schools are also projected to receive \$3.9 million in federal transportation funds. The Governor’s budget also reflects an

estimated **\$6.4 million** in reimbursements from local school districts to the state schools. There are currently a total of **1,080 authorized positions** for the special schools and diagnostic centers.

State Special Schools - Summary of State Funding

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

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

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

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

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

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

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

STAFF COMMENTS:

- **Preliminary Plan for Implementing Governor’s Proposed Reductions.** The CDE State Special Schools Division has not developed a final, specific plan for implementing the Governor’s \$1.8 million unallocated reduction, and development of such a plan will take additional time. However, the State Special Schools Division has identified a general, preliminary plan for implementing the Governor’s cuts based on input from each of the three schools. This preliminary plan includes:
 - **\$900,000** in savings from postponement of deferred maintenance projects slated for 2012-13.
 - **\$900,000** in reductions for student services at each of the three schools, including consolidation of residential dorms; and reduction of summer school programs, counseling services, assessment services, maintenance/groundskeeping/custodial services, and security services.
- **Impact of Combined Cuts on Total Budget for State Schools.** The \$1.5 million (4.3 percent) operational efficiency reduction in 2011-12, together with the Governor’s proposed \$1.8 million reduction in 2012-13, brings total Non-98 General Fund cuts to \$3.3 million, or 9.3 percent, for the state schools in 2012-13. When calculated as a part of total Prop 98 and Non-98 General Fund, this \$3.3 million reduction translates to a **4.0 percent** reduction for the state schools in 2012-13. In comparison, local education agencies are facing ongoing reductions of 9.2 percent for their basic revenue limit apportionments.
- **Local Educational Agency Payments.** Education Code §59300 provides that the district of residence of the parent or guardian of any pupil attending a state-operated school – excluding day pupils – pay the school of attendance 10 percent of the excess annual cost of education of each pupil attending a state-operated school. The Governor proposes a total of **\$6.4 million** in reimbursements from local school districts to the state schools in 2012-13. In addition, the Governor’s budget estimates \$3.9 million in reimbursements from local school districts to the state diagnostic centers in 2012-13.

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

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

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

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

1. Staff recommends that the State Special Schools develop a specific implementation plan for achieving the Governor’s \$1.8 million reduction and submit that plan to the Subcommittee by April 30, 2012. The plan should identify any savings for “discretionary” deferred maintenance projects, per the Governor’s budget language, and if necessary, other savings necessary to achieve the full \$1.8 million proposed by the Governor.
2. Staff recommends that CDE explore possible savings options for the State Special Schools that do not affect the instruction and support for students attending the State Special Schools, including:
 - Identification of available federal special education carryover funds that could be used to backfill the Governor’s proposed reductions in 2012-13.
 - Assessment of local educational agency reimbursements for pupils attending the State Special Schools and options for increasing those charges.
 - Evaluation of alternative savings for the state diagnostic centers, including an increase in the charges to local educational agencies for providing these state assessments.
 - Review of state laws and policies to explore consolidating state funding for the State Special Schools within Proposition 98 and eliminating Non-98 General Funds.

SUGGESTED QUESTIONS:

1. The Governor’s \$1.8 million reduction proposal in 2012-13 is intended to have the State Special Schools participate in budget reductions for K-12 education. How do recent and proposed reductions for the State Special Schools compare to recent, ongoing cuts for K-12 local assistance programs?
2. The Governor’s proposal requires the proposed \$1.8 million reduction in 2012-13 to be taken from discretionary deferred maintenance projects, to the extent possible. What is the

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

3. The three state special schools incurred \$1.5 million in funding reductions as a part of an operational efficiency plan pursuant to Control Section 3.91 of the 2011-12 budget act. What was the total reduction assigned to the Department of Education and what was the proportional reduction for the state schools? What process did the Department utilize in allocating cuts to the state schools?
4. How did the state special schools achieve the \$1.5 million reduction in 2011-12? How did that reduction affect the deferred maintenance funding for the state schools?
5. Why is funding for the state schools split between Proposition 98 and Non-98 General Fund? Is there a reason that the state schools could not be funded entirely with Proposition 98 funds?
6. How does CDE calculate the “excess costs” for purposes of school district payments for pupils attending state special schools?

6350 School Facilities Aid Program

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

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

BACKGROUND:

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

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

Proposition 1D.

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

Overcrowded Relief Grant (ORG) Program.

