



## Senate Budget and Fiscal Review

# Subcommittee No. 1 2004 Agendas

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*California State Senate*  
SENATE BUDGET & FISCAL REVIEW  
**SUBCOMMITTEE No. 1**

**Agenda**

**March 8, 2004**  
**Upon Adjournment of Session – Room 113**

EDUCATION  
JACK SCOTT, CHAIR  
BOB MARGETT  
JOHN VASCONCELLOS

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*California State Senate*

SENATE BUDGET & FISCAL REVIEW

**SUBCOMMITTEE NO. 1**

EDUCATION  
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**Agenda**

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**Upon Adjournment of Session – Room 113**

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**OVERVIEW OF GOVERNOR'S PROPOSED 2004-05 EDUCATION BUDGET**

**K-12 Education**

Superintendent of Public Instruction Jack O'Connell

**Higher Education**

University of California, President Robert Dynes  
California State University, Chancellor Charles Reed  
California Community Colleges, Chancellor Mark Drummond

**K-12 & Higher Education**

Legislative Analyst's Office – Robert Manwaring & Steve Boilard

**ATTACHMENTS:**

Senate Budget Committee's Overview of the 2004-05 Budget

**K-12 Education & Child Care**

[http://www.senate.ca.gov/ftp/SEN/COMMITTEE/STANDING/BFR/\\_home/Over04.html](http://www.senate.ca.gov/ftp/SEN/COMMITTEE/STANDING/BFR/_home/Over04.html)

**Higher Education**

[http://www.senate.ca.gov/ftp/SEN/COMMITTEE/STANDING/BFR/\\_home/Over04.html](http://www.senate.ca.gov/ftp/SEN/COMMITTEE/STANDING/BFR/_home/Over04.html)

Jack Scott, Chair  
Bob Margett  
John Vasconcellos

**March 15, 2004**  
**Upon Adjournment of Session — Room 4203**

**K-14 Education**

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Department of Finance

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## I. Proposition 98 Overview

### Proposition 98 – Information Only

Total Proposition 98 funding for K-14 education in 2004-05 is proposed at \$46.7 billion, an increase of \$768.9 million (1.7 percent) over the revised 2003-04 budget. While an increase, the level of Proposition 98 funding proposed by the Governor in 2004-05 is \$2 billion below the level required to meet the Proposition 98 minimum guarantee.

The \$768.9 million increase in Proposition 98 funding in 2004-05 is completely covered by the allocation of additional local property tax revenues to K-14 education. As indicated in Table 2, Proposition 98 General Fund revenues actually decline by \$426.3 million in 2004-05 due to an estimated net increase in property taxes of \$1.2 billion.

The net increase in property taxes under Proposition 98 is the result of three different factors:

- (1) The Governor's proposal to shift \$1.3 billion in additional local property taxes to the Education Revenue Augmentation Fund (ERAF) in order to support K-14 education;
- (2) A \$1.3 billion reduction in property taxes to K-14 education as a result of the "triple flip" financing structure to pay for the Economic Recovery Bond (pursuant to Chapter 2, Statutes of 2003, Fifth Extraordinary Session); and
- (3) An increase of \$1.2 billion in estimated local property taxes due to K-14 schools from general increases in local property tax receipts.

	2003-04 Budget Act	2003-04 Revised	2004-05 Proposed	\$ Change	% Change
<i>Distribution of Prop 98 Funds</i>					
K-12 Education	\$38,891,843	\$41,480,820	\$41,937,017	\$456,197	1.1
Community Colleges	4,623,085	4,358,857	4,678,804	319,947	7.3
Dept. of Developmental Services	11,624	10,863	10,758	-105	-1.0
Dept. of Mental Health	17,851	13,400	8,400	-5,000	-37.3
Dept. of Youth Authority	37,685	36,781	34,041	-2,740	-7.4
State Special Schools	38,017	40,302	40,302	0	0
Indian Education Centers	3,778	3,778	4,330	552	14.6
<b>Total</b>	<b>\$43,623,883</b>	<b>\$45,944,801</b>	<b>\$46,713,652</b>	<b>\$768,851</b>	<b>1.7</b>

<i>Prop 98 Fund Source</i>					
State General Fund	\$28,842,957	\$30,166,130	\$29,739,800	\$-426,330	-1.4
Local Property Taxes	\$14,780,926	\$15,778,671	\$16,973,852	\$1,195,181	7.6
<b>Total</b>	<b>\$43,623,883</b>	<b>\$45,944,801</b>	<b>\$46,713,652</b>	<b>\$768,851</b>	<b>1.7</b>
K-12 Enrollment-ADA*	5,990,495	5,978,127	6,039,207	61,080	1.2
K-12 Funding per ADA*	\$6,588	\$6,940	\$6,945	\$5	

\* Average Daily Attendance

As indicated in Table 2, of the total \$46.7 billion in Proposition 98 spending proposed for 2004-05, \$41.9 billion is attributable to K-12 and \$4.7 billion is for Community Colleges. The K-12 share of the Proposition 98 minimum funding level increases by \$456.2 million (1.1 percent) and the Community Colleges funding increases by \$319.9 million (7.3) percent. Community College funding grows at a higher rate due, in large part, to a \$200 million funding deferral from 2003-04 to 2004-05, which distorts true year-to-year comparisons in funding.

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 61,080 in the budget year, an increase of 1.2 percent over the revised current-year level. Average per-pupil Proposition 98 funding is estimated to be \$6,945 in 2004-05, an increase of \$5 over the \$6,940 per pupil funding in 2003-04.

### Calculation of the Minimum Guarantee

Proposition 98, a constitutional amendment passed by the voters in 1988 and amended by Proposition 111, established a minimum funding level for K-12 schools and Community Colleges. Proposition 98 funding is generally calculated as the greater of:

- Test 1 – a specified percent (approximately 34.5 percent) of state General Fund revenues.
- Tests 2 and 3 – The amount provided in the prior-year adjusted for K-12 ADA growth and an inflation factor. For “Test 2,” this inflation factor is the percentage change in per-capita personal income. For “Test 3” the inflation factor is equal to the annual percentage change in per-capita state General

Fund revenues plus 0.5 percent--used only when it calculates a guarantee that is less than that determined by "Test 2."

Proposition 98 also includes a provision allowing the state to suspend the minimum funding level for one year through urgency legislation other than the Budget Bill. (For additional detail on Proposition 98 calculations, see Attachment A.)

**Revenue Shift/Educational Revenue Augmentation Funds (ERAF).** The Governor proposes to shift \$1.336 billion in ERAF funding from local governments to K-14 education, which reduces the General Fund obligation to K-14 education by \$1.336 billion in 2004-05.<sup>1</sup> Of this amount, \$1.168 billion is shifted to K-12 programs and \$168 million is shifted to community colleges. According to the Legislative Analyst, this equates to roughly a 25 percent increase in ERAF obligations or a 10 percent decrease in local property tax revenues. Without this shift, the state would have to provide \$1.3 billion more General Fund for Proposition 98 than the Governor's budget or approximately \$869 million more from General Fund than the 2003-04 budget.

The Governor's proposed ERAF shift is assigned to Senate Budget Subcommittee #4, which currently plans to hear this budget item at its April 21<sup>st</sup> hearing.

## II. Proposition 98 – Major Budget Issues

**Governor's Proposition 98 Budget Proposals.** The Governor proposes roughly \$1.9 billion in additional spending for K-12 schools in 2004-05. These new funds are the result of \$456 million in new Proposition 98 funds, an estimated \$1.1 billion in K-12 Proposition 98 funds "freed-up" from one-time expenditures, and \$300 million in program savings (child care reductions, program eliminations, and other program savings.)

The Governor proposes using \$1.2 billion of these additional funds to cover statutory growth and COLA for revenue limits and categorical programs. In contrast, the 2003-04 budget provides growth for revenue limits and special

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<sup>1</sup> To balance the state budget in 1992-93 and then again in 1993-94, the Legislature and Governor Wilson permanently shifted more than \$3 billion in property tax revenues from counties, cities, special districts, and redevelopment agencies to each county's Educational Revenue Augmentation Fund (ERAF) to benefit K-14 education (K-12 schools and Community Colleges). These shifted funds reduce the state's General Fund obligation for K-14 education by a commensurate amount. In 2003-04, it is estimated that cities, counties, redevelopment agencies, and special districts will deposit \$5.171 billion into ERAF; the estimate for 2004-05 is \$5.527 billion.

education only but does not provide COLAs for any programs. The 2003-04 budget also reduces revenue limits by 1.2 percent (\$350 million).

The Governor's January 10 Budget also proposes \$730 million for various program increases in 2004-05 including: Public Employee's Retirement System (PERS) and Unemployment Insurance (UI) employer rate adjustments (\$242 million); revenue limit equalization (\$110 million); deferred maintenance (\$173 million); instructional materials (\$188 million); and high speed Internet access (\$21 million).

The Governor proposes a net increase of \$433 million in Proposition 98 funding for K-12 education alone in 2004-05. This reflects a \$612 million decrease in General Fund dollars Education in 2004-05, which is offset by a \$1.0 billion net increase in property tax revenues in 2004-05.<sup>2</sup>

**Governor's Education Agreement.** According to the Department of Finance, the Governor's January 10 Budget reflects an agreement with the "education community" to:

- "Rebase" (suspend) Proposition 98 in 2004-05 at a level \$2 billion below the minimum guarantee level;
- Provide approximately \$1.2 billion in funds for enrollment growth and COLA for revenue limits and categorical programs; and
- Establish priorities for Proposition 98 funding in 2004-05 and in future years. As detailed in the Governor's Budget Summary, these include:
  1. General purpose funds to restore revenue limit deficits made in 2003-04;
  2. Funds for payment of valid, deferred state mandate reimbursements; and
  3. Any remaining funds split 75 percent for general purpose apportionments and 25 percent for other State priorities.

It is unclear whether other proposals in the Governor's January 10 budget are a part of the agreement (or not), as the Legislature has not been notified of the precise elements of that agreement. It is also unclear what the specifics are for those elements of the proposal that have been generally described by the Department of Finance. Many questions remain about these proposals.

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<sup>2</sup> For K-14 education (K-12 and Community Colleges) the Governor proposes a net decrease in General Funds of \$426 million and a net increase in local property taxes of \$1.2 billion in 2004-05.

Additionally, the Legislature has become aware that the Governor reached a new agreement with the education community on January 21 that will revise several augmentations originally proposed in the January 10 budget. The table below summarizes these changes, as verified by the Department of Finance.

**Revisions to the Governor's Agreement for K-14 Education \***

<i>Dollars In Millions</i>	<b>Governor's Jan 10 Budget Agreement</b>	<b>Governor's Jan 21 Budget Agreement</b>	<b>Change</b>
K-12 Equalization	110,000	82,230	-27,770
CCC Equalization	80,000	59,804	-20,196
Deferred Maintenance	173,300	0	-173,300
Instructional Materials	188,000	0	-188,000
Discretionary Growth & COLAs**	0	139,177	139,177
Deficit Reduction (Revenue Limit Funds)	0	270,089	270,089
<b>Total</b>	<b>\$551,300</b>	<b>\$551,300</b>	<b>0</b>

\* Beyond the Governor's \$1.2 billion agreement for statutory growth and COLAs for revenue limits and categorical programs in 2004-05.

\*\*Includes approximately \$86 million in growth and COLAs for community colleges apportionments and categorical programs, and \$53.1 million in growth and COLAs for K-12 categorical programs that traditionally receive growth and COLAS.

In summary, the January 21 revisions to the agreement:

- Add \$139.2 million to provide COLAs for community colleges and K-12 programs not subject to statutory COLAs;
- Add \$270 million in general purpose funding (revenue limits) in order to reduction existing revenue limit deficits;
- Eliminate any augmentations to restore funding for instructional materials and deferred maintenance; and
- Reduce augmentations for K-12 and community college equalization.

Other elements of the Governor's revised agreement alter the funding priorities outlined in the Governor's January 10 budget by adding two new priorities to the top of the list: restoration of K-12 and CCC equalization funds and restoration of deferred maintenance and instructional materials funds.

Without formal notification about all the elements of the Governor's agreement as contained in the January 10 budget, it is difficult for the Legislature to analyze the Governor's Budget. The Legislature has not received any formal budget notification of the January 21 revisions to the agreement and has been informed

that formal notification will not occur until May Revision. For this reason, the Subcommittee may wish to question the Department of Finance about the specifics of the Governor's agreement. Some questions include:

- *Does the agreement include a \$2 billion reduction to the Proposition 98 minimum guarantee regardless of changes in the level of the minimum guarantee at May Revision?*
- *The original agreement, as generally described to the Legislature, appears to have expanded to include other augmentations proposed in the Governor's January 10 budget. Beyond those identified in the chart above, what other augmentations are a part of the agreement, e.g. PERS and UI increases?*
- *Does the agreement include the shift of \$2 billion in categorical funds to revenue limits?*

### ***Budget Issues/Actions:***

#### **1. Proposed Suspension in 2004-05.**

The \$752 million increase for K-14, Proposition 98 funds in 2004-05 is estimated by the Governor to be \$2 billion below the level that would otherwise be provided under the minimum guarantee. As a result, the Governor proposes that Proposition 98 be "rebased" at a level approximately \$2 billion below the minimum guarantee, as required by law. This action would require suspension of Proposition 98 in 2004-05.

Suspension of the constitutional funding requirements of Proposition 98 requires the Legislature to approve the suspension in a bill -- separate from the Budget Bill -- with a two-thirds vote.

According to the Legislative Analyst's Office (LAO), the state is likely to save \$2 billion annually for several years under the Governor's suspension plan.

In addition, suspension would create an additional \$2 billion maintenance factor, which the Governor estimates would be repaid over the four years. According to the Department of Finance, the state will end the 2004-05 year with \$2 billion in maintenance factor funding from prior years when Proposition 98 levels were

based upon Test 3. Suspension would bring total maintenance factor to \$4 billion at the end of 2004-05.

The Governor, as a part of his January 10 agreement with the education community, proposes a number of priorities for use of maintenance factor repayment funds in 2004-05 and beyond. These priorities include: (1) restoration of revenue limit deficits (reductions and COLAs) from 2003-04; (2) funding for valid education mandate reimbursements; and (3) splitting any remaining funds -- 75 percent for revenue limits and 25 percent for other state funding priorities.

The LAO recommends that the Legislature suspend the Proposition 98 minimum guarantee for 2004-05. If the Legislature chooses to suspend, the LAO recommends that the Legislature determine the appropriate level of K-14 funding without regard to the amount of the suspension. In determining the appropriate level of K-14 funding, the LAO recommends that the Legislature balance K-14 priorities with other General Fund priorities.

The LAO notes that without suspension the Legislature will have to make \$2 billion in reductions to non-Proposition 98 programs. If the Legislature raises taxes, without suspension, most of the new revenues would go to Proposition 98.

## **2. Proposition 98 Settle-Up for 2002-03 & 2003-04**

The Governor estimates that Proposition 98 funding for K-14 is below the minimum guarantee by \$517.8 million in 2002-03 and \$448.4 million below in 2003-04. These changes are the result of higher-than-expected state tax revenues, changes in student attendance and apportionment costs, and a shift of K-12 operating costs from 2002-03 to 2003-04, due in large part from an increase in the deferral amount of the second principal apportionment.

The Governor does not propose providing funding to meet the Proposition 98 guarantee in 2002-03 or 2003-04, nor does the Governor propose suspending Proposition 98 in 2003-04. (Suspension is an option for addressing the problem in 2003-04; it is unclear whether suspension is an option for 2002-03.)

Instead, the Governor proposes that \$966 million in funding for “settle-up” of these past-year and current-year expenditures, which are needed to meet the Proposition 98 constitutional guarantee, be “deferred” until 2006-07. The Governor further

proposes using any future funds appropriated for settle-up for one-time purposes such as instructional materials, training, and deferred maintenance.

The Governor's 2004-05 budget assumes that the Proposition 98 guarantee is fully funded at the minimum level in 2002-03 and 2003-04.

The LAO recommends that the Legislature suspend the minimum guarantee in 2002-03 and 2003-04 to eliminate \$966 million in future Proposition 98 settle-up obligations. According to the LAO if the Legislature does not suspend the minimum guarantee for 2002-03 and 2003-04, the state will be obligated to pay this \$966 million bill – viewed as a loan -- in the near future, regardless of the state's fiscal situation.

Trailer Bill Language: The Administration has not yet developed statutory language to defer Proposition 98 settle-up until 2006-07.

## **2. Certification of Past Years.**

**Background:** Current law requires the Department of Education, Community Colleges and the Department of Finance to jointly certify Proposition 98 inputs and the overall appropriation level within nine months of the end of each fiscal year. (Proposition inputs include student ADA, per capita General Fund revenues, per capita personal income.)

However, the Proposition 98 appropriation has not been certified since 1994-95 – nearly eight years. While the statute is clear about the certification timeframe, the process is not being enforced. The upshot of delays in certification, according to the LAO, is to place the state at risk of increased Proposition 98 obligations for past years.

For example, the LAO indicates that changes in state population estimates from 2000 census data, lower state populations estimates in 1995-96 and 1996-97. As a result, per capita General Fund revenues increase, which in turn increase the Proposition 98 guarantee for these two years. According to the LAO these changes create a potential \$251 million obligation to the state. This potential obligation would not exist if the state had certified Proposition 98 in the timeframe required by statute.

The Governor's budget appears to tie payment of Proposition 98 settle-up to 2002-03 and 2003-04 to retiring "outstanding debts" to school districts from 1995-96 and 1996-97.

The LAO recommends that the Legislature certify – "close the books" – on Proposition 98 funding levels for the 1995-96 to 2001-02 fiscal years. This action would require budget trailer bill language.

As a part of this recommendation, the LAO further recommends that the Legislature certify the Proposition 98 calculations for these years using the state's population estimates available in the late 1990's and used to determine the state's minimum guarantee in 1995-96 and 1996-97.

In addition, the LAO suggests that the Legislature work with the Administration to develop a more definitive certification process in statute. The LAO suggests that certification be timed to occur one year after the close of the prior fiscal year (past year minus one year) in order to accommodate anticipated adjustments. Within this timeline, the LAO believes it would be ideal to certify the Proposition 98 level for a given fiscal year, prior to the start of the second following fiscal year. For example, the 2002-03 Proposition level would be certified before the start of the 2004-05 fiscal year.

#### **4. Continuation of Deferrals.**

The Governor's 2004-05 Budget proposes to continue \$1.0 billion in various K-12 programs deferred from 2002-03 to 2003-04. These deferrals were enacted last year as a part of a package of mid-year budget reduction proposals and involve a shift in second principal apportionment payments, referred to as P-2 payments, from June to July 2003. The 2003-04 Budget Act restored a net total of \$609.7 million in deferrals from previous years, which creates additional capacity for spending in 2004-05.

The Governor's 2004-05 budget also proposes using \$144.4 million in one-time Proposition 98 Reversion Account funds to restore funding for some programs subject to deferred appropriations schedules. Of this amount, \$98.1 million fully restores funding for the Targeted Instructional Improvement Grant program, which was deferred from 2003-04 to 2004-05, and \$46.3 million partially restores appropriations from the School Safety Program that were deferred from 2004-05 to 2005-06.

The LAO recommends that the Legislature gradually begin paying off deferrals and develop a repayment plan to restore all deferred funds over time. The LAO further recommends that the Legislature make it a priority to repay deferrals before funding new expenditures or programs. The LAO has identified over \$300 million in K-12 savings and \$80 million in community college savings, that could be applied to reducing program deferrals and other “credit card” debt. These reductions will be discussed at future Subcommittee hearings.

The Department of Education has raised concerns about utilizing apportionments for P-2 deferrals. Problems arise in properly estimating the amount of these apportionments for purposes of meeting a specific deferral target. In 2003-04, this contributed to unanticipated increases in the deferral amounts, which in turn had implications for Proposition 98 settle-up in that year.

*In order to minimize these changes in the future, staff recommends that the LAO work with the Department of Education and Department of Finance in developing a list of alternative deferrals as substitutes for programs on the current list of deferrals.*

[Budget Trailer Bill Language – See attachment.]

**5. K-12 and Community College Split.** The Governor proposes a Proposition 98 “split” between K-12 schools and Community Colleges for 2004-05 of **89.6** percent for K-12 and **10.4** percent for Community Colleges.

For more than a decade, current law has required a Proposition 98 funding split between K-12 and Community Colleges of approximately 89 percent versus 11 percent. This split is based upon the percentage of Proposition 98 funding received by K-12 schools and Community Colleges in 1989-90. This statutory “split” has been suspended by the Legislature for more than ten years (since 1992-93) to reflect actual spending percentages.

The LAO recommends that the Legislature annually adjust the funding share to reflect its budget priorities relative to current circumstances.

[Budget Trailer Bill Language – See Attachment.]

### III. Enrollment Growth & Cost-of-Living Adjustments (COLA's)

The Governor's January 10 Budget proposes \$1.2 billion to fund enrollment growth and COLAs for revenue limit and categorical programs. The Governor's January 10 Budget does not include COLAs for some categorical education programs that are not required by statute to receive COLA's. The Governor's January 21 education agreement proposes another \$53.1 million to fully fund growth and COLA's for all K-12 education programs that traditionally receive a COLA.

In comparison, the 2003-04 (current year) budget provides growth funding for revenue limits and only one categorical program (special education), and does not fund COLAs – estimated at 1.8 percent -- for any education programs. In addition, the 2003-04 budget reduces revenue limit funding generally by 1.2 percent.

***Budget Issues/Actions:***

**1. Enrollment Growth Funding.** Enrollment growth for K-12 education is estimated to grow by 1.02 percent in 2004-05, which is notably lower than the year-to-year rate over the last decade when rates averaged 2.2 percent according to the LAO.

Over the next five years, K-12 enrollment growth rates overall are predicted by the Department of Finance to fall to zero. In fiscal year 2008-09, overall K-12 enrollment is expected to decline. This trend reflects the loss of children born to “baby-boomers” who are aging out of the K-12 schools.

The Governor's Budget provides \$406.2 million to fully fund enrollment growth for revenue limits and categorical programs subject to statutory growth adjustments in 2004-05. Of this amount, the budget provides \$279.8 million for revenue limits; \$37.4 million for special education; and \$89 million for other categorical programs.

The Department of Finance will update enrollment growth estimates as part of the Governor's “May Revise” to reflect population updates, as well as, revisions to the Governor's January 10 education agreement.