Proposition 1D established the Overcrowded Relief Grants Program within the School Facility Program and provided \$1 billion for school districts with overcrowded school sites to build new permanent facilities. As with other new construction projects, districts are required to match the state’s contribution toward the project costs (fifty percent). To be eligible for a relief grant, districts must have at least one overcrowded school (defined as at least 175 percent of the state

recommended pupil density). The size of the relief grant is based on the number of pupils in portable classrooms at eligible schools. As a condition of receiving a relief grant, school districts are required to replace portable classrooms with new permanent classrooms, remove portable classrooms from overcrowded schools, and reduce the total number of portable classrooms in the district. (Education Code 17079-17079.30).

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

1. **Regulation of Remaining Bond Authority.** Requires the State Allocation Board (SAB), upon enactment of the Budget Act of 2012, to apportion up to **\$8.5 million** for new construction projects, and up to **\$9 million** for modernization projects, per month at a board meeting. This provision shall not apply to new construction and modernization projects that receive unfunded approval by the board before enactment of the Budget Act of 2012.
2. **Prohibition of Funding for Overcrowding Relief Grants.** Prohibits the State Allocation Board from approving any projects pursuant to the Overcrowding Relief Grant program on or after June 30, 2012.
3. **Shift of Funds for Overcrowded Relief Grants to New Construction.** Transfers **\$251.25 million** from Overcrowded Relief Grants to New Construction. More specifically, this proposal adjusts the amounts allocated under Proposition 1D by:
 - a. Reducing the amount authorized for Overcrowded Relief Grants from \$1.0 billion to \$748.75 million.
 - b. Increasing the amount authorized for New Construction from \$1.9 billion to \$2.15 billion.

STAFF COMMENTS:

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

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

- **Legislative Authority to Adjust Bond Amounts.** Proposition 1D also authorized the Legislature to adjust the amounts expended for each of the above programs, but prohibited the increase or decrease of the total amount to be expended pursuant to the Proposition. Adjustment of the funding requires legislative enactment of statute which is consistent with, and furthers the purposes of, Proposition 1D by a two-thirds membership vote of each house. In addition, amounts may be adjusted via a voter approved statute. (Education Code §101012).
- **New Construction Funds Will Be Depleted in Near Future.** As of March 2012, \$220.0 million remains in new construction bond authority and \$395.9 million remains in modernization authority. Based upon a typical processing timeline of applications and the average monthly drawdown on authority, new construction and modernization funds will be depleted by **Fall 2012**. More specifically, new construction funds will be depleted by **April 2012** and modernization funds would be depleted by **October 2012**.

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

- **Governor Intent on Keeping School Facility Bond Program Viable.** According to the Administration, the Governor’s proposals are intended to maintain the viability of the school construction program by (1) transferring funds from Overcrowded Relief Grants to new construction to reflect existing demand, and (2) metering the allocation of new construction funds to keep the program going through 2014, and thereby avoiding the trigger of Level III developer fees during this period.
- **Trigger for Level III Developer Fees When Bond Funds Depleted.** Current statute (Government Code) authorizes three levels of developer fees that may be levied by school districts, as follows:
 - ✓ Level I fees are assessed if the district conducts a Justification Study that establishes the connection between the development coming into the district and the assessment of fees to pay for the cost of the facilities needed to house future students.
 - ✓ Level II fees are assessed if a district makes a timely application to the State Allocation Board for new construction funding, conducts a School Facility Needs Analysis, and satisfies at least two of the requirements listed in Government Code Section 65995.5(b)(3).
 - ✓ Level III fees are assessed when State bond funds are exhausted and schools district may impose a developer’s fee up to **100 percent** of the School Facility Program new construction project cost. In order to implement Level III developer fees the State Allocation Board must make a declaration of a “lack of funds” to provide apportionments to school facilities projects.

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

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

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

SUGGESTED QUESTIONS:

1. What's the State Allocation Board process for triggering Level III developer fees? What specific conditions have to be met? What is the likelihood that Level III developer fees will be triggered in the next year? Have Level III fees been triggered before?
2. Is there consensus between the Administration and the State Allocation Board that implementation of Level III developer fees would negatively impact the state economy? If triggered, how would these high level developer fees be felt in communities across the state?
3. Did the Administration consider legislation to statutorily prohibit Level III developer fees in 2012-13? Would the Administration support this as an alternative to metering?
4. What are the reasons the SAB does not support metering bond allocations? What other options has the SAB considered to preserve the program?
5. How would the SAB assess the district need for Overcrowded Relief Grants? How many districts are eligible for this funding? What impediments may exist for expending these funds?
6. Is the SAB considering another funding cycle for unspent Overcrowded Relief Grant funds in 2012-13? What is the likelihood that eligible districts will have funding requests for additional projects in construction or nearing completion in 2012-13?
7. Did the Administration consider shifting funds remaining from other categories of bond funds?
8. Would some districts benefit more than others as the result of the Governor's proposed transfer of Overcrowded Relief Grant funds to new construction? Who wins and who loses?

6360 Commission on Teacher Credentialing

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

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

BACKGROUND:

Major Responsibilities.

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

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

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

Major Activities.

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

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

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

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

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

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

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

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

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

*Certification Assignment and Waivers Division Staff

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

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

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

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

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

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

Source: Commission on Teacher Credentialing.

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

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

Current Condition of Special Funds

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

GOVERNOR’S BUDGET SUMMARY:

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

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

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

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

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

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

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

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

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

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

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

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

^{1/}The increase in the examination is the result of the transition of this examination to a computer based examination only. The service fee charged to the candidate to administer this on-demand exam is similar to the fee charged for the CBEST computer based examination.

^{2/}The Commission did not receive any funds from the SLLA administered by the Educational Testing Services.

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

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

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

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

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

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

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

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

**FUND CONDITIONS
(As of March 15, 2012)**

TEACHER CREDENTIALS FUND (TCF)

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

^{1/} This assumes the Commission fully expends all resources each fiscal year. Historically, this has not occurred.

^{2/} Assumes a 5% decrease in credential revenue from FY 2010-11, based on 2nd quarter data from Certification, Assignment and Waivers Division. FY 2012-13 assumes a 3% decrease in credential revenue from FY 2011-12.

^{3/} FY 2011-12 reflects a Credential Fee (Renewals) of \$55 and First Time Credential and Certificate of Clearance at \$27.50. FY 2012-13 reflects a Credential Fee of \$70 and First Time Credential and Certificate of Clearance at \$35.

TEST DEVELOPMENT AND ADMINISTRATION ACCOUNT (TDAA)

	2010-11 (Actual)	2011-12 (Estimated)	2012-13^{1/} (Proposed)	2013-14^{1/} (Proposed)
Beginning Balance	\$5,270,000	\$4,705,000	\$2,741,000	\$2,739,000
Revenues	4,245,000	4,211,000	4,211,000	4,211,000
TCF Transfer	0	-1,500,000	0	0
Expenditures/ Appropriation	-4,810,000	-4,675,000	-4,213,000	-4,213,000
Ending Balance	<u>\$4,705,000</u>	<u>\$2,741,000</u>	<u>\$2,739,000</u>	<u>\$2,737,000</u>
Reserve %	97.8%	58.6%	65.0%	65.0%

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

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

STAFF COMMENTS:

- **CTC Guidelines for Budget Development in 2012-13.** On November 3, 2011, the Commission adopted the following principles to guide budget development in 2012-13.
 1. Maintain the core essential functions of the agency with no additional reductions.
 2. Establish a credential fees that ensures the fiscal solvency of the agency, not to exceed \$100.
 3. Minimize the fiscal impact to first time teachers.
 4. Assess the viability of charging late fees for expired credential documents and charging teacher preparation programs sponsors for accreditation responsibilities above the traditional accreditation system activities.
 5. Minimize the fiscal impact to new educators, taking required exams, by having the credential fees subsidize partially the examination system expenses.

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

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

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

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

1. As of the summer of 2009, according to the commission’s management, the Division of Professional Practices had accumulated a backlog of 12,600 unprocessed reports of arrest and prosecution (RAP sheets)—almost three times a typical annual workload.
2. The large backlog of unprocessed reports appears to have significantly delayed processing of alleged misconduct by the Division of Professional Practices and potentially allowed educators of questionable character to retain a credential.
3. The Division of Professional Practices has not effectively processed all the reports of arrest and prosecution that it receives. A review of randomly selected reports could not be located within the CTC’s database. Further, the division processes reports it no longer needs.
4. To streamline the committee’s processing of pending cases, the Division of Professional Practices uses its discretion to close cases or not open cases for which it believes the committee would choose not to recommend disciplinary action against the credential holder. However, the BSA did not believe the committee can lawfully delegate this discretion to the division.
5. The Division of Professional Practices lacks comprehensive written procedures for reviewing reported misconduct and the database it uses for tracking cases of reported misconduct does not always contain complete and accurate information.
6. Familial relationships among commission employees may have a negative impact on employees’ perceptions and without a complete set of approved and consistently applied hiring practices, the CTC is vulnerable to allegations of unfair hiring and employment practices.