**2. Cost-of-Living Adjustments (COLAs).** The Governor's Budget proposes \$742.4 million to fully fund statutory COLAs for K-12 revenue limit and categorical programs in 2004-05. This provides a 1.84 percent COLA for revenue

limits (\$554.8 million); special education (\$70.0 million); and other categorical programs (\$117.6 million) that require a COLA pursuant to state statute.

The Department of Finance will update COLA estimates as part of the Governor's "May Revise" to reflect inflation updates, as well as, revisions to the Governor's January 10 agreement.

### 3. Deficit Factor

**Background:** The Legislature has approved deficit reduction funding for revenue limits in years when the statutory COLA has not been fully provided. This was the case during the recession years of the early 1990's when the statutory COLA for revenue limits was not fully funded. As a result, the state created a second set of revenue limits, called "deficited" revenue limits. Deficited revenue limits reflect the amount that the state actually provides to school districts and county offices of education for revenue limits.

The state keeps track of the difference between base revenue limits and deficited revenue limits – by acknowledging through statute revenue limit deficit factor. The deficit factor specifies the amount the state owes schools by a percentage that is approved in statute as part of the annual budget package.

The 2003-04 budget provides growth funding for revenue limits, but suspended the 1.8 percent COLA for these programs. In addition, the 2003-04 budget reduced revenue limit funding by 1.2 percent. Together these actions resulted in approximately \$900 million in savings. Budget trailer bill language contained in AB 1754 (Chapter 227; Statutes of 2003) created a 3.0 percent deficit factor for these revenue limits reductions and foregone COLA's that would be restored to revenue limit calculations in 2005-06.

The Governor's January 10 Budget proposes to continue the revenue limit deficit factor in 2004-05, estimated at \$907 million. However, the Governor's January 21 agreement with the education community includes \$270 million in augmentation funds for revenue limit deficit reduction funding in 2004-05. This would reduce outstanding deficit factor to approximately \$637 million.

**Budget Trailer Bill Language – See attachment**

## **IV. Other Revenue Limit Adjustments and Increases**

### ***Budget Issues/Actions:***

#### **1. Revenue Limit Equalization.**

Background: In the 1971 *Serrano v. Priest* state Supreme Court decision, the court specified a range (currently about \$335.00) to measure equality in school funding. (Approximately 98 percent of the state's pupils are funded within that range which meets the court's standards.) In the years following the *Serrano* decision, the Legislature has enacted several statutes designed to equalize revenue limits among the state's school districts.

The passage of SB 727 (Chapter 854; Statutes of 1997) by both eliminating excused absences from the revenue limit calculation—beginning with the 1998-99 school year—and increasing revenue limits to offset the effect of lower attendance, also significantly changed revenue limit levels. To some extent SB 727 also increased the variation in revenue limits and changed which districts were above and below revenue limit averages.

The LAO has advised the Legislature in recent years that without supplemental funding it will take a long time to reach equalization targets. In past years, the LAO has calculated it would take roughly 12-45 years to bring at least 95 percent of pupils to the same revenue limit.

While equalization funding was not included in the 2002-03 budget, the education budget trailer bill to that budget -- AB 2781 (Chapter 1167; Statutes of 2002) -- appropriated \$406 million for equalization in 2003-04. AB 2781 distributed funds evenly on a pre-SB 727 and post-SB 727 basis. The Governor vetoed \$203 million (half) of these funds provided for pre-SB 727 equalization, leaving \$203 million for equalization in 2003-04. AB 1754 (Chapter 227, Statutes of 2003), the education budget trailer bill to the Budget Act of 2003 later eliminated these funds.

The Governor's budget proposes \$109.9 million for revenue limit equalization in 2004-05 to address disparities in base funding among school districts.

The LAO recommends that the Legislature delete \$110 million for revenue limit equalization proposed by the Governor in 2004-05, given the state's fiscal situation. In addition, the LAO recommends that the Legislature delay revenue limit equalization and redirect funds to pay off deferrals until a year when

Proposition 98 can fund “credit card” obligations – deferrals, revenue limit deficits or unfunded state mandates.

The LAO also recommends that the Legislature adopt trailer bill language to require the Quality Education Commission to develop definitions and adequate funding levels for small schools districts of all types – elementary, unified and high school.

The LAO is concerned that the Governor’s equalization proposal focuses on bringing all districts to the 90<sup>th</sup> percentile of all size and type districts and, as a result, has the unintended consequence of resulting in different increases for districts of different sizes and types. The Quality Education Commission was established by legislation in 2002 in response to recommendations from the K-University Master Plan Commission. The Commission is charged with determining the level of school funding that would be adequate to allow students to meet state standards.

## **2. Revenue Limit Consolidation -- LAO Proposal**

**Background:** In addition to base revenue limits totaling \$27.8 billion, the LAO has identified nine other major revenue limit programs. Together these nine programs account for approximately \$2 billion in state and local expenditures.

Eight of these nine programs are technically considered revenue limit “add-on” programs, meaning that if a district qualifies for the program, the state adds revenue limit funds. (In the case of the PERS offset, the state decreases district revenue limits.)

The LAO finds that except for the Minimum Teacher Salary Incentive program, all of the other revenue limit add-on programs were established in the 1970s and 1980s. Additionally, the LAO notes that each of these programs treats school districts differently, typically to reflect purposes when they were created.

In searching for revenue limit add-on programs that would be good candidates for being folded into base revenue limits, the LAO assessed programs to determine if they truly provided general purpose funding or if all districts (or nearly all) districts participated in the program.

The LAO identified six revenue limit add-on programs that met either of these tests. These six programs, and funding associated with them, include:

1. Meals for Needy Pupils (\$126.8 million);
2. SB 813 Incentive Programs (\$1.2 billion);

3. Interdistrict Attendance (\$.5 million);
4. Continuation Schools (\$34.4 million);
5. Unemployment Insurance (\$212.2 million); and
6. PERS Offset (-\$10.3 million).

The LAO recommends that the Legislature revise the system of district revenue limits by merging funding for these six “add on” programs into a single general purpose grant. Together these programs provide nearly \$1.6 billion in revenue limit funding. According to LAO, this proposal would simplify the computation of general purpose funding, make it easier to understand, and include additional general purpose revenue limit funds in equalization adjustments over time. Including these additional funds would provide a fairer picture of general purpose revenue limits actually received by districts and, according to the LAO, result in a more uniform distribution of funds among school districts.

*Staff believes the LAO proposal has merit and would recommend that the Subcommittee give this proposal serious consideration as a part of joint hearings with Senate Education Committee. Staff further suggests that the Subcommittee consider revenue limit consolidation prior to providing augmentations for revenue limit equalization. Staff also suggests that that revenue limit consolidation might also be an appropriate issue for the Quality Education Commission to address in the coming year.*

## **7. Public Employees Retirement System (PERS) – Local Contributions & Revenue Limit Offset**

**Background:** The state adjusts funding to school districts and county offices of education agencies for their employer contributions to PERS through a complicated formula referred to as the PERS Revenue Limit Offset. This makes discussion of state funding to cover PERS costs to local education agencies less than straightforward.

School districts and county offices of education make employer contributions to PERS for their classified (non-credentialed) employees. Under current law (Education Code 42238.12) each school district's base revenue limit is adjusted by the difference between the PERS employer contribution rate in 1981-82 (13.02 percent) and the school district's current employer contribution rate. The idea of the

PERS offset was for the state to capture some of the savings that accrued to districts when PERS rates fell below the historically high rate of 13.02 percent in 1981-82.

The way the offset works is that when the PERS contribution rate is below 13.02%, this reduces the district's revenue limit funding, which reduces (or offsets) state General Fund costs. As the PERS contribution rate rises, state General Fund costs increase due to a reduced revenue limit offset. As the PERS contribution rate drops, state General Fund costs decrease due to an increased revenue limit offset.

Since the PERS revenue limit cap is set at 13.02 percent, if the PERS rates climb above this level the state will have to start paying directly for local education agency contributions above this level.

As indicated by the chart below, PERS employer contribution rates have been volatile in recent years, as a result of changes in the rate of return on PERS investments that offset employer contributions. While the current rate is 12.2 percent, the rate was zero percent from 1998-99 to 2001-02. In these years the state fully offset PERS employer contribution costs to local education agencies.

	<b>PERS Contribution Rate (Percent)</b>	<b>Amount of PERS Offset (Dollars in millions)</b>
<b>2001-02</b>	0	628
<b>2002-03</b>	2.894	545
<b>2003-04</b>	10.42	143
<b>2004-05</b>	12.02	10

The Governor's Budget provides an increase of \$106.0 million in revenue limit funding to cover PERS rate increases for school districts and county offices of education. The PERS school employer contribution rate is estimated to increase from a 10.4 to 12.2 – a total of 1.8 percent in 2004-05. This reduces the PERS revenue limit offset to school districts and increases state General Fund costs by \$106 million, to a total level of approximately \$10 million.

The Governor's Budget also recommends removing the 13.02 percent cap on the PERS offset and has developed budget trailer bill language to make that change. The removal of the cap will limit General Fund costs if PERS rates climb above 13.02 percent.

The LAO recommends eliminating the separate PERS revenue limit offset as a part of its proposal to consolidate revenue limit programs (see Section IV-3 of this

agenda). According to the LAO, virtually all districts take a reduction in revenue limits under the PERS offset adjustment. If it were eliminated, it would make more general purpose funding available to local educational agencies. This would reduce savings to the state however.

If the Legislature does not adopt revenue limit consolidation, the LAO would support removal of the cap, as it would result in substantial state General Fund savings if PERS rates grow above 13.02 percent.

#### **4. PERS Revenue Limit Offset Mitigation.**

**Background:** Another state law has a fiscal affect on PERS revenue limit calculations. SB 6 (Chapter 794, Statutes of 2001) was enacted to mitigate losses to revenue limits for local education agencies that result from annual changes in the PERS employee contributions. Under this measure, local education agencies receive a share of mitigation funds appropriated in the budget proportionate to their share of the total statewide offset. The measure limits the level of PERS mitigation to \$35 million adjusted annually for COLA.

As mentioned in the section above, the PERS revenue limit offset statute passes through to the state all savings or costs that otherwise would accrue to K-12 agencies from annual changes in the employer contribution rate. SB 6 was enacted in 2001, when PERS employer contribution rates were zero. In this situation, the savings calculation requires local agency apportionments to be reduced by the full 13.02 percent of the salaries of their PERS employees. SB 6 sought to mitigate these reductions in revenue limits.

SB 6 was negotiated as a part of the 2001-02 Budget Act. As a result, that budget provided \$35 million in revenue limit funds for local education agencies in the form of a PERS revenue limit offset mitigation pursuant.

The Governor vetoed the \$36 million augmentation the Legislature provided for PERS offset mitigation in the 2002-03 Budget Act, but restored \$35 million for the program in the 2003-04 Budget Act.

The Governor's 2004-05 Budget continues \$36 million in funding for PERS revenue limit offset mitigation pursuant to Chapter 794; Statutes of 2001.

The LAO recommends elimination of the PERS revenue offset as a part of its revenue limit consolidation proposal, which would eliminate the need for PERS offset mitigation. Last year the LAO recommended delaying additional funding for PERS offset mitigation until the state is able to fully fund growth, COLA and pay off program deferrals.

**Budget Trailer Bill Language – See attachment.**

## **5. Unemployment Insurance (UI)**

**Background:** Current law requires the state to directly cover the costs of UI rate increases that exceed local education agency costs in 1975-76.

The Governor's Budget proposes \$136.0 million in additional revenue limit funds to fully fund estimated increases in local education agency UI costs in 2004-05. According to the Department of Finance, UI rates have more than doubled – increasing from 0.3 percent in 2003-04 to 0.7 percent in 2004-05. These increases are attributed to increased benefit amounts and longer eligibility periods that are tied to staff reductions.

The LAO recommends that funding for UI rate increases be folded into base revenue limits pursuant to their revenue limit consolidation proposal. Under this proposal funding for six revenue limit “add-on” programs, including UI Reimbursements, would be merged into base revenue limits, and cease to exist as separate revenue limit programs.

## **6. Basic Aid Funds.**

**Background:** For most of California's 983 school districts, revenue limit income is derived from both local property taxes and state funds. Last year there were 82 California school districts with local property taxes that nearly equal or exceed the revenue limit amount, so they require little or no revenue limit funding from the state. However, because the State Constitution guarantees some “basic aid” funding for all school districts -- until 2003-04 -- received \$120 per student (or minimum \$2,400 per district) from the state.

The 2003-04 budget eliminated \$17.8 million in Basic Aid funding (\$120/ADA) to high property value districts that receive more property tax revenue than is needed to fully fund their revenue limits. As a part of this reduction, the state counts categorical funds for these districts in order to satisfy its constitutional obligation to

provide at least \$120/ADA in Basic Aid. The loss of these funds reduces general purpose funding to basic aid districts by an estimated 2.5 percent.

Of the 82 districts that received Basic Aid funding last year, there were 60 districts that received an equal amount or more local property taxes than needed to fund their revenue limits. According to the Department of Finance, there are now 74 of these schools districts --deemed excess property tax districts – although the number can fluctuate each year, depending on the level of property taxes and the number of students enrolled in their district.

According to the Department of Finance (DOF), total excess taxes are estimated at \$180 million in 2003-04 and \$191 million in 2003-04. The Governor's 2004-05 budget estimates excess property taxes at \$201 million, or 5.2 percent above the \$191 million projected in 2003-04. It is estimated that the 2004-05 estimates will be higher when new property tax figures are released at May Revise.

The 2003-04 budget made two separate reductions for Basic Aid districts. These reductions total \$27.6 million and include:

- \$17.8 million to eliminate Basic Aid funding (\$120 per ADA) and satisfy the constitutional obligation to provide state Basic Aid through the provision of categorical funds to these districts; and
- \$9.9 million to further reduce funding for Basic Aid districts whose property taxes exceed their revenue limits (excess property tax districts) and therefore do not receive any revenue limit funding from the state. This action further reduces categorical funding by up to 3 percent of each district's calculated revenue limit.

The second reduction -- \$9.9 million for excess property tax districts – was developed as a method of assessing the revenue limits reductions in the 2003-04 budget to basic aid districts. These districts received little or no revenue limits from the state and therefore avoided the 1.2 percent reduction and 1.8 percent in foregone COLAs for revenue limits that were felt by most districts in the state.

The Governor's Budget continues the elimination of Basic Aid funding in 2004-05, which resulted in a reduction of \$17.8 million for approximately 82 districts. As required by budget trailer bill language tied to the 2003-04 budget, this reduction was structured to be ongoing.

The Governor's Budget does not continue the additional \$9.9 million reduction for approximately 74 excess property districts and therefore restores this funding for

these districts in the 2004-05 budget. The rationale for this action is that the 2003-04 budget trailer bill established this reduction for one year only.

The LAO recommends that the Legislature reduce the \$9.9 million in funds proposed to restore categorical funding to basic aid districts until the state restores the 3 percent revenue limit reductions to other K-12 school districts. (It should be noted that the Governor proposes \$270 million to restore revenue limit reductions as a part of the latest education agreement.) This action would require trailer bill language.

## V. Other Categorical Program Adjustments and Increases

### *Budget Issues/Actions:*

#### 1. Deferred Maintenance

**Background:** The state Deferred Maintenance program provides state and local funding for major repair or replacement of school facilities. The State Allocation Board allocates funds to applicant local school districts, which are required to fully match state dollars in order to participate in the program.

Deferred maintenance, which is different from routine maintenance, is defined as the repair or replacement work performed on a school facility that is not performed on an annual, ongoing basis, but is planned for the future and part of each district's five year plan. According to the LAO, projects include major maintenance and infrastructure projects such as exterior painting, roof replacement, and long-term repairs to electrical, heating and plumbing systems.

AB 1124 (Nunez) (Chapter 358, Statutes of 2003) makes assurance of clean and functional school facilities, including restroom facilities for pupils, a priority use of deferred maintenance funds. This new statute does not allow deferred maintenance funds to be used for regular and operational maintenance costs of restrooms or other facilities. Under this new statute, clean is defined as meeting local hygiene standards applicable to public facilities.

The Governor's Budget proposes to restore \$173.3 million for the Deferred Maintenance program in 2004-05. This increase will bring total funding to \$250.3 million, which fully funds the program at the level required in statute. The 2003-04 budget reduced funding for Deferred Maintenance by \$128.7 million.

The LAO recommends adding the \$250.3 million proposed for Deferred Maintenance in 2004-05 to the Governor's proposal to consolidate \$2 billion in categorical programs into revenue limits. The LAO believes that the state's emphasis on deferred projects creates an incentive for districts to defer projects rather than focus on ongoing maintenance. The LAO also believes that local maintenance incentives have become stronger since 1998 due to new requirements in the state bond acts. In addition, the LAO believes that because deferred maintenance counts as a part of the 3 percent of their budgets districts must spend on maintenance, the program does not actually increase local spending on maintenance.

## **2. Instructional Materials**

The Governor's January 10 Budget provides an additional \$185 million to restore funding for the Instructional Materials Block Grant in 2004-05. Funding for this program decreased by \$75 million in 2003-04 -- from \$250 million to \$175 million. The intent of this new funding is to purchase textbooks from the 2002 English Language Arts adoption and the 2005 History and Social Science adoptions.

The \$185 million increase proposed by the Governor, together with \$175 million in existing instructional materials funds, brings total funding to \$363 million in 2004-05. However, the Governor's January 10 Budget also proposes to shift the \$175 million in existing Instructional Materials Block Grant funds to revenue limits as a part of the Governor's categorical program consolidation proposal.

The net effect of these actions is to increase funding for revenue limits by \$175 million and increase special or dedicated funding for instructional materials by \$10 million.

The Governor's January 21 education agreement eliminates the \$188 million in new funding for instructional materials in 2004-05. If the Governor stands by the January proposal to shift \$175 million in remaining funds to revenue limits, there would not be any dedicated funding for instructional materials in 2004-05.

The LAO recommends restoring instructional materials to \$250 million in 2004-05 -- an increase of \$75 million. However, the LAO recommends shifting all of these

funds to revenue limits, as a part of the Governor's categorical consolidation proposal.

The LAO believes that \$250 million provides adequate funding for purchase of English Language Arts materials and to pilot –rather than purchase – history/social science materials in 2004-05. The LAO believes that the Governor's proposal does not consider that many school districts “banked” instructional materials funds for the last two years in order to purchase 2002 English Arts adoptions, which are fully aligned to state standards. For this reason, the LAO also recommends reducing the Governor's January 10 budget augmentation to \$75 million – a savings of \$113 million.

The LAO does not have a recommendation on the Governor's January 21 education agreement, as the Legislature has not received budget notification of any revisions to the Governor's January 10 budget.

### **3. Educational Technology – Higher Speed & Capacity Internet Access**

**Background:** The Governor's Budget would create a new state categorical program that would provide new, ongoing funds to school districts and county offices of education to purchase access to a higher speed, higher capacity internet system known as Internet 2. Developed initially by 34 universities, Internet2 now serves 200 universities across the country.

The University of California and California State University systems, as well as, independent universities in California currently use Internet2.

Over the last four years, the California Digital Project has spent \$95.5 million to extend this university network to the K-12 school system. The project was funded through the University of California (UC) budget, as summarized on the chart below.

### California Digital Project -- Funding History

<i>Dollars in millions</i>	2000-01	2001-02	2002-03	2003-04	2004-05
<b>University of California</b>	32.0	27.2	22.0	14.3	0
<b>California Department of Education</b>					21.0

Through a contract with the Corporation for Education Network Initiatives in California (CENIC), the California Digital Project at UC has extended Internet2 access to 58 county offices of education, 82 percent of school district offices, and 71 percent of schools.

The primary benefits of the system are to provide: (1) higher speed service, (2) additional capacity for transmitting video, complex images and large amounts of data, and (3) a private system that is more secure and eliminates advertising.

The system is intended to provide new resources to enrich curricula, as well as, to provide innovative teaching and learning experiences for students and educators. Through enhanced video streaming services the K-12 schools can improve student access to curriculum by providing online instruction. For example, Advanced Placement courses can be offered to students in schools that currently don't have access to these courses. In addition, Internet2 can provide additional capacity for on online degree programs and professional development programs developed collaboratively between K-12 and higher education systems.

The Governor's Budget proposes \$21 million for a new, ongoing state categorical program to fund Internet2 access for school districts and county offices of education. This proposal would end four years of funding in the University of California budget - totaling \$95.5 million - that has been used to establish Internet2 connections to all 58 county offices of education.

School districts must fund their own connections to county offices of education. Reportedly, 82 percent of school district offices and 71 percent of schools -- representing 4 million students -- have paid for these connections.

LAO recommends that the \$21 million in funding for this high-speed internet access program be deleted, as the program has limited benefits to schools and school districts and the technology is still relatively expensive.

*Staff notes that while the state has invested considerable resources in the development of Internet2 services for K-12 schools and the goals of the project are laudable, it is not clear why a new, ongoing state categorical program is needed. If there are benefits and savings to schools districts, it seems that school districts should fund these services. With approximately 983 school districts and 58 county offices of education, the costs to districts would average \$20,000, although staff notes costs to individual districts, such as rural districts, could be higher, or in other districts possibly even lower. These costs might be offset by any savings that accrue to districts. In addition, there may be other sources of public funding that school districts can access to cover these costs. Staff recommends that the LAO explore the savings associated with this proposal and other possible funding sources for Internet2 and report back to the Subcommittee at its May 17<sup>th</sup> hearing.*

## 8. Other Increases

In addition to major increases identified in this Subcommittee agenda, the Governor's 2004-05 Budget proposes another \$85.6 million in program increases. According to the LAO, most of these are technical increases as indicated below.

<b>Program</b>	<b>2004-05 Increase (Dollars in millions)</b>
CTC Intern Program	2.387
Child Nutrition	4.887
High Priority Schools	2.847
Other Technical Adjustments	75.455
<b>Total, Other Increases</b>	<b>85.576</b>

## VI. Program Savings & Reductions – Information Only

As summarized by the LAO, the Governor's Budget proposes approximately \$1.5 billion in program decreases, which are summarized below:

<b>Program</b>	<b>2004-05 Decreases (Dollars in millions)</b>
Net reductions for P-2 Deferrals	1,036
Proposition 98 Reversion Account Swap	146
<b>Program</b>	<b>2004-05 Increase</b>

	<b>(Dollars in millions)</b>
Special Education Federal Fund Offset	74
Combined Child Care Proposals	69
Immediate Intervention/Underperforming Schools Program	46
Elimination of Seven Categorical Programs	32
High Priority Grants	28
STAR - NRT Reductions	6.5
Department of Mental Health Grants	5
Other Technical Adjustments	61.5
<b>Total, Decreases</b>	<b>1,505</b>

The majority of these reductions involve funding deferrals and shifts, as well as natural savings and technical (workload) adjustments. Some of these items are included in this agenda. Other items will be discussed at future hearings.

The Governor also proposes some true reductions in programs. For example, the Governor proposes to end funding for seven small categorical programs for a total savings of \$32.6 million in 2004-05. These programs, which will be discussed more fully at the Subcommittee's April 12<sup>th</sup> hearing, include:

- Teacher Credentialing Pre-Internship (\$8.0 million)<sup>3</sup>;
- Charter Schools Facilities Grant (\$7.7 million);
- Local Arts Education Partnerships (\$6.0 million);
- Academic Improvement and Achievement (\$5.0 million);
- Early Intervention for School Success (\$2.2 million);
- Healthy Start (\$2.0 million); and
- School-to-Career (\$1.7 million).<sup>4</sup>

In addition, the Governor proposes \$69 million in reductions to child care programs, which will also be discussed in detail at the Subcommittee's May 10<sup>th</sup> hearing.

<sup>3</sup> The Teacher Credentialing Pre-Internship program is administered by the Commission on Teacher Credentialing.

<sup>4</sup> The Governor proposes to end seven small categorical programs for a total savings of \$32.6 million in 2004-05. These programs include: Teacher Credentialing Pre-Internship (\$8.0 million)<sup>4</sup>; Charter Schools Facilities Grant program (\$7.7 million); Local Arts Education partnerships (\$6.0 million); Academic Improvement and Achievement (\$5.0 million); Early Intervention for School Success (\$2.2 million); Healthy Start (\$2.0 million) and School-to-Career (\$1.7 million).

## Attachment A Proposition 98 Guarantee

**Figure 3**

### **Proposition 98 at a Glance**

#### **Funding "Tests"**

Proposition 98 mandates that a minimum amount of funding be guaranteed for K-14 school agencies equal to the greater of:

- A specified percent of the state's General Fund revenues (Test 1).
- The amount provided in the prior year, adjusted for growth in students and inflation (Tests 2 and 3).

#### **Test 1—Percent of General Fund Revenues**

*Approximately 34.7 percent of General Fund plus local property taxes.*

Requires that K-12 schools and the California Community Colleges (CCC) receive at least the same share of state General Fund tax revenues as in 1986-87. This percentage was originally calculated to be slightly greater than 40 percent. In recognition of shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 34.7 percent.

#### **Test 2—Adjustments Based on Statewide Income**

*Prior-year funding adjusted by growth in per capita personal income.*

Requires that K-12 schools and CCC receive at least the same amount of combined state aid and local tax dollars as was received in the prior year, adjusted for statewide growth in average daily attendance and inflation (annual change in per capita personal income).

#### **Test 3—Adjustment Based on Available Revenues**

*Prior-year funding adjusted by growth in per capita General Fund.*

Same as Test 2 except the inflation factor is equal to the annual change in per capita state General Fund revenues plus 0.5 percent. Test 3 is used only when it calculates a guarantee amount less than the Test 2 amount.

#### **Other Major Funding Provisions**

#### **Suspension**

Through urgency legislation other than the budget bill, the Legislature may suspend the minimum guarantee, providing K-14 education any funding level consistent with Legislative priorities. The difference between the guaranteed amount and the level provided is added to the "maintenance factor," discussed below.

#### **Restoration ("Maintenance Factor")**

Following a suspension or Test 3 year, the Legislature must increase funding over time until the base is fully restored. The overall dollar amount that needs to be restored is referred to as the maintenance factor. A portion of the maintenance factor is required to be restored in years the General Fund grows faster than personal income.

Source: Office of the Legislative Analyst, *Analysis of the Budget Bill, 2004-05*.

Senate Budget and Fiscal Review  
SUBCOMMITTEE NO. 1

EDUCATION  
Jack Scott, Chair  
John Vasconcellos  
Bob Margett

Monday, March 22, 2004  
1:30 p.m.  
Room 113

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## I. INTERSEGMENTAL ISSUES

### ***A. ENROLLMENT GROWTH.***

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2004-05 Budget provides no new funding to support enrollment growth at the University of California (UC) or California State University (CSU). At the California Community Colleges (CCC), the Governor's Budget provides \$121 million to support an approximately 33,000 additional full-time equivalent students (FTES), or 3 percent growth.

**UC and CSU:** As part of the final 2003-04 budget negotiations, the Legislature passed, and the Governor signed into law, Assembly Bill 1756 (Chapter 228, Statutes of 2003), which stated:

*“It is the Legislature’s intent that, in assisting the Governor in preparing the State Budget for the 2004-05 fiscal year, the Department of Finance not include any proposed funding for the following:*

*(g) Enrollment growth at the University of California or the California State University.”*

Following this directive, the Governor's Budget does not provide the funding that would naturally be necessary to accommodate approximately four percent growth in enrollments at both UC and CSU. As a result, the UC and CSU systems have taken steps to “manage” – and thus decrease – student enrollments. At the CSU for example, this has meant establishing application deadlines (whereas in the past applications were accepted year-round) and tightening the admissions requirements on community college transfer students.

For the 2004-05 budget, the Governor proposes to hold constant the number of funded FTES (with the exception of the 7,000 students he intends to redirect to the community colleges). Combined with the redirection, enrollments are budgeted at 199,428 FTES for UC and approximately 340,000 FTES at the CSU.

In addition to the constraints on enrollment growth funding, both systems made internal decisions in the current-year to redirect funding originally provided for enrollment growth to cover unexpected mid-year funding reductions. In addition, knowing that the Administration and Legislature would not provide funding for enrollment growth in 2004-05, many campuses exercised extreme caution in enrolling students – with particular attention paid to not “over-enrolling” – such that they fell short of their enrollment targets.

At the UC for example, systemwide enrollments are 800 FTE below the level funded in the current year due to a combination of the above-noted factors. At the CSU, student enrollments are approximately 9,000 less than originally budgeted. In this case, CSU

made a decision to absorb last-minute (2003-04 Budget Act) and mid-year reductions by limiting student enrollment in favor of retaining a solid base academic and support services budget.

For 2004-05, this issue becomes important because the enrollment projections in the Governor's Budget are based on the number of students CSU is serving in the current year (9,000 students less than they're budgeted for) as opposed to the number of students for which they've received funding.

**CCC:** The Governor's 2004-05 Budget provides \$121 million in Proposition 98 General Fund to serve an additional 3 percent (or 33,120) full-time equivalent students (FTES) at the California Community Colleges. The amount of funding provided in the Governor's Budget for enrollment growth exceeds the amount required by statute which is only 1.8 percent.

*Over-enrolled in Current Year.* In the current year, many local colleges are over-enrolled, meaning that the number of students enrolled exceeds the number of students for which the college receives state funding (known as being "over cap"). According to the Chancellor's Office, the number of over-enrolled students systemwide is likely to be between 15,000 and 20,000 FTES (1.4 percent to 1.8 percent).

*Factors Contributing to Enrollment Growth.* There are many different factors that will contribute to how many students attempt and/or choose to enroll at a community college in the coming year. The Chancellor's office offers that, on the natural, enrollments would grow at approximately 4 percent a year. *Staff notes*, it becomes difficult to predict how many students will seek an education from the community colleges when natural enrollment growth is combined with such factors as student fee increases (at all public postsecondary institutions); the availability of financial aid at both public and private institutions; a tightening of the admissions requirements for CCC transfer students to UC and CSU; the ability for students to get courses; the changing demographics of the state; and a changing economy.

*Staff notes that*, if funding for enrollment growth is provided at the proposed 3 percent level, much of it will be "eaten up" by the current "over-cap" enrollments as well as the Governor's new Dual Admissions program (to be discussed below). These two factors combined would leave less than one-half of one percent (.05%) growth for the traditional community college student population. For clarification, under the Governor's Dual Admissions proposal, the community colleges do not receive additional state funding to support the approximately 7,000 new freshman that would be redirected from the UC and CSU; rather the community colleges would be expected to absorb the additional FTES within the 3 percent growth allocation proposed in the Governor's Budget.

*Please note:* Various community college constituencies have expressed concern that much of the community college enrollment growth will come from UC and/or CSU-eligible students who are either redirected under the Dual Admissions Program or are self-redirecting to the community colleges because it's cheaper, more convenient, and holds the promise of providing the necessary courses. As a result, these constituencies fear that the "native" community college student population will be squeezed out of courses and services by the more academically "sophisticated" UC and CSU eligible student.

**LEGISLATIVE ANALYST.** In response to the financial limits placed on funding enrollment growth at the UC and the CSU, the Legislative Analyst contends that the UC and CSU already have sufficient funding within their base budgets to accommodate additional enrollment growth. Given that the LAO finds that UC is "under-enrolled" by approximately 800 FTES and CSU by approximately 9,000 FTES in the current year, it believes that the purposes for which the dollars were redirected were in many instances one-time, thus freeing up those dollars for either enrollment growth in 2004-05 or for other purposes.

### ***B. DUAL ADMISSIONS PROGRAM.***

**GOVERNOR'S BUDGET PROPOSAL.** The Governor's 2004-05 Budget proposes to redirect 10 percent (7,000 FTES) of the incoming freshmen class at UC and CSU to the community colleges under a new Dual Admissions Program. The Administration proposes establishing this Dual Admissions program in statute (thus creating a mandate for the CSU and the Community Colleges). The bill carrying this proposal (Assembly Bill 2833, Plescia) will be addressed via the policy committee process.

As a result of this redirection, the Governor assumes -- and captures -- \$45.9 million in General Fund savings (\$24.8 million from UC and \$21.1 million from CSU). Under this proposal, individual UC and CSU campuses would make admissions offers to eligible students, contingent upon them competing their lower-division, transfer coursework at a community college. The Governor proposes to provide a further incentive for students to take advantage of the Dual Admissions offer by waiving the student's fees while they are at the community colleges.

The intent of this proposal is to encourage students to take advantage of the community colleges, thereby saving the state General Fund monies during their first two years of postsecondary education. Offsetting the proposed savings, the Governor provides an augmentation of \$1.6 and \$1.9 million to the UC and CSU respectively in order to provide transfer and support services to that cohort of students.

*Staff notes* that with the proposed elimination of student outreach services at both the UC and CSU, funding which in the past was available to provide support services to community college students, would no longer be available. This makes the issue of how transfer support for these students will be provided, all the more pressing.

*Staff notes*, this proposal raises several questions, including (1) how students will be chosen to participate and (2) whether or not students will avail themselves of this program. For example, both UC and CSU intend to make Dual Admissions “offers” to all otherwise eligible students that are not accepted to a campus. At UC, this equates to making offers to over 7,000 students (who would otherwise be denied admission) with the hope that approximately 50 percent or 3,200 hundred students accept. *Staff notes*, at the UC and selective CSU campuses, students are highly qualified and are likely seeking a “residential” experience. As a result, they may instead seek educational opportunities elsewhere (private and out-of-state colleges) rather than attend their local community college. Further, it remains unclear if community college enrollments will increase by the full 7,000 students as budgeted under this proposal. But, *staff notes* that under the Governor’s proposal, it is safe to assume UC and CSU will have 7,000 fewer students.

**LEGISLATIVE ANALYST.** In response to the Governor’s Dual Admissions proposal, the LAO concurs with the need to redirect eligible UC and CSU freshman to the community colleges, but argues that the redirection should be voluntary. The LAO believes that an incentive of being accepted at the UC or CSU campus of their choice in two years, should provide enough encouragement for students to avail themselves of the Dual Admissions offer.

The LAO further recommends that the Legislature deny the Governor’s proposal to waive CCC fees for the redirected students, instead charging them the same fee level as regularly enrolled CCC students. *Staff concurs with this recommendation* and notes that, on the natural, there is a built in fiscal incentive for choosing a community college over a four-year institution, since the cost of attendance at a community college is already far less than the costs of attending a UC or CSU. Further, waiving the fees for a select group of students, regardless of financial need, creates an inequity amongst the student population and creates an administrative burden which could be avoided by charging the students approximately \$650 per year (based on 25 units) compared to a cost of \$6,028 and \$2,776 per year at UC and CSU respectively. *Staff notes* that under the Board of Governor’s (BOG) fee waiver program, financially-needy students will be exempted from paying fees.

**STAFF RECOMMENDATION.** *Staff recommends that the committee reject the portion of the Governor’s proposal that would waive fees for Dual Admission Students, thus reducing the amount of General Fund (\$3.4 million) appropriated to the Community Colleges to cover the fee waiver (Note: the colleges would be held harmless since the funds would now be coming from student fees). Further, staff recommends that the remainder of this proposal be held open pending legislation.*

## II. COMMUNITY COLLEGES

### **A. OVERVIEW**

GOVERNOR'S BUDGET PROPOSAL. The Governor's K-14 education budget – as it was released in January – reflects an “agreement” between the K-12 education community and the Administration regarding both the level and the use of Proposition 98 funding. While the community colleges were not party to the negotiations, they were affected by the outcome. Specifically, the agreement with regard to the community colleges included the:

- (1) “Rebasing” (suspension) of the minimum Proposition 98 funding guarantee in 2004-05, to a level \$2 billion below the otherwise legally-guaranteed level; and
- (2) Funding for Enrollment Growth.

While the Governor's budget also proposes to consolidate funding for various categorical programs; provide funding for general apportionment equalization; and provide growth for enrollment in noncredit courses, it is unclear whether these additional budget components were also part of the Administration's “deal”.

REVISED GOVERNOR'S BUDGET PROPOSAL. Since releasing the budget in January, the Administration has been in the process of re-negotiating the above-noted funding agreement with the K-12 education community. *Of particular interest* is a reduction in the amount of funding proposed for equalization (from \$80 million to \$59.8 million) and a shift of approximately \$65 million from K-12 to the community colleges. This \$65 million will be used to help cover a 1.84 percent COLA for general apportionments as well as five select categorical programs (Matriculation, Basic Skills, DSPS, CARE, and EOPS) programs and enrollment growth (at 1.83 percent) for the five above-noted categorical programs. The education community contends that funding for COLA and categorical program growth was part of the original December budget agreement but was inadvertently omitted from the Governor's January proposal.

### **B. EQUALIZATION**

GOVERNOR'S BUDGET PROPOSAL. The Governor's January Budget originally proposed to provide \$80 million to address disparities in base apportionment funding among the Community Colleges districts; this proposal has since been revised to \$59.8 million. Currently, funding per FTES varies from about \$3,541 to \$8,192, with the statewide average being about \$3,800. Under the Governor's proposal, funding would be allocated out to districts pursuant to legislation (to be addressed through the policy committee process). Specifically, the Governor's proposal mirrors the K-12 equalization proposal by striving to equalize funding for districts up to a level equivalent to the 90<sup>th</sup> percentile.

**LEGISLATIVE ANALYST.** While generally supportive of equalizing the funding disparities between community college districts, the LAO recommends that the Governor's proposal be denied and that the funds instead be used to pay for existing Proposition 98 obligations such as funding state mandates or reducing the amount of General Apportionment dollars that are deferred until July 1, 2005.

**STAFF RECOMMENDATION.** *Regardless of the committee's decision to provide funding for equalization, staff recommends that Provision 6 of Item 6870-101-0001, be stricken from the Budget Bill.* This language is duplicative of the funding methodology proposal that is currently making its way through the policy committee process. By deleting the Budget Bill provision, the Legislature will avoid any future conflicts between the Budget Bill and the pending statutory changes.

### **C. ELIMINATION OF SELECT CATEGORICAL PROGRAMS**

**GOVERNOR'S BUDGET PROPOSAL.** The Governor's Budget proposes to eliminate funding for two smaller categorical programs: The Teacher and Reading Development Partnership Programs (\$3.7 million) and the Fund for Instructional Improvement (\$312,000); the Governor then redirects this \$4 million in savings to provide funding for approximately 1,900 (1.95 percent) new FTES in noncredit instructional programs. In order to receive these funds, districts would need to enroll additional noncredit students (as opposed to increasing the rate per student).

While it's still too early to determine exact enrollment counts for the 2003-04 academic year, in 2002-03 the community colleges only had 2,651 unfunded noncredit FTES, the bulk of which (1,600 FTES) were in the Los Angeles Community College District.

By way of background, noncredit courses, like the adult education courses offered in the K-12 schools, are aimed at providing students with the various "life skills". The state provides funding (\$2,242 per student to K-12 schools and \$2,113 to community colleges) for the following noncredit education courses: Basic Skills; English as a Second Language; Immigrant Education (Citizenship); courses for disabled students; short-term vocational programs; Parenting; Health and Safety; Home Economics and courses for older adults. These courses are not collegiate-level courses. Students receive no college credit and generally do not pay fees.

**LEGISLATIVE ANALYST.** The LAO notes that providing a special appropriation for growth in noncredit instruction represents a departure of longstanding practice and lacks justification. Specifically, the LAO notes that under current law, community college districts receive enrollment growth funding (as discussed earlier in this hearing) that can be used for both credit and/or noncredit students.

**STAFF RECOMMENDATION.** No issues have been raised with the elimination of the two categorical programs, and *staff recommends that the reduction be made, but that the*

redirection of the funds be held open pending the May Revision and an assessment of other funding priorities.

As an additional note, if the Legislature wishes to provide more support for noncredit instruction, it may instead wish to consider increasing the rate at which noncredit instruction is funded to provide more parity in the funding rates for community college noncredit courses and K-12 adult education courses. Using the same redirected \$4 million, the rate would increase from approximately \$2,113.66 to \$2,154.92 – which is \$87.20 below the amount provided to K-12 school districts for the same services (as opposed to the current \$128 per FTE gap).

**D. CATEGORICAL PROGRAM CONSOLIDATION**

GOVERNOR’S BUDGET PROPOSAL. The Governor’s Budget proposes to “roll” the funding for several categorical programs into the base General Apportionments line of the budget and consolidate funding for several others.

1. Programs “rolled” into the Base Budget: Specifically, the Administration proposes to disband the budget lines and funding requirements for the following programs and consolidate the funding into the general base budgets of the colleges: (1) Partnership for Excellence; (2) Matriculation; (3) Part-Time Faculty Health Insurance; (4) Part-Time Faculty Compensation; (5) Part-Time Faculty Office Hours and (6) about half of the Telecommunications and Technology Infrastructure Program.

<b>Governor's Categorical Reform Proposal</b>		
<i>General Fund (In Millions)<sup>a</sup></i>		
<b>Program Consolidations</b>	<b>2003-04</b>	<b>2004-05</b>
<b>General Apportionments</b>		
Base general apportionments	\$1,589.1	\$1,939.9
Partnership for Excellence	225.0	--
Matriculation	54.3	--
Part-time faculty compensation	50.8	--
Part-time faculty office hours	7.2	--
Part-time faculty health insurance	1.0	--
TTIP <sup>b</sup>	12.5	--
<b>Totals</b>	<b>\$1,939.9</b>	<b>\$1,939.9</b>

<sup>a</sup> Includes costs whose payments are deferred to subsequent fiscal year.  
<sup>b</sup> Telecommunications and Technology Infrastructure Program. Current-year funding of \$22.1 million is split in budget year between general apportionments and new Telecommunication and Technology Services category.

Under this proposal, the Administration introduced legislation (to be addressed through the policy committee process) which would essentially render the above-noted programs voluntary, cease the state's obligation to provide additional funding for the programs, and require districts accepting the money to comply with a series of specified outcomes (including: increasing the number of transfer students, degrees and certificates awarded, course completion, workforce development and basic skills).

**LEGISLATIVE ANALYST.** Over the years, the LAO has been supportive of providing programmatic and fiscal flexibility, and in this instance finds that consolidating these six programs into the "base" generally makes sense given that all districts share the general-purpose goals of the program. However, the LAO recommends that the Legislature clarify its outcome expectations and establish clear consequences for failing to meet those outcomes.

**STAFF RECOMMENDATION.** *Staff recommends that the committee approve the portion of the proposal which would move the Partnership for Excellence program (which are essentially general purpose monies) into the base general apportionment budget, pending legislation to make the funding mechanisms in the program inoperative and/or establish a replacement set of outcome or accountability criteria.*

Historically, categorical programs were established in order to ensure that a specified set of dollars were allocated and spent for a specific purpose. If the Legislature is comfortable disbanding the above-noted categorical programs and feels that the purposes for which they were developed have been met, then the policy committee bill will reflect that decision. As a result, *staff recommends that the committee deny the proposals to merge the part-time faculty, matriculation and technology programs into the base budget, pending legislation to the contrary.*

*Further, staff recommends that the committee delete provisional language (Item 6870-101-0001, Provision 4), which essentially replicates the Administration's statutory proposal to consolidate the various categorical programs.*

2. Programs "consolidated" into broader groupings: In addition to the above proposal, the Administration suggests collapsing several categorical programs into broader categories, ostensibly in order to provide districts with additional flexibility. Specifically, the Governor consolidates as follows:

<b>Governor's Categorical Reform Proposal</b>		
<i>General Fund (In Millions)<sup>a</sup></i>		
<b>Program Consolidations</b>	<b>2003-04</b>	<b>2004-05</b>
<b>Telecommunication and Technology Services</b>		\$10.9
TTIP <sup>b</sup>	\$9.6	--
California Virtual University	1.3	--
<b>Totals</b>	<b>\$10.9</b>	<b>\$10.9</b>
<b>Targeted Student Services</b>		\$101.1
Extended Opportunity Programs and Services	82.7	--
CARE	12.2	--
Puente Project	1.9	--
MESA	2.5	--
Middle College High School Program	1.8	--
<b>Totals</b>	<b>\$101.1</b>	<b>\$101.1</b>
<b>Physical Plant and Institutional Support</b>		\$29.3
Maintenance, repairs, equipment, and library materials	\$24.9	--
Hazardous substances	4.4	--
<b>Totals</b>	<b>\$29.3</b>	<b>\$29.3</b>

**LEGISLATIVE ANALYST.** The LAO notes that at least several of the newly proposed categorical grouping are logical and generally has supported grouping together the funding for similar types of programs. However, the LAO notes that with this particular part of the proposal, the “consolidations” are largely symbolic and, due to the Administration’s retention of provisional language which still requires a specified level of support be spent on the specific programs, do little to foster local district flexibility. Further, the LAO notes that, in prior years it has recommended a series of “block grants” which would serve a similar purpose.