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

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

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

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

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

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

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

New Misconduct Reports from LAUSD. As a part of a new initiative, the Los Angeles Unified School District (LAUSD) filed with the CTC 250 reports of alleged misconduct by teachers, as of March 21, 2012. These cases were sent beginning on February 22, 2012. Based on CTC legal staffs' assessment of 174 cases, approximately 25 percent of the reports filed by LAUSD will be closed for lack of jurisdiction. The Commission also reviewed a sample of 30 cases to determine the nature of the alleged misconduct cases. Of those 30 cases, 50 percent involved physical abuse of a student, another 25 percent involved inappropriate touching, sexually harassing comments, or inappropriate relationship with a student. Nine staff began working overtime in early March to

handle the extra workload in the Intake unit. While it is not fully known, the CTC estimates that the LAUSD's search for unreported cases of misconduct may yield a total of 400 or more cases for review by the Commission. CTC has redirected three positions to address the workload and oversight of the division.

- **Credential Processing within Statutory Timeframes.** The CTC eliminated the credentialing backlog in 2007-08 due to substantial efficiencies achieved largely through the conversion of a paper application process to an on-line application process for both credential renewals and some new applications. In addition, past budgets redirected additional staffing resources to address the credentialing backlog. Chapter 133; Statutes of 2007, revised the application processing time from 75 working-days to 50 working-days effective January 1, 2008. CTC has continued to maintain this processing within this time limit. According to CTC, 80 percent are being processed on-line within 10 working days. The other 20 percent of applications are processed within the required 50-working day processing time.
- **Credential Processing Workload Reports** – Provisional language in the annual budget act requires the CTC to submit quarterly reports to the Legislature, the Legislative Analyst's Office and the Department of Finance on the minimum, maximum, and average number of days taken to process the following:
 - ✓ Renewal and university-recommended credentials
 - ✓ Out-of-state and special education credentials
 - ✓ Service credentials and supplemental authorizations
 - ✓ Adult and vocational education certificates and child center permits, and
 - ✓ Percentage of renewals and new applications completed online

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

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

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

SUGGESTED QUESTIONS:

1. The latest Fund Condition Summary predicts a shortfall for the Teacher Credentials Fund in 2012-13 and 2013-14, even if all of the Governor's proposals are adopted. What options will the CTC have for addressing this shortfall?
2. To what extent are reserves from the Test Development and Administration Account being viewed as future offsets to operating deficits in the Teacher Credentials Fund?
3. What is the impact of credential fee increases and exam fee increases on candidates?
4. What impact will the elimination of 17 positions (\$1.0 million) proposed by the Governor have on the CTC's core functions?
 - a. Are there core functions that the CTC will no longer be able to provide? If so, can CTC identify other state operations savings to achieve the \$1.0 in staff reductions proposed by the Governor?
 - b. If staff reductions of this level are necessary, will CTC have the flexibility to reallocate positions to meet workload over time?
 - c. What is your current vacancy rate at the CTC? How do the vacancies align with the proposed 17 position reduction identified in the Governor's Budget?
5. The Governor proposes budget bill language that requires the CTC to work with the State Board of Education to identify ways to streamline the teacher preparation and credentialing process. What's the Administration's intent with this language?
6. How is the Division handling the fitness review of educators addressing the reported new discipline workload sent by LAUSD?
 - a. How many of these cases merit further action – beyond an initial review -- by the CTC?
 - b. What is the timeframe for review of these cases? Is this a current year or multi-year workload for the Division?
 - c. Does CTC expect an increase in misconduct reports from other local educational agencies in the coming year?
7. Are there any outstanding BSA recommendations that have not been implemented to date? If so, what is the status of these issues? Will the Governor's proposed staffing reductions affect the resolution of any of these issues?
8. Per current law, the Commission has authority to set exam fees, but not credential fees. What is the history for this different authority? Has the CTC ever considered a price inflator for credential fees to reflect annual cost increases for the statutory fees?
9. What authority does the CTC have for charging accreditation fees for the 261 teacher preparation programs in California? Do these teacher preparation programs typically pay fees to other accreditation agencies, such as WASC or NCATE?