**STAFF RECOMMENDATION.** *Staff recommends that the committee approve the Governor’s proposal to establish the Physical Plant and Institutional Support line item, thus merging funds for the two programs. In order to allow districts true flexibility, staff further recommends that the committee delete the provisional language proposed by the Department of Finance (DOF) and instead work with the LAO and DOF to determine more appropriate provisional language for the newly combined item.*

### **III. COMMUNITY COLLEGES CHANCELLOR’S OFFICE**

**GOVERNOR’S BUDGET PROPOSAL.** The Governor’s January Budget proposes to retain the revised current-year funding level for the Community Colleges Chancellor’s Office. Specifically, the Governor proposes a total of 144.2 Personal Years and \$16.8 million (\$8.6

million General Fund) to support the Chancellor's Office operations for 2004-05. The bulk of the reductions to the Chancellor's Office occurred within the last two years when support was reduced by approximately 50 PYs and over \$2.3 million General Fund (from \$10.9 million General Fund to \$8.6 million). These reductions resulted in employee layoffs and a substantial reduction in services.

State support for the Chancellor's Office has been on the decline since 2001-02, when General Fund support exceeded \$13.3 million. The Chancellor's Office contends that since the budget crisis began, their support budget has been disproportionately impacted, citing a 33.8 percent reduction since 2001-02.

Request for Chancellor's Initiative Fund. The Community College Chancellor's Office is requesting an augmentation of \$300,00 to provide transition-related funding for the incoming Chancellor. Specifically, the funds are proposed to be used to: (1) establish an orientation program for new Board of Governor's Members; (2) undertake regular regional meetings with local college CEO's and trustees; (3) finalize, publish and implement the independently-funded review of the Chancellor's Office operations; and (4) represent the colleges at the federal level.

**STAFF /LAO RECOMMENDATION.** *The LAO raises no issues with the support budget of the Chancellor's Office; as a result, staff recommends that this item be "Approved as Budgeted" with the Chancellor's Initiative Fund being placed on the "Checklist" pending the Governor's May Revision.*

**Proposed Consent**

Staff recommends that the following items be Approved as Budgeted.

- 6440-001-0046. Support, University of California Institute of Transportation Studies \$980,000
- 6440-001-0007. Support, University of California Breast Cancer Research \$14,920,000
- 6440-001-0234. Support, University of California Cigarette and Tobacco Products Surtax Fund, Research Account \$14,253,000
- 6440-001-0308. Support, University of California Earthquake Risk Reduction Fund \$1,500,000
- 6440-001-0321. Support, University of California Oil Spill Response Trust Fund \$1,300,000
- 6440-001-0814. Support, University of California State Lottery Education Fund \$23,612,000
- 6440-001-0890. Support, University of California Federal Trust Fund – GEAR UP - \$5,000,000
- 6440-001-0945. Support, University of California California Breast Cancer Research \$927,000
- 6440-002-0001. Support, University of California Prior year deferral of expenditures (\$55,000,000)
- 6440-003-0001. Support, University of California Lease-Revenue Debt Service \$138,183,000
- 6440-011-0042. Support, University of California Payable from State Highway Account for Earthquake Risk Reduction (\$1,000,000)
- 6610-001-0890. Support, California State University Federal Trust Fund \$41,739,000
- 6610-003-0001. Support, University of California Lease-Revenue Debt Service \$61,595,000
- 6870-101-0814. Local Assistance, California Community Colleges State Lottery Education Fund \$140,922,000
- 6870-101-0925. Local Assistance, California Community Colleges California Business Resources and Assistance Innovation Network Fund \$15,000
- 6870-101-0959. Local Assistance, California Community Colleges Foster Children and Parent Training Fund \$2,379,000
- 6870-103-0001. Local Assistance, California Community Colleges Lease-Revenue Debt Service \$57,381,000
- 6870-111-0001. Local Assistance, California Community Colleges CalWORKS, Americorps, Vocational Education, Foster Parent Training. \$0

**Joint Informational Hearing**  
*(Senate Budget Subcommittee #1 and Senate Education Committee)*

**Student Academic Outreach Programs**

**Wednesday, March 31, 2004**  
**10:00 a.m., Room 4203**

- I. Historical Overview of Outreach: Setting the Context  
-- Dr. Karl Pister, Director of the Center for Studies in Higher Education,  
UC Berkeley.
- II. Outreach Proposal in Governor's 2004-05 Budget  
-- Jeannie Oropeza, Program Budget Manager, Department of Finance
- III. Analysis of the Governor's 2004-05 Outreach Proposal: Alternatives and Options  
--Steve Boilard and Anthony Simbol, Office of the Legislative Analyst
- IV. Higher Education Community Response  
*A. What programs are affected by Governor's 2004-05 Proposal?*  
*B. What are the goals and outcomes of the various programs?*  
*C. In light of the Governor's proposal, how are your institutions changing the way they view outreach and deliver those services?*  
*D. Comment on the LAO proposal to shift responsibility for programs to K-12 schools.*
- XXXX, California Community Colleges
  - XXXX, California Student Aid Commission
  - Allison Jones, XXXXX, California State University
  - Winston Doby, Vice President for Educational Outreach,  
University of California
- V. Models for Collaboration / Ideas for the Future  
-- Dr. Jeannie Oaks, XXXX, University of California, Los Angeles
- A. What services do K-12 students need?*  
*B. What is the appropriate role for California's public postsecondary education institutions?*
- VI. Public Comment

Senate Budget and Fiscal Review  
SUBCOMMITTEE NO. 1

EDUCATION  
Jack Scott, Chair  
John Vasconcellos  
Bob Margett

**OUTCOMES**

**Monday, March 22, 2004  
1:30 p.m.  
Room 113**

**Page**

**I. Intersegmental (UC/CSU) Issues**

- A. Enrollment Growth* .....
- B. Dual Admissions Program* .....

**II. Community Colleges**

- A. Overview* .....
- B. Equalization* .....
- C. Elimination of select categorical programs* .....
- D. Categorical Programs Consolidation* .....

**III. Community Colleges Chancellor’s Office** .....

**IV. Consent** .....

## I. INTERSEGMENTAL ISSUES

### *A. ENROLLMENT GROWTH.*

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2004-05 Budget provides no new funding to support enrollment growth at the University of California (UC) or California State University (CSU). At the California Community Colleges (CCC), the Governor's Budget provides \$121 million to support an approximately 33,000 additional full-time equivalent students (FTES), or 3 percent growth.

**No Action Taken**

### *B. DUAL ADMISSIONS PROGRAM.*

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2004-05 Budget proposes to redirect 10 percent (7,000 FTES) of the incoming freshmen class at UC and CSU to the community colleges under a new Dual Admissions Program. The Administration proposes establishing this Dual Admissions program in statute (thus creating a mandate for the CSU and the Community Colleges). The bill carrying this proposal (Assembly Bill 2833, Plescia) will be addressed via the policy committee process.

**Action: Reject Governor's proposal to waiver of fees for Dual Admissions participants. According to DOF, no monetary savings to be scored with this action due to an oversight in Jan. 10 proposal which neglected to provide General Fund backfill for these students. (2-1)**

## II. COMMUNITY COLLEGES

### *A. OVERVIEW*

**No Action Taken**

### *B. EQUALIZATION*

GOVERNOR'S BUDGET PROPOSAL. The Governor's January Budget originally proposed to provide \$80 million to address disparities in base apportionment funding among the Community Colleges districts; this proposal has since been revised to \$59.8 million.

Currently, funding per FTES varies from about \$3,541 to \$8,192, with the statewide average being about \$3,800. Under the Governor's proposal, funding would be allocated out to districts pursuant to legislation (to be addressed through the policy committee process). Specifically, the Governor's proposal mirrors the K-12 equalization proposal by striving to equalize funding for districts up to a level equivalent to the 90<sup>th</sup> percentile.

**Action: Delete Provision 6 of Item 6870-101-0001; instead have methodology for dispersing any funds allocated for equalization to occur via statute rather than Budget Bill Language. (3-0)**

**Funding for Equalization held open, pending the May Revision.**

### ***C. ELIMINATION OF SELECT CATEGORICAL PROGRAMS***

GOVERNOR'S BUDGET PROPOSAL. The Governor's Budget proposes to eliminate funding for two smaller categorical programs: The Teacher and Reading Development Partnership Programs (\$3.7 million) and the Fund for Instructional Improvement (\$312,000); the Governor then redirects this \$4 million in savings to provide funding for approximately 1,900 (1.95 percent) new FTES in noncredit instructional programs. In order to receive these funds, districts would need to enroll additional noncredit students (as opposed to increasing the rate per student).

**Action: Approve elimination of Teacher and Reading Development Partnership Program and Fund for Instructional Improvement for General Fund (P-98) savings of \$4 million. (3-0)**

**Redirection of funds for noncredit enrollment growth is held open, pending the May Revision.**

### ***D. CATEGORICAL PROGRAM CONSOLIDATION***

**Action: Approve the movement of the Partnership for Excellence funding into the base Apportionments budget. Further discussion regarding the establishment of a set of outcomes and/or accountability criteria is pending. (3-0)**

**Remainder of proposal to consolidate (1) matriculation; (2) part-time faculty programs; and (3) TTIP remain open.**

**No action was taken to consolidate other categorical programs or to "collapse" Budget Act schedules.**

### **III. COMMUNITY COLLEGES CHANCELLOR'S OFFICE**

GOVERNOR'S BUDGET PROPOSAL. The Governor's January Budget proposes to retain the revised current-year funding level for the Community Colleges Chancellor's Office. Specifically, the Governor proposes a total of 144.2 Personal Years and \$16.8 million (\$8.6 million General Fund) to support the Chancellor's Office operations for 2004-05. The bulk of the reductions to the Chancellor's Office occurred within the last two years when support was reduced by approximately 50 PYs and over \$2.3 million General Fund (from \$10.9 million General Fund to \$8.6 million). These reductions resulted in employee layoffs and a substantial reduction in services.

**Action: Approve Chancellor's Office "as budgeted" with one-time augmentation of \$300,000 per above-noted request. (3-0)**

**Proposed Consent (Approved 3-0)**

Staff recommends that the following items be Approved as Budgeted.

- 6440-001-0046. Support, University of California Institute of Transportation Studies \$980,000
- 6440-001-0007. Support, University of California Breast Cancer Research \$14,920,000
- 6440-001-0234. Support, University of California Cigarette and Tobacco Products Surtax Fund, Research Account \$14,253,000
- 6440-001-0308. Support, University of California Earthquake Risk Reduction Fund \$1,500,000
- 6440-001-0321. Support, University of California Oil Spill Response Trust Fund \$1,300,000
- 6440-001-0814. Support, University of California State Lottery Education Fund \$23,612,000
- 6440-001-0890. Support, University of California Federal Trust Fund – GEAR UP - \$5,000,000
- 6440-001-0945. Support, University of California California Breast Cancer Research \$927,000
- 6440-002-0001. Support, University of California Prior year deferral of expenditures (\$55,000,000)
- 6440-003-0001. Support, University of California Lease-Revenue Debt Service \$138,183,000
- 6440-011-0042. Support, University of California Payable from State Highway Account for Earthquake Risk Reduction (\$1,000,000)
- 6610-001-0890. Support, California State University Federal Trust Fund \$41,739,000
- 6610-003-0001. Support, University of California Lease-Revenue Debt Service \$61,595,000
- 6870-101-0814. Local Assistance, California Community Colleges State Lottery Education Fund \$140,922,000
- 6870-101-0925. Local Assistance, California Community Colleges California Business Resources and Assistance Innovation Network Fund \$15,000
- 6870-101-0959. Local Assistance, California Community Colleges Foster Children and Parent Training Fund \$2,379,000
- 6870-103-0001. Local Assistance, California Community Colleges Lease-Revenue Debt Service \$57,381,000
- 6870-111-0001. Local Assistance, California Community Colleges CalWORKS, Americorps, Vocational Education, Foster Parent Training. \$0



Jack Scott, Chair  
 Bob Margett  
 John Vasconcellos

April 12, 2004  
 1:30 p.m. – Room 113

Page

Overview of Governor’s 2004-05 Education Budget  
 Secretary for Education, Richard Riordan

Overview of Education Categorical Programs  
 California State Auditor’s Office

K-12 Education: Local Assistance (6110)

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- **Overview of Governor's 2004-05 Education Budget**

Secretary for Education, Richard Riordan

- **Overview of K-12 Education Categorical Programs**

California State Auditor's Office

## **K-12 Education: Local Assistance (6110)**

### **I. Governor's Proposed Categorical Funding & Policy Reforms:**

#### **Background:**

The Auditor General's recently published report on categorical programs identified 113 education categorical programs -- 92 state programs and 21 federal programs -- in 2001-02.<sup>1</sup> Total funding for these programs was estimated at nearly \$17 billion for that fiscal year. [See Appendix A for a list of categorical programs from the Auditor General's report.]

The Auditor General's report makes a number of findings and recommendations about categorical programs in California, including recommendations to the Legislature for considering categorical reform proposals. Specifically, the Auditor General recommends the Legislature do the following when considering categorical block grant proposals:

- Ensure that proposals contain accountability provisions that include a focus toward program results and outcomes.
- Ensure that proposals contain allocation methods that reflect the recipients' need, ability to contribute to program costs, and cost of providing services.
- Determine whether categorical programs involving federal funds are appropriate candidates for consolidation into block grants.
- Consider whether state constitutional principles or court decisions affect proposed changes to categorical programs.

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<sup>1</sup> *California Department of Education: The Extensive Number and Breadth of Categorical Programs Challenges the State's Ability to Reform and Oversee Them. State Auditor General, Bureau of State Audits, November 2003.*

**Recent Legislation:**

In 2003, **SB 525 (Karnette)** proposes to consolidate three school safety programs into a school safety and violence prevention block grant and to consolidate five supplemental instruction programs into a supplemental instruction block grant. In addition, SB 525 states intent to consolidate 12 staff development programs into a teacher preparation and staff development block grant. This bill is currently being held in the Assembly Appropriations Committee.

**AB 1650 (Simitian)**, also introduced in 2003, proposes consolidation of most state funded staff development programs into a single professional development block grant – the Teacher Support and Development (TSD) Block Grant. Funding from all of these programs would be merged in the block grant and allocated by the Superintendent of Public Instruction based on rates for different types of teachers, e.g. teachers with emergency permits or credential waivers, teachers interns, new teachers, etc. LEAs would have to comply with specific standards for quality professional development programs in order to qualify for block grant funds. The State Department of Education would be required to conduct an evaluation of the TSD Block Grant, in order to assess improvements in teacher quality and student achievement, and report its finding to the Legislature. This bill is currently in the Senate Education Committee.

**SB 1510 (Alpert)**, introduced this year, proposes to (1) consolidate three revenue limit “add-on” programs within base revenue limits and (2) consolidate more than 25 categorical programs into eight categorical block grants. These new categorical block grants would be grouped by the following subject areas: pupil retention, school safety, teacher credentialing, professional development, a new targeted instructional improvement grant, Economic Impact Aid, and instructional materials. The statutes for many of the categorical programs would become inoperative effective July 1, 2005. This measure reflects a number of LAO recommendations and proposals tied to the 2004-05 budget and other recent budgets.

**2003-04 Budget Proposals:**

**In 2003-04, Governor Davis** initially proposed to consolidate \$5.1 billion for approximately 64 education categorical programs into a single K-12 Instructional Improvement Block Grant. The Governor’s proposal would have repealed nearly all program statutes and regulations governing the 64 programs in the block grant.

As a part of this proposal, the Governor proposed across-the-board reductions that would have had the effect of reducing education programs by approximately \$1.6 billion in 2003-04, or 12 percent overall.

In response to Governor Davis's proposal last year, the LAO developed an alternative categorical block grant program to consolidate 62 categorical programs into five block grant programs, as summarized below.

#### *LAO Proposed Block Grants*

- ***Academic Improvement Block Grant (\$2.8 Billion).*** Combines 22 programs that support staff development, instructional or curricular support, or class size reduction. Funds would be available for wide range of general school improvement activities.
- ***Compensatory and Alternative Education Block Grant (\$1.8 Billion).*** Combines 19 programs that fund supplemental services for low-performing students or alternative education settings. Funds could only be spent on these two purposes.
- ***Core Services Block Grant (\$1.4 Billion).*** Consolidates 12 programs that support basic district and classroom costs, including instructional materials and deferred maintenance. Funds would support any of the services currently allowed under existing programs.
- ***Vocational Education Block Grant (\$335 Million).*** Merges 5 vocational education programs that could be used for career counseling, vocational instruction, and vocational components of integrated academic and vocational programs.
- ***Regional Support Block Grant (\$31 Million).*** Consolidates 6 existing county office administered programs that provide technical assistance or coordination of services. Funds would support regional support services as needed by local districts.

#### **A. Governor's Major Categorical Consolidation and Shift Proposal**

Governor Schwarzenegger proposes to eliminate separate funding for 22 categorical education programs (listed below) and shift \$2 billion in funding for those programs into revenue limits in 2004-05. Funds shifted into revenue limits would be available to school districts, county offices of education and charter schools for general purposes, but could also be used to continue funding for specific, categorical program purposes if desired.

Local education agencies (LEAs) would receive the same level of overall funding in 2004-05 – specifically 2003-04 funding plus growth and COLAs -- as they would have received under separate categorical program allocations. In the future,

LEAs would receive statutory growth and COLA funding applied to revenue limits.

Under the Governor's proposal, the \$2 billion in categorical funds would be shifted into a new revenue limit "add-on" program, not into "base" revenue limits. Base revenue limits total \$27.8 million in the current year. In addition to base revenue limits, there are currently eight separate revenue limit add-on programs and one other revenue limit program for Necessary Small Schools that account for roughly \$2 billion in state and local funding. [See Appendix B for List of Revenue Limit Programs.] Since funding for revenue limit add-on programs is not counted as a base revenue limit, these new funds would not affect revenue limit equalization calculations.

In creating a new revenue limit add-on program, the Administration proposes to eliminate separate funding for 22 categorical programs in the budget. In addition, the Governor also proposes to eliminate the specific funding requirements for these programs in statute. The Governor does not propose to eliminate the statutes authorizing these programs as a part of consolidation in order to allow local education agencies to continue programs through revenue limit funding.

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**Programs Governor Proposes to Transfer to Revenue Limit – 2004-05**  
(Dollars in Millions)

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<u>Program</u>	<u>Amount</u>	<u>Program</u>	<u>Amount</u>
Home to School Transportation	\$519.6	Tenth Grade Counseling	\$11.4
School Improvement	396.1	Specialized Secondary Program Grants	5.1
Staff Development Day Buyout	235.7	School Library Materials	4.2
Targeted Instructional Improvement Grant	205.1 <sup>a</sup>	International Baccalaureate	1.1
Instructional Materials Block Grant	175.0	Intersegmental Staff Development	2.0
Supplemental Grants	161.7	Bilingual Teacher Training	1.8
Beginning Teacher Support & Assessment	87.5	At Risk Youth	0.6
Year Round Schools	84.1	Civic Education	0.3
English Language Acquisition Program	53.2	Pupil Residency Verification	0.2
Mathematics & Reading Professional Development	31.7	Teacher Dismissal Apportionment	0.0
Peer Assistance and Review	25.9	Total	<u>\$2,024.4</u>
Dropout Prevention	21.9		

<sup>a</sup>. Only includes the voluntary desegregation funding and not court ordered funding.

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The Governor utilizes several general criteria in selecting programs for inclusion on the list of programs to be shifted. Generally, programs were selected if:

- (1) funding allocations to districts have been stable historically;
- (2) most districts participate in the program;
- (3) funds are not targeted for special needs students; and
- (4) there are few legal restrictions on the use of funds.

### **Budget Trailer Bill on Categorical Consolidation/Shift --AB 2824 (Runner):**

The Administration is sponsoring AB 2824 (Runner), which contains various statutory provisions tied to the consolidation and shift of 22 categorical programs into the revenue limit program. The bill also includes other education policy initiatives that the Administration deems to be related to its categorical program proposals in the budget. Specifically, this bill:

- Makes the funding provisions of 22 categorical programs inoperative in 2004-05 and allocates funding for those programs as general purpose funding to school districts, county offices of education, and charter schools based on what the LEAs receive from each program in 2003-04.
- Requires school districts to distribute their annual budget and summary to the local news media and public, and publicize the process for seeking budget input from the community, school site leaders, parents and teachers.
- Requires school districts and county offices to annually prepare and publicize a summary of how it will allocate its general purpose funds and to hold hearings on this topic.
- Requires the California Department of Education (CDE), in consultation with the State Board of Education, to classify the performance of school districts according to their API (Academic Performance Index) scores or growth, and establishes an intervention and sanction program to improve district performance.

### **Budget Control Section 12.70 – Categorical Reform:**

Budget Control Section 12.70 is a new control section specifically tied to implementation of the Governor's categorical program shift proposal. Provisions of this control section specify that upon enactment of the Budget Act of 2004, the categorical appropriations for 22 specified categorical programs shall be allocated by the Superintendent of Public Instruction to school districts and county offices as general purpose apportionments, rather than as categorical allocations, in the amounts that would have otherwise been received for these programs.

This control section further specifies that upon enactment of enabling legislation, funds allocated as general purpose funds pursuant to this section will be allocated to LEAs in addition to base revenue limits.

## **B. LAO Recommendations/Alternatives – General**

The LAO generally supports the Governor's proposal to consolidate \$2 billion in existing categorical funds for 22 programs into revenue limits, but proposes a number of modifications designed to improve the Governor's proposal.

The LAO believes that the Governor's categorical consolidation proposal provides a number of benefits that would (1) increase district fiscal and program flexibility; (2) provide administrative savings to districts; (3) focus district activities on outcomes, not program compliance; and (4) clarify state/local relationships.

The LAO has also identified a number of concerns with the Governor's proposal. These concerns include:

- Selection Criteria. LAO suggests a two-pronged criteria for selecting programs that would be appropriate to consolidate in revenue limits:
  - First, is local accountability sufficient to assure that districts won't underinvest in the program? For example, can meaningful participation of parents, teachers and principals hold districts accountable for providing appropriate services to students and schools or are state and federal accountability requirements sufficient to provide these assurances?
  - Second, is the district need for funds measured appropriately by general student attendance? By moving categorical funds into revenue limits, districts will no longer receive any growth funding based upon special populations of students, and instead will receive growth funding based upon changes in general student attendance. For example, will continuing declines in K-12 student growth (rates and numbers) for some districts reflect similar declines in the population of special needs students?
- Transition Issues: The LAO has identified two transition issues that could undermine the goals of the Governor's consolidation-shift program in the short-term.

- First, the LAO is concerned that the Governor's proposal could trigger collective bargaining provisions in district contracts that may obligate new funds shifted into revenue limits to employee salary increases. While these new funds could be used for general purposes, the LAO is concerned that the automatic provisions of existing district bargaining agreements – or possibly provisions built into future agreements – would limit true flexibility for school districts.
- Second, the LAO is concerned about whether school districts could build additional flexibility into their school budget, program planning and accountability systems in any meaningful way in 2004-05 – the first year of the new revenue limit program. Given the parameters of the budget process, the LAO believes school districts will not be able to properly implement consolidation and develop the necessary accountability provisions in their programs and budgets.
- State Information Role is Missing: The LAO believes the Governor's categorical consolidation proposal lacks an important data component that would assist school districts in using general purpose funds effectively.
- Accountability Through Community Involvement: The LAO believes that meaningful community involvement of parents, teachers and principals in the district budgeting process is essential to assuring district accountability as a part of the Governor's consolidation-shift proposal. The LAO was concerned about the lack of details for these provisions in the Governor's proposal when they published their 2004-05 budget analysis. Two budget trailer bills sponsored by the Administration have been introduced since then -- AB 2824 (Runner) and AB 2756 (Daucher). The LAO will update their comments on community involvement and district accountability concerns at this hearing.

Utilizing the selection criteria above, the LAO recommends adding three programs and deleting seven programs from the Governor's consolidation proposal that would have the effect of shifting \$3.8 billion for 18 categorical programs into revenue limits – almost double the level of funding proposed by the Governor. These modifications include:

- Addition of Class Size Reduction Funds (\$1.8 billion). -- The LAO would include \$ 1.7 billion in funds for K-3 Class Size Reduction (CSR) and \$110.2 million for 9<sup>th</sup> Grade Class Size Reduction to the Governor's proposal. The

LAO believes that given the visibility and popularity of CSR programs to parents and teachers, school districts would have very little incentive to underinvest in these programs. The LAO believes that including CSR programs in the revenue limit would give districts greater flexibility with regards to the 20:1 student-teacher cap, which may reduce costs and make it easier for districts to maintain the programs.

- Addition of Deferred Maintenance (\$250 million) – This program provides funds for major, scheduled repair or replacement projects, separate from ongoing, routine maintenance. School districts match state funds under this program and districts count their local funds toward meeting the three percent major maintenance requirement in state bond acts. The LAO is not supportive of this categorical program as they feel it creates incentives for school districts to underinvest in major maintenance programs.\_
- Deletion of Funds for Special Needs Students (\$258.3 million) – The LAO recommends that funding included for the English Language Acquisition Program (ELAP) program (\$53.2 million) be removed from the Governor’s proposal. The ELAP program provides instructional support and coordination services for English learner students in grades 4-8. The LAO believes that local accountability for these students is insufficient and therefore these funds should be protected. The LAO also recommends that the voluntary desegregation funds for the Targeted Instructional Improvement Grant (TIIG) program (\$205.1 million) be removed from the Governor’s proposal. (The Governor’s proposal already excludes TIIG funds for court-ordered desegregation.) Alternatively, the LAO recommends that TIIG funds for instructional services be transferred into the Economic Impact Aid (EIA) formula and remaining funds for other “district” services be transferred into revenue limits. [Note: Economic Impact Aid will be heard at the Subcommittee’s April 26<sup>th</sup> hearing.]
- Deletion of Professional Development Funds (\$384.6 million) -- The Governor’s consolidation-shift proposal would eliminate categorical funding for six professional development programs. The LAO believes there is insufficient local accountability for professional development programs and distributional problems with the Beginning Teacher Support and Assistance (BTSA) program that violate criteria for consolidating programs. Given the importance of teachers in improving student achievement and given the pressure for California to meet the state’s definition of highly qualified teacher by 2005-06, the LAO does not believe that this is a good time to shift separate funding for professional development programs into revenue limits. However, the LAO

does support greater flexibility for professional development programs and makes specific recommendations (see discussion in section below) for consolidating these programs into a Teacher Quality Block Grant.

In response to concerns about transition issues, the LAO makes two additional recommendations intended to limit school district discretion over the use of funds during initial implementation of the Governor's proposal:

- Require districts to use funds consolidated as a revenue limit add-on program as if the categorical programs were in place for 2004-05. The LAO points out that districts can utilize the Mega-Item flexibility contained in Budget Control Section 12.40 to move funds among categorical programs.
- Prohibit school districts from spending funds from the new revenue limit program for district-wide salary increases for the first two years of the program.

Additionally, to address concerns about the lack of data to assist school districts in using general purpose funds effectively, the LAO also recommends that the Legislature appropriate \$500,000 in federal Title VI funds to develop a strategic plan for meeting school district data needs on effective programs.

### **C. LAO Alternative -- Teacher Quality Block Grant**

The 2003-04 budget provides over \$423.4 million in state funding for 11 professional development and support programs for teachers. Most of these programs are administered by CDE, but some programs are administered by the Commission on Teacher Credentialing.

In recent years, the number professional development programs for teachers and other school site staff, as well as the funding for these programs, has declined substantially. The 2001-02 Budget Act included more than \$800 million for teacher quality programs – nearly double the level in the current year budget.

While not the result of a specific reform package on professional development, several of the Governor's 2004-05 budget proposals have a significant effect on professional development and support programs for teachers. As indicated by the table below, the net effect of the Governor's 2004-05 budget proposals on teacher development and support programs is to: (1) shift \$384.6 million in funding for

seven programs into revenue limits; (2) retain \$38.8 million in funding for three small programs; and (3) eliminate \$8.0 million in funding for one program – the Pre-Intern Program.

<b>Governor's Budget Proposals For Teacher Quality Programs</b>	
<b>Teacher-Related Programs</b>	<b>2004-05 Appropriation (In Millions)</b>
<b>Shifted Into Revenue Limits</b>	
Staff Development Buyout Days	\$235.7
Beginning Teacher Support and Assessment	87.5
Intersegmental Staff Development*	2.0
Bilingual Teacher Training	1.8
Mathematics & Reading Professional Development	31.7
Peer Assistance and Review	25.9
<b>Subtotal</b>	<b><u><u>\$384.6</u></u></b>
<b>Retained as Separate Categorical Programs</b>	
National Board Certification Incentives	\$7.3
Intern Program **	24.9
Paraprofessional Teacher Training Program**	6.6
<b>Subtotal</b>	<b><u><u>\$38.8</u></u></b>
<b>Programs Eliminated</b>	
Pre-Internship Program* *	(\$8.0)
<b>Subtotal</b>	<b><u><u>(\$8.0)</u></u></b>
<b>Total, All Programs</b>	<b><u><u>\$423.4</u></u></b>

\* Refers to two programs – College Readiness and Comprehensive Teacher Institutes.

\*\*Administered by the Commission on Teacher Credentialing.

The LAO has strong concerns with the Governor's proposals as they relate to teacher development and support given (1) the importance of teacher quality in improving student learning and (2) the new requirements for teacher quality under the federal No Child Left Behind Act (NCLB).

According to the LAO, the proposal to shift most state funding for teacher-related professional development and support programs into revenue limits would remove incentives for districts to invest in these programs and “would dismantle our state’s teacher quality efforts” in meeting the definition of highly qualified teacher under

NCLB. Under this definition, all teachers in California must be highly qualified in the core subjects they teach by the end of the 2005-06 school year.

The LAO is also concerned about the confusing array of programs that have overlapping objectives, are poorly coordinated, and are not effective in directing funds to the teachers with the greatest needs.

In response to these concerns, the LAO recommends that professional development and support programs for teachers be consolidated into a Teacher Quality Block Grant, instead of shifting most funding into revenue limits as proposed by the Governor. This new block grant would:

- Consolidate ten of eleven existing programs, with total funding of \$423.4 million, into a single block grant administered by CDE;
- Allocate funds to LEAs through the consolidated application process based upon the number of new teachers;
- Provide school districts with broad discretion in utilizing block grant funds to meet teacher needs; and
- Eliminate funding for the Pre-Intern Program in 2004-05, as proposed by the Governor, since pre-interns do not meet the definition of highly qualified teachers under NCLB.

As a condition of receiving block grant funds, the LAO recommends that the Legislature require LEAs to provide specific teacher outcome data. In so doing, the LAO further recommends that the Legislature develop a comprehensive teacher information system that includes: (1) establishment of an Instructional Performance Index that measures new teacher quality, teacher retention, professional development, and instructional improvement outcomes; and (2) development of a comprehensive teacher information system – that could be tied to student level data systems currently underway -- to monitor the effectiveness of programs.

## **II. Governor's Categorical Program Consolidations:**

### **A. School Safety (6110-109-0001, 6110-226-0001, 6110-228-0001)**

The Governor proposes to consolidate nearly \$100 million for seven separate school safety programs currently contained in three budget act items into three programs within a single budget item in 2004-05. As indicated by the table below, the Governor proposes to (1) maintain separate funding for the School Safety and

Violence Prevention Block Grant program (\$82.1 million) and the School Safety Plans for New Schools Program (\$3.0 million), and (2) consolidate funding for five competitive school safety programs into a new School Safety Competitive Grant program (\$14.6 million).

<b>Governor's School Safety Competitive Grant Consolidation</b> <i>(In Millions)</i>	
<b>Included Programs</b>	<b>Proposed 2004-05</b>
Gang Risk Intervention Program	\$3.0
School/Law Enforcement Partnership Programs:	
--School Community Policing Partnership	10.0
--School Community Violence Prevention	0.7
--Partnership Mini-Grants/Safe School Planning	0.6
--Conflict Resolution	0.3
<b>Total</b>	<b>\$14.6</b>
<b>Excluded Programs</b>	
School Safety and Violence Prevention Grant Program	\$82.1
School Safety Plans for New Schools Program	3.0
<b>Total</b>	<b>\$85.1</b>
<b>Total, All Programs</b>	<b>\$99.7</b>

The Governor's budget proposal does not change the level of funding for school safety programs overall.

The LAO supports consolidation of school safety programs, but recommends an alternative proposal that merges funding for seven existing programs and ten school safety mandates into a single School Safety Block Grant, with the following three components:

- **Per Pupil Formula Grant Based on Grades 8-12 Enrollments (\$112.4 m).** This formula combines \$82.1 million in existing funding from the School Safety and Violence Prevention Block Grants program and *adds* \$30.3 million in new funding in 2004-05 to cover ten school safety-related state mandates. Funds would be provided to schools on the basis of student enrollments in grade 8-12.

- **High Risk Schools Formula Grant Based on Student Expulsions (\$14.6 m).** This formula would target 20 percent of the schools with the highest safety needs. LAO recommends using mandatory student expulsion data as an indicator of need for this formula. Funds would be distributed to schools on a per pupil basis.
- **Safety Plans for New Schools Grants (\$1.0 m).** This component retains separate funding for the School Safety Plans for New Schools Program, but *reduces* funding by \$2 million – from \$3.0 million to \$1.0 million -- to reflect the actual demand for the program in 2004-05. CDE has had excess funding for this program in recent years, i.e. funding beyond that needed to cover grants for all new schools. In 2002-03, CDE reverted approximately \$2 million for the program.

The LAO's alternative school safety program would cost \$128.0 million in 2004-05, as summarized by the table below. This is \$28.3 million more than the Governor's proposal, which does not provide (actually defers) funding for school safety mandates and other education mandates in 2004-05.

LAO School Safety Alternative	2004-05 (In Millions)
<b>Per Pupil Formula Grants:</b>	<b>\$112.4</b>
<i>School Safety and Violence Prevention Grants (Existing)</i>	82.1
<i>School Safety Related State Mandates (Previously Unfunded)</i>	30.3
<b>High Risk Formula Grants:</b>	<b>\$14.6</b>
<i>Gang Risk Intervention</i>	3.0
<i>School/Law Enforcement Partnership Programs:</i>	
-- <i>School Community Policing Partnership</i>	10.0
-- <i>School Community Violence Prevention</i>	0.7
-- <i>Partnership Mini-Grants/Safe School Planning</i>	0.6
-- <i>Conflict Resolution</i>	0.3
<b>Safety Plans for New Schools Grants:</b>	<b>\$1.0</b>
<b>Total, All Programs</b>	<b>\$128.0</b>

In addition to the recommendations contained in their alternative school safety proposal, the LAO further recommends that the Legislature revert \$1.6 million in 2003-04 funds for three competitive grant programs that CDE does not plan to allocate in the current year. These programs include: School Community Violence Prevention, Partnership MiniGrants/Safe School Planning, and Conflict Resolution. Due to reduced staffing and the demands of administering these

programs, CDE did not administer these grant programs last year and does not plan to administer them this year either.

## **B. Charter Schools. (6110-211-0001 & 6110-128-0001)**

### **Background:**

**Charter School Funding Model.** The 1999 Budget Act Omnibus Education Trailer Bill, Chapter 78, Statutes of 1999 (AB 1115/Strom-Martin), adopted the Charter School Direct Funding Model that provides charter schools with operational funding that is equal to the total funding that would be available to a similar school district servicing a similar pupil population. The Model provides funding to charter schools through:

- **Revenue Limit Funding:** Equal to the state average revenue limit as determined by type (elementary, unified, high school) and distributed through a continuous appropriation.
- **Categorical Program Block Grant Funding:** Provides direct funding to charter schools on a per pupil basis equivalent to what a school district receives for the average student from approximately 28 categorical programs included in the block grant.
- **Separate Categorical Program Funding.** Charter schools must apply directly for approximately 31 other categorical programs and must adhere to all laws governing those programs. These programs include K-3 class size reduction, staff development buyout, child care and after-school programs, supplemental instruction, home-to-school transportation, instructional materials, student assessment, school accountability programs, special education and other state programs.

Approximately 34 categorical programs are excluded from the categorical block grant; of these, charter schools are prohibited from applying for three of these programs – adult education, adults in correctional facilities, and county office fiscal oversight.

**Budget Issues:**

The Governor's 2004-05 budget proposes major changes to the charter school funding model. Specifically, the Governor proposes to:

- Eliminate the charter school block grant and shift \$21.9 million in funding that would otherwise be available for 28 categorical programs into charter school revenue limits.
- Direct an additional \$24.5 million to charter school revenue limits in addition to the \$2 billion in funding shifted from 22 categorical programs into revenue limits.
- Shift \$14.5 million from the Economic Impact Aid portion of the Charter School Block Grant to the Economic Impact Aid budget item where it will be set aside for charter schools.

Together these proposals would provide a net increase for charter schools of \$24.5 million.

The LAO supports reforms to the charter school funding model, but recommends a different approach than proposed by the Governor in 2004-05. Specifically, the LAO recommends:

- **Revenue Limits:** Shift funding for 17 categorical programs into revenue limits for charter schools, consistent with LAO's recommendation to shift funding for 17 categorical funding into revenue limits for traditional public schools. Make the per pupil funding rate to charter schools consistent with the per pupil funding rate for traditional public schools.
- **Charter School Block Grant:** Retain the block grant, rather than eliminating it as proposed by the Governor, and expand it to include other categorical programs excluded from the block grant through two subgrants:
  - **Base Grant.** Consolidate 21 categorical programs in the base block grant and provide funding to schools based on the average per pupil funding rate for programs. This includes 15 existing programs (those existing programs remaining after shifting 17 programs to revenue limits) and 6 additional

programs previously excluded from the block grant – after school programs, core supplemental instruction, intern program, paraprofessional program, principal training, and ROP/Cs.

- ***Supplemental Disadvantaged Student Grant.*** Consolidate nine programs that target disadvantaged students provide funding to schools based on the average per pupil funding rate for programs. These programs include Economic Impact Aid, which is already a part of the block grant, and eight other programs previously excluded from the block grant – CalSafe, English Language Learners Student Assistance, Gang Risk Intervention, Mandatory Supplemental Instruction, Remedial Supplemental Instruction, National Board Certification, Public School Accountability programs, and TIIG.

In addition, the LAO recommends amending charter school law – specifically Education Code Section 47634(b) -- to specify in statutes all of the categorical programs excluded in the charter school block grant. The LAO cites ongoing confusion about these programs as a basis for this recommendation.

### **C. American Indian Education Programs (6110-151-0001 & 6110-131-0001)**

Existing law establishes two grant programs serving American Indian pupils. The American Indian Early Childhood Education Program provides three year competitive grants directed to improving reading and math competence for American Indian pupils pre-Kindergarten through grade 4. The American Indian Education Centers program funds educational resource centers for American Indian pupils, families and schools.

The Governor proposes to consolidate the appropriations for these two grant programs into a single budget item in 2004-05. Specifically, the Governor proposes to move funds for the American Indian Early Childhood Education Program into the budget item for the American Indian Education Centers program (6110-151-0001).

The Governor's proposal maintains separate appropriations for each of these programs within this budget item and maintains funding at 2003-04 levels -- \$552,000 for American Indian Early Childhood Education Program and \$3,778,000 for American Indian Education Centers.

The LAO has no objection to this recommendation.

### III. Governor's Categorical Program Reductions:

In addition to the Governor's proposals to consolidate and/or shift funding for categorical programs, the Governor also proposes to eliminate funding for some categorical programs.

Specifically, the Governor proposes to end funding for seven small categorical programs for a total savings of \$32.6 million in 2004-05. These programs are detailed in the table below.

Program/Item	Program Description	Dollars in Millions
<b>A. Pre-Internship Program</b> (6360-101-0001)  Ed. Code 44305)	Provides formal support and assistance to teachers who do not meet the subject matter competency requirement for a teaching credential in order to qualify as a Teacher Intern. The program is administered by the Commission on Teacher Credentialing. [Note: Pre-Intern Teachers do not meet the definition of Highly Qualified Teacher under NCLB, which becomes effective at the end of 2005-06.]	\$8.0
<b>B. Charter Schools Facilities Grant</b> (6610-102-0001)  (Ed. Code 47614.5)	Provides funds to charter schools in low-income areas to offset facilities rental and leasing costs.  [Note: State bond programs now require school districts to provide charter schools with sufficient Ed. Code states Legislative intent that funds be appropriated through 2003-04.]	\$7.7
<b>C. Local Arts Education Partnerships</b> (6110-177-0001)  (Ed. Code 8810-8820)	Provides competitive grants to LEAs to support arts education.	\$6.0
<b>D. Academic Improvement and Achievement</b> (6110-243-0001)  (Ed. Code 11020-11024)	Provides competitive grants to LEAs, which are part of regional partnerships with IHEs, to provide academic assistance and services to pupils to prepare them for admission to California State University and University of California. [Note: The program is due to sunset July 1, 2005.]	\$5.0
<b>E. Early Intervention for School Success</b> (6110-163-0001)  (Ed. Code 54685 – 54686.2)	Provides competitive grants to LEAs to support best practice models of assessment and early educational intervention for pupils pre-kindergarten through grade 2. The program is administered by the Orange County Office of Education. [Note: This program is due to sunset July 1, 2004.]	\$2.2
<b>F. Healthy Start</b> (6110-200-0001) (Ed. Code 8800-8807)	Provides competitive grants to support health, mental health, social, and other services located at or near school sites.	\$2.0
<b>G. School-to-Career</b> (6110-164-0001)  (Ed. Code 53080-53084)	Provides grants to LEAs to support local school-to-career partnerships. [Note: Administration of this program was shifted from the Office of the Secretary for Education to CDE in 2003-04.]	\$1.7

According to the Administration, three of these programs are due to sunset soon-- Academic Improvement and Achievement, Charter Schools Facilities Grant, and Early Intervention for School Success. Three other small programs would be suspended to create general fund savings-- Healthy Start, School-to-Career, and Local Arts Education Partnerships.

In addition, the Administration recommends elimination of the Pre-Internship Program, administered by the Commission on Teacher Credentialing, since teacher pre-interns do not satisfy the definition of highly qualified teachers under the federal No Child Left Behind Act.

The LAO supports the elimination of these seven categorical programs, as proposed by the Governor. The LAO notes that school districts can still utilize pre-interns until the end of 2005-06 when states must fully comply with the requirements for highly qualified teacher under of NCLB.

**Budget Trailer Bill Language:** The Administration has proposed language to repeal the Pre-Internship Program, but has not proposed trailer bill language to eliminate three other programs that are not due to sunset.

#### **IV. Proposed Budget Flexibility Language**

##### **A. Update on Flexibility Language in 2003-04 Budget**

The 2003-04 Budget Act reduced funding for a number of education programs, most notably revenue limits, which incurred a 1.2 percent reduction totaling \$350 million. In addition, while revenue limits and special education programs received growth funding, no other education programs received growth funding. Additionally, no education programs, including revenue limits and special education, received COLAs in 2003-04.

Budget trailer bill language contained in AB 1754 (Chapter 227; Statutes of 2003) provides K-12 local education agencies (LEAs) with additional, limited-term flexibility in accessing education reserves and restricted funds, and permits LEAs to use these funds to mitigate revenue limit reductions in 2003-04. These three provisions:

- Reduce the standards for minimum reserves for economic uncertainty for school districts to half of their required levels as of May 1, 2003, thereby

lowering the reserve requirement to a range of .5 to 2.5 percent effective in 2003-04 and 2004-05.

- Reduce school district maintenance reserves from 3 to 2 percent in 2003-04.
- Permit LEAs to access the 2002-03 ending balances for categorical programs – excluding Economic Impact Aid, Special Education, Targeted Instructional Improvement Grants, Instructional Materials, and Public School Accountability Act programs and deferred funding from 2001-02 to 2003-04 – in order to provide local budgeting flexibility in 2003-04.

The California Department of Education has interpreted the flexibility contained in AB 1754 for accessing ending balances very broadly. In a letter to LEAs dated November 12, 2003, the department states that “LEAs’ budget flexibility is not limited to the amount of revenue limit reductions that were incurred for 2003-04.” [See Appendix C for CDE Letter on 2003-04 Budget Flexibility Provisions.]

AB 1754 requires LEAs to report ending balance transfers – programs and amounts – to the Superintendent of Public Instruction. The Superintendent of Public Instruction must report this information to the Joint Legislative Budget Committee in a timely manner.

## **B. Budget Control Section 12.40 – Mega-Item Flexibility**

### **Background:**

The mega-item was developed in the early 1990’s as a means of protecting categorical programs from vetoes. From 1992-93 through 1998-99 funding for more than 30 major categorical programs was appropriated through a single budget act item – referred to as the mega-item – instead of through separate budget items as is currently the case.

To accompany this mega-item structure, budget language in each of these years gave LEAs the authority to transfer funds among categorical programs in the mega-item. These flexibility provisions specified that up to 15 percent of funds could be transferred “out-of” any of these categorical programs and up to 20 percent could be transferred “into” any of these categorical programs.

In 1999-2000, the mega-item was eliminated and separate budget items were re-established for each categorical program. At the same time, Control Section 12.40 was added to the budget to retain the flexibility provisions developed with the mega-item, although the transfer limits were increased to allow transfer of up to 20

percent of funding out of any program and to transfer up to 25 percent into a program in the mega-item. Within this structure, categorical programs could not lose more than 20 percent or gain more than 25 percent in funding.

As a condition of receiving funding, LEAs are required to report annually to the Department of Education on any amounts shifted between categorical programs pursuant to this section. These reports are due by October 8<sup>th</sup> following the fiscal year they cover. CDE in turn is required to transmit these reports to the Legislature and Department of Finance by February 1<sup>st</sup> following the fiscal year they cover.

The latest report available from CDE was published in August 2002 and covers the 2000-01 fiscal year. A total of 115 LEAs (114 school districts and one county office of education) reported transfers during this fiscal year. These LEAs comprise approximately 10.5 percent of LEAs statewide. LEAs report utilizing transfers into and out of 26 of the 34 programs eligible for flexibility transfers during 2001-02.

In summary, a total of 11 programs reported net transfers into their programs. Two of these programs – court ordered desegregation and pupil transportation – respectively reported 45 percent and 38 percent of the net transfers “in”. Fifteen programs reported net transfers out. Of these, three programs – Economic Impact Aid, School Improvement and Year Round Education Grants – each comprised approximately 25 percent of the net transfers “out”.

### **Budget Issues:**

Beginning in 1999-2000, Budget Control Section 12.40 allowed LEAs to transfer up to 20 percent of funding out of any program and to transfer up to 25 percent into a program in the mega-item. The 2003-04 budget reduced the level of the mega-item flexibility to 10 percent “out” and 15 percent “in” due to the fact that LEAs were given significant, limited-term flexibility provisions in the current year budget.

The Governor’s 2004-05 budget, continues provisions of Control Section 12.40 at the 2003-04 levels – 10 percent “in” and 15 percent “out”. Still referred to as mega-item flexibility, the control section lists only nine different categorical program items -- down from the 20 included in 2003-04. Control Section 12.40 excludes eleven categorical programs that the Governor proposes to consolidate and shift into revenue limits in 2004-05.

The Administration, through an April Finance Letter, proposes to change the reporting date -- from October 8<sup>th</sup> to 15<sup>th</sup>-- for LEAs to report fund shifts pursuant to Budget Control Section 12.40. This change is sought to conform to LEA timelines for reporting year-end fiscal data to CDE.

**V. Financial Status of School Districts  
Presentation by Tom Henry, CEO Fiscal Crisis & Management  
Assistance Team (FCMAT)**

**Background:**

Current law requires school districts and county offices of education (LEAs) to file two interim reports annually on their financial status. The first interim report must be completed by LEAs by December 15<sup>th</sup> and covers the period ending October 31<sup>st</sup>; the second interim report must be completed by March 17<sup>th</sup> and covers the period ending January 31<sup>st</sup>.

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 indicates that a LEA will meet its financial obligations for the current and two subsequent fiscal years; whereas a qualified certification indicates a LEA may not meet its financial obligations during this period. Under a negative certification, LEAs are unable to meet their financial obligations in the current year or in the subsequent fiscal year.

County superintendent of schools are required to review the validity of school district certifications and, may reclassify a district certification. The Superintendent of Public Instruction may reclassify any county office of education or school district certification that has been appealed. County Superintendents are required to report certifications for their school districts to the Superintendent of Public Instruction and the State Controller.

First interim reports are due to these state officials by January 15<sup>th</sup> of each year; second interim reports are due by April 15<sup>th</sup>.

According to the First Interim Report for 2003-04 – the most recent report available – there are currently seven school districts with negative certifications

and 50 school districts with qualified certifications. As indicated by the table below, the list of districts with negative certifications includes several unified school districts. [See Appendix D for a complete list of districts with negative and qualified certifications.]

Berkeley Unified	Alameda County	\$	90 million budget
Hayward Unified	Alameda County	\$	176 million budget
Livermore Valley Joint Unified	Alameda County	\$	91 million budget
Oakland Unified	Alameda County	\$	443 million budget
West Fresno Elementary	Fresno County	\$	8 million budget
Vallejo City Unified	Solano County	\$	131 million budget
Corning Union Elementary	Tehama County	\$	13 million budget

The school districts with negative certifications listed above will not be able to meet their financial obligations for 2003-2004 or 2004-2005. Two of the school districts on the negative certification list – Oakland Unified and West Fresno Elementary – have received emergency loans from the state. Vallejo Unified is now seeking similar relief from the state.

The numbers of school districts with negative and qualified certifications will reportedly increase when the Second Interim Report for 2003-04 is released in the coming month.

### **Budget Trailer Bill on School District Budget Oversight – AB 2756 (Daucher):**

The Administration is also sponsoring AB 2756 (Daucher), as another budget trailer bill. This measure contains numerous provisions that increase budget oversight for all school districts and for school districts in financial trouble. Specifically, the bill:

- Requires the Superintendent of Public Instruction, the Controller and the Director of the Department of Finance to update the standards and criteria used by county offices and others to evaluate the fiscal condition of districts.
- Revises standing emergency loan procedures for school districts that have become financially insolvent to reflect lessons learned in recent state loan situations.
- Gives county superintendents of schools new authority to conditionally approve school district budgets, or if no budget is submitted, to prepare a budget for the school district.
- Permits the Superintendent of Public Instruction to assign the FCMAT team to review the financial and administrative condition of school districts and charter schools.
- Requires FCMAT to request and review applications to establish regional teams of education finance experts throughout the state.
- Requires school districts to notify the county superintendent of schools and to analyze revisions to the district's current year budget that are necessary to meet the terms of a collective bargaining agreement, prior to – instead of after -- the adoption of that agreement.
- Requires all school districts – not just those with negative of qualified certifications -- to provide the county office of education with financial information about the impact of collective bargaining agreements in current and future budget years.
- Requires the district board to address the county superintendent's fiscal analysis of bargaining agreements at a regularly scheduled board meeting prior to ratification of the agreement.
- Limits the maximum cash settlement a terminated employee may receive to six months of salary instead of eighteen months.

## **Appendix A**

### **Summary of Categorical Programs Administered by the California Department of Education for Fiscal Year 2001-02**

Source: *California Department of Education: The Extensive Number and Breadth of Categorical Programs Challenges the State's Ability to Reform and Oversee Them. California State Auditor, Bureau of State Audits, November 2003.*  
<http://www.bsa.ca.gov/bsa/pdfs/2003-107.pdf>

## **Appendix B**

### **Major Elements of the District Revenue Limit Formula**

Legislative Analyst's Office,  
Presentation to Senate Budget Subcommittee #1 (Education),  
March 15, 2004

[http://www.lao.ca.gov/handouts/Education/2004/School\\_District\\_Revenue\\_Limits\\_031504.pdf](http://www.lao.ca.gov/handouts/Education/2004/School_District_Revenue_Limits_031504.pdf)

## **Appendix C**

### **CDE Letter Dated November 12, 2003 2003-04 Budget: Flexibility Provisions**

<http://www.cde.ca.gov/fiscal/financial/ab175ltr1704.pdf>

## **Appendix D**

### **CDE List of LEAs with Negative and Qualified Certifications**

Source: California Department of Education, Fiscal Services Division,  
<http://www.cde.ca.gov/fiscal/financial/first0304.html>

Senate Budget and Fiscal Review  
SUBCOMMITTEE NO. 1

EDUCATION  
Jack Scott, Chair  
John Vasconcellos  
Bob Margett

Monday, April 19, 2004  
1:30 p.m.  
Room 112

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## **I. STUDENT FEES**

***DEVELOPMENT OF A LONG-TERM STUDENT FEE POLICY.*** As part of the Governor's 2004-05 Budget package, the Administration proposes to re-establish a statutory long-term student fee policy. The previous fee policy expired in 1996 and the Legislature has not taken action to establish a new policy since. The Governor's proposal, which is contained in Senate Bill 1553 (Karnette), would link undergraduate student fee increases to changes in per capita personal income, with an overall cap of a 10 percent increase in any given year. Graduate fees would be increased at a level deemed appropriate by UC and CSU governing boards until the fee level reaches a point that is 50 percent higher than the level of undergraduate fees; after that time, both undergraduate and graduate fees would increase at the same rate.

This measure was heard by the Senate Education Committee on April 14, 2004 and moved, without prejudice, to the committee's Suspense File. It is unclear when or if the measure will continue through the legislative process.

In addition to the Administration's proposal, the Office of the Legislative Analyst (LAO) offers an alternative fee proposal which would set and adjust student fees based on a fixed percentage of students' total education costs. In the current academic year (2003-04), students at the University of California (UC), California State University (CSU) and California Community Colleges (CCC) are paying 26 percent, 17 percent and 12 percent, respectively, of their total education costs.

***A. UC AND CSU UNDERGRADUATE AND GRADUATE STUDENT FEE INCREASES.*** The Governor's 2004-05 Budget proposes to increase undergraduate fees at both the UC and CSU by 10 percent and increase fees for graduate students by 40 percent. Combined, these two increases are expected to generate approximately \$160 million in revenue to the UC and CSU; this revenue will be used to offset the more than \$660 million in General Fund reductions proposed for UC and CSU in the 2004-05 fiscal year.

**LEGISLATIVE ANALYST.** In response to the Governor's proposal, the LAO recommends that the Legislature adopt the proposed 10 percent undergraduate fee increase, citing the increase as "modest".

On the issue of Graduate student fees, the LAO recommends increasing graduate-level fees, but not to the 40 percent level proposed in the Governor's Budget. Instead the LAO recommends raising fees 30 percent, citing that a 40 percent increase cannot be defined as "moderate". If other revenues are not raised to compensate for the LAO's proposed reduction, it would cost the state an additional \$33 million (\$18 million at UC and \$15 million at CSU) over the funding levels proposed in the Governor's Budget.

**STAFF NOTES.** In calculating its fee revenue assumptions, the Department Of Finance proposes assessing the graduate-level fee increase (40 percent) on all post-baccalaureate degree students at the UC and the CSU – including teaching credential candidates. Given the state's desire to train, recruit and retain teachers, staff recommends that this class of

students be included instead under the category of “undergraduate” students for purposes of assessing fee increases.

Ultimately, staff would recommend approving the fee revenue figures for undergraduate and graduate students contained in the Governor’s Budget, but specifically allow the UC and CSU governing boards to determine the actual percentage increases. It is important to note that, in the absence of current law guiding the setting of student fees, the UC and CSU governing boards have retained authority in this area. Allowing the governing boards to set the exact fee level would, for example, allow the institutions to compensate for the loss of revenue from teacher credentialing candidates, and to develop alternative fee options for graduate students.

However, staff notes that the Department of Finance has indicated that it is currently in conversations with UC and CSU regarding this proposal and that an update may be included as part of the May Revision. As such, staff recommends that this issue be held open pending the May Revision.

	<b>Undergraduate Student Fees</b>			
	<b><u>UC</u></b>		<b><u>CSU</u></b>	
	<b>Resident</b>	<b>Nonresident</b>	<b>Resident</b>	<b>Nonresident</b>
1994-95	\$4,111	\$11,810	\$1,584	\$8,964
1995-96	4,139	11,838	1,584	8,964
1996-97	4,166	12,560	1,584	8,964
1997-98	4,212	13,196	1,584	8,964
1998-99	4,037	13,611	1,506	8,886
1999-00	3,903	14,077	1,428	8,808
2000-01	3,964	14,578	1,428	8,808
2001-02	3,859	14,933	1,428	8,808
2002-03	3,859	15,361	1,428	9,888
2002-03	4,017	16,396	1,573	10,033
<i>(fees increased mid-year)</i>				
2003-04	5,530	19,740	2,016	10,506
2004-05	6,028	22,504	2,250	12,420

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

Fees for UC professional school students in such disciplines as medicine, dentistry, law, veterinary medicine and business have yet to be determined. Nursing fees are proposed to remain constant at an additional \$2,925 annually.

**B. INCREASE IN NONRESIDENT STUDENT FEES.** The Governor's Budget proposes to increase the surcharge on nonresident students by 20 percent, generating approximately \$48.8 million in fee revenue (to offset accompanying General Fund reductions). At both UC and CSU, these nonresident charges are assessed in addition to the regular in-state student fee levels.

**LEGISLATIVE ANALYST.** The LAO recommends that the Legislature approve the 20 percent nonresident fee increase for graduate students; hold constant the nonresident fees for UC undergraduates; and increase nonresident fees by 3.5 percent for CSU undergraduates.

Specifically, the LAO finds that nonresident *graduate* students are paying considerably less than their full educational costs, and as such, should be able to absorb a 20 percent increase. With regards to *undergraduates*, the LAO finds that UC nonresident undergraduate students are already paying more than their full educational costs and therefore recommends that the Legislature deny the proposed fee increases for that population of students. At CSU, nonresident undergraduate students are paying slightly less (approximately \$500) than their full educational costs, as a result, the LAO recommends that fees for this population of students be increased by 3.5 percent rather than the proposed 20 percent. Combined, the LAO's proposal will cost an additional \$29 million (\$18 million at UC and \$11 million at CSU).

**STAFF NOTES.** While it is important to note that nonresident *undergraduate* students may be paying more than the full cost of education – thus partially subsidizing our California students – the UC and CSU have expressed concern about pricing nonresident students out of the higher education “market”. Specifically, if costs for nonresident students become higher than students are willing to pay, the associated revenues would fail to materialize and the universities would be left with an unallocated reduction. However, given the lower priority of nonresident students for state resources and the lack of available General Fund to “backfill” the revenue needed to implement the LAO's recommendation, staff recommends that the committee approve level of General Fund savings associated with the proposal but allow UC and CSU to raise nonresident tuition between undergraduate and graduate students as they deem appropriate.

**C. CCC FEE INCREASES.** Fees for California Community College students are set in statute by the Legislature. For most students at Community Colleges, the Governor proposes increasing fees by \$8 per unit – from the current \$18 per unit level to \$26 per unit. However, under the Governor's proposal, community college students who have already earned a Baccalaureate degree would be charged a flat \$50 per unit fee, thereby increasing fees for that population of students by \$32 per unit (from the current \$18 level.)

The Department of Finance (DOF) estimates approximately 25 percent student attrition due to the \$50 fee; further DOF assumes that 4 percent of the remaining students (who would

otherwise be subject to the \$50 fee) would be deemed financially needy thus qualifying to have their fees waived. In total, DOF estimates that this portion of the proposal would result in additional fee revenue of \$18 million.

To implement the differential fee, the Administration is proposing accompanying trailer bill language which would establish the \$50 fee in statute and exempt certain classes of individuals from paying the fee. Specifically, the following groups would be exempted from paying the \$50 surcharge: (1) terminated/laid off workers; (2) SSI and/or TANF recipients; (3) contract education participants; (4) students with financial need; (5) dependents/spouses of National Guard member killed or permanently disabled in the line of duty; (6) nonresident students paying nonresident tuition; and (7) surviving dependents of September 11<sup>th</sup> terrorist attacks.

**LEGISLATIVE ANALYST.** In response to the Governor's proposal, the LAO recommends approving both the \$8 per unit increase as well as the \$50 per unit "differential surcharge". In recommending the approval of the \$8 per unit increase, the LAO cites the proposal as modest and finds that increasing fees to the \$26 per unit level actually affords financially-needy students the benefit of receiving additional aid through the federal Pell Grant program.

<b>Alternative Federal Pell Grant Schedule<sup>a</sup></b>	
<b>Per Unit Fee</b>	<b>Pell Grant Amount<sup>b</sup></b>
\$11 through \$17	\$3,713
\$18 through \$25	3,938
\$26 and above	4,050

<sup>a</sup> All other community college systems in the nation use the "regular" Pell Grant schedule—in which the maximum award is \$4,050. Currently, the California Community College system must use an alternative award schedule because its fees are so low.

<sup>b</sup> Represents maximum award in 2004-05 for a full-time student. Students attending less than full time receive a Pell Grant award that is reduced proportionally. For example, the maximum award for a half-time student is half that of a full-time student receives.

With regard to the \$50 differential surcharge, the LAO recommends approving this increase based on the premise that, in a budget composed of finite resources, the proposal would appropriately target the state's higher education subsidies (and General Fund resources) to higher priority areas.

**STAFF NOTES.** Staff concurs with the LAO's recommendation on the \$8 per unit fee increase, and notes that financially-needy students will continue to have their fees (at the increased level) covered under the Board of Governors (BOG) fee waiver program. Furthermore, the additional financial aid benefits reaped through the Pell Grant program

would provide cash directly into the pockets of financially-need community college students to help cover unfunded costs related to books, housing, transportation and living expenses. As such, staff recommends that the committee approve the fee increase to \$26 per unit.

On the issue of the \$50 baccalaureate degree surcharge, staff would note that many of the targeted students are enrolled in community colleges to gain valuable skills needed to retain their place in the workforce, change jobs, and/or re-enter the workforce after becoming unemployed. While the Governor's accompanying trailer bill proposal exempts some of those students (laid-off workers) from paying the \$50 fee, others are not. While the Administration proposal strives to accommodate laid off and re-entry students, it fails to address the "sticker shock" issue that inevitably accompanies such an enormous jump in fees. In order to take advantage of the proposed statutory exemptions, students would first need to be aware that these exemptions exist and would then need to go through the administrative hurdles necessary to get their fees waived.

As with the other fee proposals, the community colleges have expressed concern over whether the revenue assumptions attributable to the proposed fee increases would materialize. If the fee increases change student behavior and the fee revenues are not realized, then the reduction ends up to be an unallocated reduction to the college system. In conclusion, staff recommends that the \$50 baccalaureate degree surcharge be held open pending the May Revision.

***D. PROFESSIONAL STUDENT FEE INCREASES.*** The Governor's Budget proposes to dramatically *decrease* the amount of General Fund support that the state provides for professional degree instruction at UC and Hastings College of Law (i.e., law, business, medicine, veterinary medicine, nursing, theater/film/television ) Exempted from this reduction are any cuts or additional fee increases associated with nursing programs. Specifically, the Governor proposes to reduce the state "subsidy" for professional school students by \$45.6 million (\$42.6 million from UC and \$3 million from Hastings), which is designed to capture a 25 percent reduction in the state subsidy for professional degree students.

The Governor's assumption is that this decrease would be filled by increasing the student fees for professional school students. While the Governor's Budget does not propose increasing fees to a particular monetary level, UC is in the process of determining how the cuts would be implemented among the various professional-level programs and then assessing what level of fee increases would be necessary to capture the lost General Fund. Given the "market" for professional degree education, UC is concerned that increasing the fee too highly will drive students to other institutions and/or out-of-state. Hastings has also indicated that, at a proposed tuition level of over \$19,000 per year, it becomes more difficult to predict student choice and demand.

**LEGISLATIVE ANALYST.** The LAO supports the assertions contained in the Governor's budget and recommends that the Legislature approve the reduction in Professional School support. Specifically, the LAO finds that fees for professional school students will increase by about 25 percent (or anywhere from 24 to 27 percent), a level significantly less than the 40 percent increase proposed for academic graduate students.

**STAFF NOTES.** Staff recommends that this issue be held open pending the May Revision.

***E. CSU HIGH COST PROGRAMS.*** The Governor's Budget makes no explicit proposal regarding to CSU's high cost (professional level) degree programs. Under current practice, CSU charges graduate students in masters-level programs like business, nursing, and film/television the same fee level as it does other graduate-level students. At UC, professional school students in these same fields of study pay an additional differential fee which ranges from \$2,900 for nursing students to \$9,000 for MBA students.

**LEGISLATIVE ANALYST.** The LAO contends that the current fee structure for professional-degree graduate students is inconsistent between UC and CSU and proposes that CSU institute a similar "differential fee" for students in the above-noted three professional degree programs. According to the LAO, if each of the approximately 4,000 students enrolled in the three professional degree programs paid a differential fee of 15 percent more, the LAO believes it would generate approximately \$2 million in additional revenue.

**STAFF NOTES.** Staff concurs with the need to explore this policy option, but notes that it is impractical to implement a differential fee for these students in the Budget Year, without sufficient notice and without an analysis of the proposal by the CSU and the Board of Trustees. As such, the committee may wish to encourage the LAO and CSU to explore this option for consideration and action during the 2005-06 budget discussions.

***F. ESTABLISHMENT OF "EXCESS UNIT" FEE.*** The Governor's Budget proposes to establish a per-unit surcharge for undergraduate students at UC and CSU who enroll in considerably more courses than are required to obtain a baccalaureate degree. Specifically, the Administration proposes charging students the full cost of instruction for each credit unit they take beyond 110 percent of the units required to obtain a baccalaureate degree. For most programs, the LAO cites that the unit cap would be set at 198 quarter units and 132 semester units. The Governor's Budget assumes that the implementation of this policy will result in General Fund savings of \$9.3 million at UC and \$24.4 million at CSU.

UC and CSU have raised a number of concerns related to the implementation of this proposal. Specifically, the institutions are concerned about which students will be subject to the surcharge. In particular, students pursuing double majors and majors that require a higher-than-average number of units would be adversely impacted by this proposal. Further, both segments have expressed concern about how the proposal would be phased-in. Finally,

UC and CSU are skeptical of the \$33.7 million in revenue estimates. UC believes, at most, it would generate \$1 million in the Budget Year, with only 500 full-time equivalent students likely being subject to the surcharge. In the out-years, UC would only expect \$10.5 million when the policy is fully phased in. At CSU, questions regarding the phasing-in of the proposal would first need to be addressed before it could give an estimate of revenue savings.

**LEGISLATIVE ANALYST.** The LAO recommends that the Legislature approve the proposed “excess unit” fee because it ensures that General Fund resources are targeted where they are most needed.

**STAFF NOTES.** Both UC and CSU, as well as the LAO, note that if the surcharge policy is effective, then most students WILL NOT pay the higher fee. Instead they will graduate or drop out rather than enrolling in excess classes and paying the higher amount. As a result, staff believes that the revenue assumed from the proposal will fail to materialize, and instead, UC or CSU will have an unallocated reduction and an open “slot” which would be filled with another student. Given that the Administration’s proposal strives to alter student behavior, it’s unclear why any General Fund savings would be associated with this new policy. As with prior proposals, this is not a policy that could be immediately implemented. Students need to be given sufficient notice of the higher fee in order to ensure they are taking the courses appropriate to their major and necessary to graduate in a timely manner. As such, staff recommends that the committee hold this issue open pending the May Revision.

## **II. FINANCIAL AID**

**BACKGROUND.** Financial assistance for students comes in many forms and is offered by many entities. The major forms of financial assistance for postsecondary students includes grants (scholarships and fellowships), loans, work study, investment accounts, and tax credits. The major providers of financial assistance are the federal government, state government, universities, and private benefactors.

The state of California provides student financial aid through the Cal Grant Program, university-based institutional aid, and Governor’s Merit Scholarships. Each of the public university systems administers its own financial assistance programs (known as “campus-based financial aid”) using dollars derived from student fees and/or the state General Fund.

**A. CAL GRANT PROGRAM.** The Governor’s Budget proposes to substantially limit and constrict the Cal Grant entitlement program by: (1) reducing the income ceilings used to determine program eligibility; (2) reducing the maximum grant amount to students attending

private colleges and universities; and (3) reducing the maximum award amount for public college students by “de-coupling” the grant amount from fee increases.

- **Eligibility.** The Governor proposes to reduce the maximum family income necessary to be eligible for the Cal Grant A program by 10 percent, from the current level of \$69,000 to \$60,000 for a family of four. In the Cal Grant B Program, the income ceiling would be reduced from \$36,300 to \$31,600, also for a family of four. The Governor’s Budget assumes that this proposal will save \$11 million in General Fund due to fewer students qualifying for the Cal Grant entitlement program.

<b>Cal Grant Income Ceilings (Dependent Students)</b>				
<b>Family Size</b>	<b>Cal Grants A and C</b>		<b>Cal Grant B</b>	
	<b>Current Law</b>	<b>2004/05 (proposed)</b>	<b>Current Law</b>	<b>2004/05 (proposed)</b>
2	\$62,100	\$54,000	\$29,000	\$25,200
3	63,500	55,300	32,600	28,400
4	69,000	60,000	36,300	31,600
5	74,000	64,400	40,600	35,300
6 or more	79,800	69,400	43,900	38,200

**LEGISLATIVE ANALYST.** The LAO recommends that the Legislature deny the Governor’s proposal and adhere to current law, which adjusts the Cal Grant income ceilings on an annual basis. The LAO believes that retaining the existing eligibility pool for the Cal Grant program will assist many middle income students in covering their education expenses and will prevent the most financially-needy students (those covered under the Cal Grant B program) from falling through the cracks.

**STAFF NOTES.** It is unclear why the Administration is proposing to reduce the income ceilings for the Cal Grant B population in particular. These families are the lowest of the low income population, with statute indicating a lower GPA requirement for Cal Grant participation. Given that these students may not have GPA’s which would allow them to qualify for a Cal Grant A award, the proposal would have the effect of leaving lower income students with GPA’s between 2.0 (Cal Grant B requirement) and a 3.0 (Cal Grant A requirement) out of the financial aid pool entirely. Staff recommends that this issue be held open pending the May Revision.

- **Private Institution Grant Amount.** The Governor proposes to reduce the grant level for students attending private and independent colleges by 44 percent. This would result in the maximum grant level being decreased from the current amount of \$9,708 to \$5,482. The newly proposed grant level is equivalent to the proposed fee level at the UC. The

Governor's proposal would only impact new Cal Grant recipients; students currently receiving awards would retain their higher valued award. The Administration estimates that this reduction will reap \$32.7 million in General Fund savings.

**LEGISLATIVE ANALYST.** In response to the Governor's proposal, the LAO recommends that the Legislature adopt a statutory policy to link the award level for a private university Cal Grant to the amount of the General Fund subsidy the state provides to financially-needy students attending the UC and CSU. If the LAO's policy were implemented in the coming fiscal year, it would raise the maximum grant amount to \$9,906, costing the state a total of \$34.3 million over the amount provided in the Governor's Budget. To restore the grant to its current year level of \$9,708 will cost the state \$32.7 million more than the amount provided in the Governor's Budget.

**STAFF NOTES.** The Governor's proposal appears to contradict the original public policy rationale for paying a higher award level to private college students: Allowing students to make a real choice among the higher education options, and as a result, purposely redirecting a portion of the eligible postsecondary students to nonpublic institutions. The goal of the policy was to ultimately: (1) assist the state in avoiding additional costs associated with providing postsecondary education for ALL eligible students; and (2) help to manage the surging student enrollments under the Tidal Wave II population boom.

While sympathetic to the LAO's desire to develop a statutory policy to guide the level of the maximum Cal Grant award for private institutions, staff would note that programmatic statutory changes would best be dealt with via the policy committee process. In conclusion, staff recommends that this issue be held open pending the May Revision.

- **Public Institution Grant Amount.** Counter to codified Legislative intent, the Governor also proposes to dissolve the practice of increasing Cal Grant awards to cover the additional costs associated with fee increases at UC and CSU. Thus, rather than increasing the grant level to cover the proposed 10 percent fee increase, the maximum award level would remain at the current-year level. The LAO estimates that this policy change avoids \$18.7 million in General Fund costs that would otherwise need to be paid.

**LEGISLATIVE ANALYST.** Consistent with prior Cal Grant recommendations, the LAO encourages the Legislature to deny the Governor's proposal, increase funding for Cal Grants in order to cover the proposed fee increases, thus retaining the award levels as outlined in current law.

**STAFF NOTES.** Staff recommends that this issue be held open pending the May Revision.

**B. INSTITUTIONAL-BASED FINANCIAL AID.** The Governor's budget proposes to reduce the percentage of new fee revenue (derived as a result of the fee increase) that is set aside for campus-based financial aid programs. Under current practice, UC and CSU set-aside one-third of the revenue generated by a fee increase to provide the financial aid necessary to help offset the costs to needy students. The Governor proposes to reduce the set-aside amount to 20 percent (rather than the current 33.3 percent). The remainder of the revenue would be available to the university systems to help offset the various proposed General Fund reductions.

Under current practice, UC and CSU retain the authority to distribute these funds to students on their campuses as they see fit. Whether the set-aside for financial aid is 33.3 percent or 20 percent, funding for campus-based financial aid programs will increase in the 2004-05 fiscal year. With the proposed increases in student fees, at the 20 percent set-aside level, campus-based financial aid programs are proposed to rise for UC and CSU by \$38 million and \$26 million respectively, for a total of \$391.1 million at UC and \$217.4 million at CSU. The funding generated from the fee increases appears to be evenly derived from both undergraduate and graduate students.

**LEGISLATIVE ANALYST RECOMMENDATION.** The LAO contends that setting aside even 20 percent of the new fee revenue is overly excessive, citing enormous increases in campus-based financial aid budgets in the current year. Fundamentally, the LAO believes that there is a disconnect between the original intent of setting aside one-third of new fee revenue for financial aid and the current campus-based aid programs.

Consistent with prior year recommendations, the LAO proposes a more centralized approach to financial aid which would hold funding for the Cal Grant program constant (at current-year levels) while decreasing the amount of financial aid available to individual campuses. Specifically, the LAO recommends that the legislature: (1) shift \$32.2 million in *undergraduate* campus-based financial aid funding from campuses to backfill the proposed reductions in the Cal Grant program; and (2) retain the proposed increase of \$32.5 million in campus-based financial aid for *graduate* students. The intent of the LAO is to provide what it considers a more equitable distribution mechanism for a finite amount of financial aid resources.

**STAFF NOTES.** There are essentially two issues before the legislature related to institutional financial aid. *First* – Should the UC and CSU reduce the amount of student fee revenue that is set aside (from 33.3 percent to 20 percent) for student financial aid? Staff would note that, combined with the proposed Cal Grant reductions, the total reduction in financial aid resources will inevitably have a negative impact on students. However, if the set aside is returned to 33.3 percent, without an accompanying General Fund augmentation to backfill the proposed reductions, the net effect is simply an

“unallocated” reduction to the UC and CSU. Staff recommends that this portion of the proposal be held open, pending an update on the General Fund as part of the May Revision. *Lastly* – Pursuant to the LAO recommendation: Should the Legislature shift funding from campus-based institutional aid programs to backfill reductions in the Cal Grant program?

Contrary to the recommendations of the LAO, *staff notes* that the administration of financial aid programs appears to be moving from a state-administered, overly bureaucratic, and centralized system to one that is campus-based, student-centered, and more flexible in nature. The California Postsecondary Education Commission, in its review of the administration of the Cal Grant Program (a report which was requested by the Legislature), noted that the Cal Grant Program -- which is centrally administered by the California Student Aid Commission -- would better serve students if the administration of the program moved towards a more decentralized, campus-based model.

Further, *staff notes* that there continues to be a need to allow campus financial-aid officers to work with students to address their financial need issues mid-year and on a case-by-case basis. Many times students have unanticipated financial needs or needs that aren't reflected in their student aid application from the prior Spring. Altering the process by which campus-based financial aid dollars are allocated could make it difficult for campus financial aid officers to respond to the unique need of students and supply them with much-needed aid.

*Lastly*, staff would point out that there is already a reduced pool of financial aid resources for campuses to work with – given that the set aside is proposed to be reduced from 33.3 percent to 20 percent. Staff recommends that the committee deny the LAO's alternative proposal to shift and redistribute scarce financial aid resources and instead consider alternative funding sources to increase the total amount of funding available for student financial aid.

**C. APLE PROGRAM.** The Governor's Budget proposes to reduce the number of Assumption Program of Loans for Education (APLE) warrants from 7,700 to 3,500 (a reduction of 4,200 warrants). Since 1997-98, the number of APLE warrants has grown considerably, from 500 in 1997-98 to 7,700 in 2003-04. While there are no savings associated with the Governor's proposal in the Budget Year, a reduction in the number of APLE warrants would result in approximately \$57 million in savings over a the four-year period beginning 2006-07. Further, the Administration is also proposing to make a variety of statutory changes to the program establishing priorities for the granting of warrants. The Administration's proposal has yet to be amended into a piece of legislation, but is slated to be referred to the appropriate policy committees when that amendment occurs.

**LEGISLATIVE ANALYST.** The LAO does not express an opinion on the appropriate number of APLE warrants, but offers a variety of suggestions related to the proposed policy changes to the program. Staff notes that the LAO's comments would best be directed to the Senate Education and Assembly Higher Education committees during the hearing process.

**STAFF NOTES.** Staff recommends that this issue be held open pending information on future year revenues as part of the May Revision.

**D. EDFUND SURPLUS.** Operating under California statute, EdFund is a nonprofit "auxiliary" organization of the California Student Aid Commission which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students don't "pay" for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

Colleges and universities which offer student loan programs have a choice between a variety of FFELP "guarantors" (EdFund is only one of several guarantee agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission's request to statutorily establish EdFund, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guarantee marketplace.

Since then, EdFund has been remarkably successful. So much so, that it has generated a sizable operating surplus, due to the loyalty of EdFund customers and its continued success in avoiding student loan defaults. The Student Loan Operating Fund (SLOF) surplus is relatively new and is expected to be short-term in nature. In recent years, the Legislature and the Governor shifted the operational funding for the Student Aid Commission *from* the General Fund *to* the SLOF in order to preserve General Fund resources.

**LEGISLATIVE ANALYST.** As part of its Analysis of the 2004-05 Budget Bill, the LAO identified the SLOF surplus as a potential funding source for other financial aid-related activities. Specifically, the LAO suggested using approximately \$60 million of SLOF monies to support UC and CSU campus-based financial aid administration, thereby offsetting and saving General Fund resources. The use of SLOF for this purpose seems to have withstood federal scrutiny when the State of New York recently made such a funding "swap"; however, staff notes that there may be other authorized and higher priority uses for these funds.

**STAFF NOTES.** The LAO identification of the SLOF as a source for other financial-aid related expenses has sparked a great deal of interest due to the perception that EdFund's SLOF is essentially "free money". However, staff notes that student loan programs (and the accompanying Student Loan Operating Fund) are operated under a variety of federally-imposed constraints (both statutory and contractual). Furthermore, EdFund and the Student Aid Commission have recently released a "utilization plan" which discusses EdFund's future financial needs, including the need to reinvest in technology, diversify its financial operations, and maintain a prudent reserve.

Committee staff, the Student Aid Commission, the LAO, and the Department of Finance are currently analyzing EdFund's expenditure plan and investigating the amount of money that may be available for other allowable "financial aid" purposes. Of particular interest is the option of being able to "backfill" the Governor's proposed Cal Grant reductions from this funding source. Staff recommends that this issue be held open pending the analysis of additional information.

**Proposed Consent**

Staff recommends that the following items be Approved as Budgeted.

- 6600-001-0001. Support, Hastings College of Law. \$8,119,000
- 6600-001-0814. Support, Hastings College of Law. California State Lottery Fund. \$152,000
- 6600-301-6028. Capital Outlay, Hastings College of Law. McAllister Street Facility: Code Compliance Update. \$18,758,000
- 7980-001-0784. Support, California Student Aid Commission. Payable from the Student Loan Operating Fund. \$12,640,000.
- 7980-101-0890. Local Assistance, California Student Aid Commission. Federal Trust Fund. \$10,221,000
- 7980-495. Reversion, California Student Aid Commission.

Senate Budget and Fiscal Review  
SUBCOMMITTEE NO. 1

EDUCATION  
Jack Scott, Chair  
John Vasconcellos  
Bob Margett

Monday, April 19, 2004  
1:30 p.m.  
Room 112

OUTCOMES

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## **I. STUDENT FEES**

***DEVELOPMENT OF A LONG-TERM STUDENT FEE POLICY.*** As part of the Governor's 2004-05 Budget package, the Administration proposes to re-establish a statutory long-term student fee policy. The previous fee policy expired in 1996 and the Legislature has not taken action to establish a new policy since. The Governor's proposal, which is contained in Senate Bill 1553 (Karnette), would link undergraduate student fee increases to changes in per capita personal income, with an overall cap of a 10 percent increase in any given year. Graduate fees would be increased at a level deemed appropriate by UC and CSU governing boards until the fee level reaches a point that is 50 percent higher than the level of undergraduate fees; after that time, both undergraduate and graduate fees would increase at the same rate.

This measure was heard by the Senate Education Committee on April 14, 2004 and moved, without prejudice, to the committee's Suspense File. It is unclear when or if the measure will continue through the legislative process.

In addition to the Administration's proposal, the Office of the Legislative Analyst (LAO) offers an alternative fee proposal which would set and adjust student fees based on a fixed percentage of students' total education costs. In the current academic year (2003-04), students at the University of California (UC), California State University (CSU) and California Community Colleges (CCC) are paying 26 percent, 17 percent and 12 percent, respectively, of their total education costs.

Action: Information Only

***A. UC AND CSU UNDERGRADUATE AND GRADUATE STUDENT FEE INCREASES.*** The Governor's 2004-05 Budget proposes to increase undergraduate fees at both the UC and CSU by 10 percent and increase fees for graduate students by 40 percent. Combined, these two increases are expected to generate approximately \$160 million in revenue to the UC and CSU; this revenue will be used to offset the more than \$660 million in General Fund reductions proposed for UC and CSU in the 2004-05 fiscal year.

Action: Issue held open pending the May Revision.

***B. INCREASE IN NONRESIDENT STUDENT FEES.*** The Governor's Budget proposes to increase the surcharge on nonresident students by 20 percent, generating approximately \$48.8 million in fee revenue (to offset accompanying General Fund reductions). At both UC and CSU, these nonresident charges are assessed in addition to the regular in-state student fee levels.

**STAFF NOTES.** While it is important to note that nonresident *undergraduate* students may be paying more than the full cost of education – thus partially subsidizing our California students – the UC and CSU have expressed concern about pricing nonresident students out of the higher education “market”. Specifically, if costs for nonresident

students become higher than students are willing to pay, the associated revenues would fail to materialize and the universities would be left with an unallocated reduction. However, given the lower priority of nonresident students for state resources and the lack of available General Fund to “backfill” the revenue needed to implement the LAO’s recommendation, staff recommends that the committee approve level of General Fund savings associated with the proposal but allow UC and CSU to raise nonresident tuition between undergraduate and graduate students as they deem appropriate.

**Action:** Issue held open pending the May Revision.

**C. CCC FEE INCREASES.** Fees for California Community College students are set in statute by the Legislature. For most students at Community Colleges, the Governor proposes increasing fees by \$8 per unit – from the current \$18 per unit level to \$26 per unit. However, under the Governor’s proposal, community college students who have already earned a Baccalaureate degree would be charged a flat \$50 per unit fee, thereby increasing fees for that population of students by \$32 per unit (from the current \$18 level.)

**STAFF NOTES.** Staff concurs with the LAO’s recommendation on the \$8 per unit fee increase, and notes that financially-needy students will continue to have their fees (at the increased level) covered under the Board of Governors (BOG) fee waiver program. Furthermore, the additional financial aid benefits reaped through the Pell Grant program would provide cash directly into the pockets of financially-need community college students to help cover unfunded costs related to books, housing, transportation and living expenses. As such, staff recommends that the committee approve the fee increase to \$26 per unit.

**Action:** Issue held open pending the May Revision.

As with the other fee proposals, the community colleges have expressed concern over whether the revenue assumptions attributable to the proposed fee increases would materialize. If the fee increases change student behavior and the fee revenues are not realized, then the reduction ends up to be an unallocated reduction to the college system. In conclusion, staff recommends that the \$50 baccalaureate degree surcharge be held open pending the May Revision.

**Action:** Issue held open pending the May Revision.

**D. PROFESSIONAL STUDENT FEE INCREASES.** The Governor’s Budget proposes to dramatically *decrease* the amount of General Fund support that the state provides for professional degree instruction at UC and Hastings College of Law (i.e., law, business, medicine, veterinary medicine, nursing, theater/film/television ) Exempted from this reduction are any cuts or additional fee increases associated with nursing programs. Specifically, the Governor proposes to reduce the state “subsidy” for professional school

students by \$45.6 million (\$42.6 million from UC and \$3 million from Hastings), which is designed to capture a 25 percent reduction in the state subsidy for professional degree students.

**STAFF NOTES.** Staff recommends that this issue be held open pending the May Revision.

**Action:** Issue held open pending the May Revision.

**E. CSU HIGH COST PROGRAMS.** The Governor's Budget makes no explicit proposal regarding to CSU's high cost (professional level) degree programs. Under current practice, CSU charges graduate students in masters-level programs like business, nursing, and film/television the same fee level as it does other graduate-level students. At UC, professional school students in these same fields of study pay an additional differential fee which ranges from \$2,900 for nursing students to \$9,000 for MBA students.

**LEGISLATIVE ANALYST.** The LAO contends that the current fee structure for professional-degree graduate students is inconsistent between UC and CSU and proposes that CSU institute a similar "differential fee" for students in the above-noted three professional degree programs. According to the LAO, if each of the approximately 4,000 students enrolled in the three professional degree programs paid a differential fee of 15 percent more, the LAO believes it would generate approximately \$2 million in additional revenue.

**STAFF NOTES.** Staff concurs with the need to explore this policy option, but notes that it is impractical to implement a differential fee for these students in the Budget Year, without sufficient notice and without an analysis of the proposal by the CSU and the Board of Trustees. As such, the committee may wish to encourage the LAO and CSU to explore this option for consideration and action during the 2005-06 budget discussions.

**Action:** Information Only

**F. ESTABLISHMENT OF "EXCESS UNIT" FEE.** The Governor's Budget proposes to establish a per-unit surcharge for undergraduate students at UC and CSU who enroll in considerably more courses than are required to obtain a baccalaureate degree. Specifically, the Administration proposes charging students the full cost of instruction for each credit unit they take beyond 110 percent of the units required to obtain a baccalaureate degree. For most programs, the LAO cites that the unit cap would be set at 198 quarter units and 132 semester units. The Governor's Budget assumes that the implementation of this policy will result in General Fund savings of \$9.3 million at UC and \$24.4 million at CSU.

**STAFF NOTES.** Both UC and CSU, as well as the LAO, note that if the surcharge policy is effective, then most students WILL NOT pay the higher fee. Instead they will graduate or drop out rather than enrolling in excess classes and paying the higher amount. As a result, staff believes that the revenue assumed from the proposal will fail to materialize,

and instead, UC or CSU will have an unallocated reduction and an open “slot” which would be filled with another student. Given that the Administration’s proposal strives to alter student behavior, it’s unclear why any General Fund savings would be associated with this new policy. As with prior proposals, this is not a policy that could be immediately implemented. Students need to be given sufficient notice of the higher fee in order to ensure they are taking the courses appropriate to their major and necessary to graduate in a timely manner. As such, staff recommends that the committee hold this issue open pending the May Revision.

**Action: Issue held open pending the May Revision.**

## **II. FINANCIAL AID**

**BACKGROUND.** Financial assistance for students comes in many forms and is offered by many entities. The major forms of financial assistance for postsecondary students includes grants (scholarships and fellowships), loans, work study, investment accounts, and tax credits. The major providers of financial assistance are the federal government, state government, universities, and private benefactors.

The state of California provides student financial aid through the Cal Grant Program, university-based institutional aid, and Governor’s Merit Scholarships. Each of the public university systems administers its own financial assistance programs (known as “campus-based financial aid”) using dollars derived from student fees and/or the state General Fund.

**A. CAL GRANT PROGRAM.** The Governor’s Budget proposes to substantially limit and constrict the Cal Grant entitlement program by: (1) reducing the income ceilings used to determine program eligibility; (2) reducing the maximum grant amount to students attending private colleges and universities; and (3) reducing the maximum award amount for public college students by “de-coupling” the grant amount from fee increases.

**Eligibility.** The Governor proposes to reduce the maximum family income necessary to be eligible for the Cal Grant A program by 10 percent, from the current level of \$69,000 to \$60,000 for a family of four. In the Cal Grant B Program, the income ceiling would be reduced from \$36,300 to \$31,600, also for a family of four. The Governor’s Budget assumes that this proposal will save \$11 million in General Fund due to fewer students qualifying for the Cal Grant entitlement program.

**Action: Issue held open pending the May Revision.**

- **Private Institution Grant Amount.** The Governor proposes to reduce the grant level for students attending private and independent colleges by 44 percent. This would result in the maximum grant level being decreased from the current amount of \$9,708 to \$5,482.

The newly proposed grant level is equivalent to the proposed fee level at the UC. The Governor's proposal would only impact new Cal Grant recipients;

**Action: Issue held open pending the May Revision.**

- **Public Institution Grant Amount.** Counter to codified Legislative intent, the Governor also proposes to dissolve the practice of increasing Cal Grant awards to cover the additional costs associated with fee increases at UC and CSU. Thus, rather than increasing the grant level to cover the proposed 10 percent fee increase, the maximum award level would remain at the current-year level. The LAO estimates that this policy change avoids \$18.7 million in General Fund costs that would otherwise need to be paid.

**STAFF NOTES.** Staff recommends that this issue be held open pending the May Revision.

**Action: Issue held open pending the May Revision.**

**B. INSTITUTIONAL-BASED FINANCIAL AID.** The Governor's budget proposes to reduce the percentage of new fee revenue (derived as a result of the fee increase) that is set aside for campus-based financial aid programs. Under current practice, UC and CSU set-aside one-third of the revenue generated by a fee increase to provide the financial aid necessary to help offset the costs to needy students. The Governor proposes to reduce the set-aside amount to 20 percent (rather than the current 33.3 percent). The remainder of the revenue would be available to the university systems to help offset the various proposed General Fund reductions.

Under current practice, UC and CSU retain the authority to distribute these funds to students on their campuses as they see fit. Whether the set-aside for financial aid is 33.3 percent or 20 percent, funding for campus-based financial aid programs will increase in the 2004-05 fiscal year. With the proposed increases in student fees, at the 20 percent set-aside level, campus-based financial aid programs are proposed to rise for UC and CSU by \$38 million and \$26 million respectively, for a total of \$391.1 million at UC and \$217.4 million at CSU. The funding generated from the fee increases appears to be evenly derived from both undergraduate and graduate students.

**STAFF NOTES.** There are essentially two issues before the legislature related to institutional financial aid. *First* – Should the UC and CSU reduce the amount of student fee revenue that is set aside (from 33.3 percent to 20 percent) for student financial aid? Staff would note that, combined with the proposed Cal Grant reductions, the total reduction in financial aid resources will inevitably have a negative impact on students. However, if the set aside is returned to 33.3 percent, without an accompanying General Fund augmentation to backfill the proposed reductions, the net effect is simply an

“unallocated” reduction to the UC and CSU. Staff recommends that this portion of the proposal be held open, pending an update on the General Fund as part of the May Revision. *Lastly* – Pursuant to the LAO recommendation: Should the Legislature shift funding from campus-based institutional aid programs to backfill reductions in the Cal Grant program?

**Action: Issue held open pending the May Revision.**

*Lastly*, staff would point out that there is already a reduced pool of financial aid resources for campuses to work with – given that the set aside is proposed to be reduced from 33.3 percent to 20 percent. Staff recommends that the committee deny the LAO’s alternative proposal to shift and redistribute scarce financial aid resources and instead consider alternative funding sources to increase the total amount of funding available for student financial aid.

**Action: Issue held open pending the May Revision.**

**C. APLE PROGRAM.** The Governor’s Budget proposes to reduce the number of Assumption Program of Loans for Education (APLE) warrants from 7,700 to 3,500 (a reduction of 4,200 warrants). Since 1997-98, the number of APLE warrants has grown considerably, from 500 in 1997-98 to 7,700 in 2003-04. While there are no savings associated with the Governor’s proposal in the Budget Year, a reduction in the number of APLE warrants would result in approximately \$57 million in savings over a the four-year period beginning 2006-07. Further, the Administration is also proposing to make a variety of statutory changes to the program establishing priorities for the granting of warrants. The Administration’s proposal has yet to be amended into a piece of legislation, but is slated to be referred to the appropriate policy committees when that amendment occurs.

**STAFF NOTES.** Staff recommends that this issue be held open pending information on future year revenues as part of the May Revision.

**Action: Issue held open pending the May Revision.**

**D. EDFUND SURPLUS.** Operating under California statute, EdFund is a nonprofit “auxiliary” organization of the California Student Aid Commission which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students don’t “pay” for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both

lender and guarantor by directly lending money to students via their educational institutions.

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**STAFF NOTES.** The LAO identification of the SLOF as a source for other financial-aid related expenses has sparked a great deal of interest due to the perception that EdFund’s SLOF is essentially “free money”. However, staff notes that student loan programs (and the accompanying Student Loan Operating Fund) are operated under a variety of federally-imposed constraints (both statutory and contractual). Furthermore, EdFund and the Student Aid Commission have recently released a “utilization plan” which discusses EdFund's future financial needs, including the need to reinvest in technology, diversify its financial operations, and maintain a prudent reserve.

Committee staff, the Student Aid Commission, the LAO, and the Department of Finance are currently analyzing EdFund’s expenditure plan and investigating the amount of money that may be available for other allowable “financial aid” purposes. Of particular interest is the option of being able to “backfill” the Governor’s proposed Cal Grant reductions from this funding source. Staff recommends that this issue be held open pending the analysis of additional information.

**Action:** Issue held open pending the May Revision.

**Proposed Consent**

Staff recommends that the following items be Approved as Budgeted.

Action: Approved (3-0)

- 6600-001-0001. Support, Hastings College of Law. \$8,119,000
- 6600-001-0814. Support, Hastings College of Law. California State Lottery Fund. \$152,000
- 6600-301-6028. Capital Outlay, Hastings College of Law. McAllister Street Facility: Code Compliance Update. \$18,758,000
- 7980-001-0784. Support, California Student Aid Commission. Payable from the Student Loan Operating Fund. \$12,640,000.
- 7980-101-0890. Local Assistance, California Student Aid Commission. Federal Trust Fund. \$10,221,000
- 7980-495. Reversion, California Student Aid Commission.



Jack Scott, Chair  
 Bob Margett  
 John Vasconcellos

April 26, 2004  
 1:30 p.m. – Room 113

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**Department of Education – Local Assistance (6110)****I. State Categorical Programs:**

Two budget items that relate to the previous (April 12<sup>th</sup>) Subcommittee hearing on the Governor's 2004-05 proposals for K-12 categorical program reform are presented below. The Economic Impact Aid proposal was developed by the LAO, in part, as an alternative to the Governor's major categorical consolidation-shift proposal. The Governor's proposal to phase-out the Early Mental Health Initiative is a part of a list of categorical program reductions and eliminations proposed by the Governor that were discussed at April 12<sup>th</sup> hearing.

**A. Economic Impact Aid – LAO Proposal**

The Governor's Budget proposes \$548 million for the Economic Impact Aid (EIA) program in 2004-05. This includes an increase of \$49.1 million over the 2003-04 budget providing (1) \$34.6 million for growth and COLA and (2) \$14.5 million from EIA funding shifted from Charter Schools to EIA.

EIA is a categorical program that was created more than 25 years ago to provide funding for compensatory education services to low-performing and English learner students.

The EIA formula provides funding to school districts through a complicated set of formulas that recognizes need as measured by the concentration of English learner, poor, and transient students. Funding is distributed to districts through pup-pupil grants and minimum district grants.

There are approximately 1,559,542 students who are English learners in California – more than 25.6 percent of the student population. With regard to poverty measures, there are roughly 3,006,877 students – 49 percent of the student population receiving free and reduced price meals and 622,845 pupils—10 percent of students -- from families receiving CalWORKs.

The LAO notes a number of problems with the EIA formula. First, the EIA formula is felt to be outdated in terms of its heavy emphasis on poverty over English learners. English learners have become a larger group than students in

poverty since the formula was established. Secondly, the formula results in allocations that appear arbitrary and unpredictable based upon need.

For this reason, the LAO recommends that the EIA formula be redesigned to base funding more directly on the number of students who are poor and English learners. The new formula would be more simple and make allocations to districts more predictable.

As a part of the formula redesign, the LAO recommends that funding from two other categorical programs be consolidated into the EIA formula, as follows:

- Shift \$53.2 million for the English Learner Student Assistance Program (ELAP) into the main EIA formula. The Governor proposes shifting ELAP funding into revenue limits in the budget year. While the LAO was supportive of the Governor's categorical consolidation-shift proposal, the LAO does not support the Governor's shift for programs serving special needs students such as ELAP.
- Shift an unspecified portion of Targeted Instructional Improvement Grant (TIIG) funds used for instructional purposes as an add-on to the EIA formula. The Governor proposes to shift these funds into revenue limits as a part of his categorical reform proposal.

## **B. Early Mental Health Initiative Program**

**Background:** The Early Mental Health Initiative (EMHI) was authorized by Chapter 757, Statutes of 1991 (AB 1650). The goals of the program are to minimize the need for more intensive and costly services as students grow older and to increase the likelihood that students experiencing school adjustment difficulties will succeed in school.

The program targets school-aged children between Kindergarten and third grade who are experiencing mild to moderate school adjustment issues and who are *not* otherwise eligible for special education assistance or county mental health services because their condition is not severe enough to meet the eligibility criteria in these other programs.

The program is funded with Proposition 98 dollars, but administered by the Department of Mental Health (DMH). Under the Early Mental Health Initiative, DMH awards grants (for up to three-years) to local education agencies (LEAs) to

implement early mental health intervention and prevention programs. Schools that receive grants must match state EMHI funds.

EMHI grant programs are required to utilize researched-based services delivered by trained paraprofessionals in collaboration with County Mental Health Departments. Services are school-based and targeted specifically to students from low-income families who are in out-of-home placements or who are at risk of out-of-home placement. The average cost of the program is \$600 per student. The vast majority of student participants (84 percent) receive only one cycle of services (once a week for 12 to 15 weeks).

The EMHI program has been evaluated to be effective in improving the long-term social competence and school adjustment issues presented by children in the target population. A study conducted by an independent contractor for the Department of Mental Health in 2000 demonstrated that the children who were served in EMHI in the fall showed improved scores on social competence and school adjustment by the end of their program in winter. The comparison group of children, who were waiting to begin services, did not show comparable growth during the same time period, and in contrast, their social competency and school adjustment scores actually declined.

The same independent contractor demonstrated a large improvement in social competence and school adjustment related behaviors between the baseline and year-one follow-up. These gains were maintained into the second year following services.

**Governor's Proposed Budget:** The Governor proposes to reduce the Early Mental Health Initiative Program from \$10 million in 2003-04 to \$5 million in 2004-05 in order to eliminate funding for a new cycle of three-year grants. The remaining \$5 million in 2004-05 would cover existing grants that will be in the third (and final) year of the grant cycle.

In the current year, the program is supporting a total of 137 grants, with 73 grants being in their second-year of the three-year grant cycle, and 64 grants being in their third and final year of the cycle.

In 2003-04, the Davis Administration proposed eliminating all \$15 million in funding for the program, but partial funding of \$10 million was restored in the final 2003-04 Budget. By phasing third year grants out in 2004-05, the Schwarzenegger Administration is proposing to eliminate the program 2005-06.

When Governor Davis proposed an elimination of funding for the program, the proposal included an elimination of five DMH positions. When the Legislature restored \$10 million in the 2003-04 budget, none of these positions were restored. The Department of Mental Health's budget was reduced by \$439,000 to reflect the elimination of these positions.

The department is evaluating what staffing level it would need to initiate a new RFP process if the Legislature restores \$5 million in funding. The department is looking into this matter and will have a response next week.

The LAO does not object to the Governor's proposal to eliminate funding for the EMHI program. Although the program has demonstrated positive outcomes for children, the LAO believes that elimination is an option that the Legislature may want to consider during this difficult budget year.

## II. Federal Funds Overview (Information Only)

California receives state education grant funding from three major federal agencies – the Department of Education, the Department of Health and Human Services and the Department of Agriculture. Four federal programs – child nutrition (school meals), Title I (compensatory education), child development (child care) and special education -- provide most of the funding to K-12 schools in California. These four programs are among the largest federal grant programs to our state overall.

Estimated funding for these programs in 2004-05 is summarized by the table below. According to the latest estimates available from the federal government, California will receive approximately \$7.0 billion in federal education funds in 2004-05 (Federal Fiscal Year 2004), an increase of \$362.1 million, or 5.5 percent from 2003-04.

Federal Funds Agency/Program	FFY 2003	FFY 2004	Change
<i>US Dept. of Education:</i>			
Title I and Other Programs Authorized Under NCLB	2,879,879,749	3,077,533,610	197,653,852
Special Education – IDEA	1,024,670,225	1,166,512,656	141,842,431
Vocational and Adult Education – Perkins & WIA,	220,718,119	222,270,088	1,551,969
<b>Subtotal, USDE Funds</b>	<b>4,134,921,791</b>	<b>4,476,913,239</b>	<b>341,991,448</b>

<b><i>US Dept of Agriculture:</i></b>			
School Nutrition – School Lunch, Breakfast, Summer Meal Programs	1,444,865,000	1,616,804,000	171,939,000
<b><i>Subtotal, USDA Funds</i></b>	<b><i>1,444,865,000</i></b>	<b><i>1,616,804,000</i></b>	<b><i>171,939,000</i></b>
<b><i>US Dept of Health &amp; Human Services:</i></b>			
Child Care – TANF & Child Care and Development Block Grant	1,044,876,000	893,041,000	-151,835,000
<b><i>Subtotal, USHHS Funds</i></b>	<b><i>1,044,876,000</i></b>	<b><i>893,041,000</i></b>	<b><i>-151,835,000*</i></b>
<b><i>Total, Federal Funds K-12 Education Funds to California</i></b>	<b><i>\$6,624,662,791</i></b>	<b><i>\$6,986,758,239</i></b>	<b><i>\$362,095,448</i></b>

\* Reductions reflect adjustments for the loss of one-time TANF funds (\$118.0 m), TANF savings associated with Stage II Child Care (\$53.8m), and a reduction (\$20 m) in the level of Child Care and Development Block Grant funds in 2004-05.

Federal funds appropriated from the U.S. Department of Education (USDE) for elementary and secondary education will increase by \$342.0 million (8.3 percent) in 2004-05, to California. This includes an increase of \$197.7 million (6.9 percent) for programs authorized under No Child Left Behind (NCLB) -- including Title I programs -- in 2004-05. In addition, special education funds authorized under the Individuals with Disabilities Education Act will increase by \$141.8 million in 2004-05, of which \$139.5 million is for Part B grants for school-age children and youth. (See Appendix A – page 42, for the latest federal estimates of USDE grants to California for FFY 2004.)

The Governor's January 10 Budget reflects \$6.6 billion in federal funds in 2004-05, approximately \$366.8 million below the latest federal grant estimates. The Governor proposes to revise federal funding estimates for most state programs via the April Finance Letter. Other remaining revisions will follow at May Revise. These revisions reflect new amounts in the Consolidated Appropriations Act (H.R. 2673) signed by President Bush on January 23, 2004, after the Governor's Budget was released. This Act contains the appropriations for Labor, Health and Human Services (HHS), and Education departments for federal fiscal year 2004.

The Subcommittee will consider proposals for appropriating new and ongoing federal funds for education programs at this and future hearings.

### III. Special Education:

**Background:** There are approximately 675,332 children and youth with disabilities receiving special education services in California schools. Special education students ages 5 to 18 years represent approximately 10 percent of our state's K-12 student population statewide.

The overwhelming majority (92.6 percent) of children and youth receiving special education services in our state are 5 to 18 years old. However, 6.0 percent are under age 5 years and another 1.4 percent of students are age 19-22.

The population of children and youth with disabilities receiving special education services in California is very diverse racially and ethnically. Most students with disabilities in California -- 62.2 percent -- are students of color.

Federal law defines 13 categories of disability. More than two-thirds of the students with disabilities in California fall in two categories -- specific learning disability and speech or language impairment. (See Appendix B -- page 43)

The Governor's Budget proposes **\$2.67 billion** in General Fund support (Proposition 98) for special education in 2004-05.

The Governor's Budget also includes **\$1.03 billion** in federal special education funds for students ages 3-21 years in the budget year in 2004-05, which reflects an increase of \$74.3 million in the budget year. These federal funds are authorized under Part B of the Individuals with Disabilities Act (IDEA).

The latest estimates from the U.S. Department of Education indicate California will receive a total of **\$139.5 million** in additional federal IDEA funds in 2004-05 - \$65.0 million above the Governor's projections. These additional dollars will increase IDEA, Part B funding to a total of approximately **\$1.1 billion** in 2004-05. The Administration will propose revisions to the Governor's Budget at May Revise to update the latest federal estimates.

### **Budget Items/Issues:**

#### **A. Special Education -- Federal Funding Offset**

**Background:** State law requires that federal special education funds be used as an "offset" to state funding in any year where total funding for special education funding is higher than the prior year. In practice, federal special education funds are used to fund state General Fund increases for special education growth and COLA each year.

The offset (or deduct) has been authorized in law since the early 1980's and was continued by AB 602 (Davis & Poochigian) -- the state's special education funding

reform measure enacted in 1997. **However, the statutory provisions of the deduct were placed on hold from 1997-98 to 2000-01, so that new IDEA funds could be used to supplement state special education funding and implement funding equalization under AB 602.** The Administration continued to place most of the offset on hold in 2001-02, but returned to using the offset in 2002-03.

IDEA statutes and regulations stipulate that states must ensure federal IDEA funds are used to supplement, not supplant state and local funds. These laws and statutes also require states to maintain maintenance-of-effort (MOE) in order to qualify for federal funding.

In the early 1990's U.S. Representative George Miller became concerned about whether California's deduct provision was legal and in compliance with Congressional intent regarding federal special education law.

A couple of legal opinions developed in the early 1990's found the deduct provision to meet the legal test as long as the state provided maintenance-of-effort so that state and local funding for special education was not any less that the year before. These decisions also seem to require the state to use offset funds for new purposes, such as growth and COLA.

Under these MOE provisions, California must provide annual assurances that state funding – defined as state General Funds and property taxes expended for special education – does not decrease from year-to-year. Failure to comply results in penalties in the form of reduced federal funding in the amount of the state shortfall.

The Governor's 2004-05 Budget proposes a \$107.4 million increase for special education programs to cover enrollment growth (\$37.4 million) and a 1.84 percent COLA (\$70 million). This proposed increase is consistent with the Governor's proposal to provide statutory growth and COLA's for all education revenue limit and categorical programs in 2004-05.

The Governor's Budget proposes to fund the \$107.4 million in special education growth and COLA expenses with \$74.5 million in new federal IDEA funds that offset state General Funds costs, and with \$23.6 million in local property taxes and \$9.3 million in state General Funds.

The level of the federal funding offset in 2004-05 will change when the Administration adds the \$65.0 million in additional federal funds to the budget at May Revise. It is not clear how the Administration will propose to use these funds. According to the DOF, an additional \$11.5 million in federal funds can be used as

an offset without creating maintenance of effort problems. (In addition to the \$74.5 million already proposed in the Governor's Budget, this would bring the total offset to \$86.0 million in 2004-05.)

The LAO supports the Governor's January 10 proposal to use \$74.5 million in federal IDEA funds as an offset to special education growth and COLA costs in 2004-05. With regard to additional federal IDEA funds available at May Revise, the LAO's first priority is to use any new federal funds to further offset state General Fund growth and COLA expenses in 2004-05. Specifically, the LAO recommends using an additional \$11.5 million in federal funds --the maximum allowable -- to offset state general fund costs for growth and COLA. This would leave \$53.5 million in new federal funds for other purposes.

As a second priority, the LAO has identified several possible purposes for the remaining \$53.5 million:

- Provide additional funding for educationally related, mental health services for students with disabilities pursuant to AB 3632. The 2004-05 Budget continues \$69 million in federal funds that were added to the 2003-04 Budget for these federally mandated services, which are currently provided under agreements with county mental health agencies.
- Augment funding as a part of reforms to the state funding formula for students receiving special education services who reside in foster care, as recommended by a legislatively required study published by AIR in March 2003. The study recommends implementation of a placement-neutral funding formula that removes strong incentives for placing students in non-public schools and allows districts to access state special education funding for students they serve. The study also recommends a formula that recognizes costs for all students in special education who reside in foster care, not just those in non-public schools.
- Update the "incidence adjustment" as recommended by another legislatively-required study by AIR, as published in August 2003. The incidence adjustment accounts for high cost disabilities as a part of the AB 602 funding model, which is based on the level of the general school population.

*Staff recommends that the Subcommittee consider two of the options identified by the LAO – (1) LCI-NPS/NPA funding reforms to accompany SB 1316 (Alpert) and (2) additional funding for mental health, related services tied to SB 1895 (Burton).*

*LCI-NPS/NPA funding augmentations and reforms are discussed in the next section. Proposals to augment and reform funding for AB 3632 services are still under development as a part of a Senate working group and will be discussed at a future Subcommittee hearing.*

*Staff further recommends that the Subcommittee delay any action on the recommendations of the incidence adjustment study by AIR until next year. There are several reasons for this recommendation. First, the state already adopted an initial incidence adjustment pursuant to recommendations of the 1998 AIR study required by AB 602. The latest AIR study is intended to update the adjustments now in place. Secondly, the latest AIR recommendations would make substantial changes to definitions, costs, and allocations for the incidence adjustments now in place among districts that. Given their complexity, these changes require further study. In addition, the recommended revisions to the incidence adjustment interact with the recommended LCI-NPS/NPA funding reforms in ways that are not well understood and also require study and development. For this reason, it makes sense to sequence changes to the incidence adjustment after implementation of proposed LCI-NPS/NPA reforms in order to minimize both costs and unintended consequences. Staff notes that because the existing incidence adjustment expires at the end of the fiscal year, budget bill language is needed to continue the existing formula in the budget year. DOF indicates such a provision is likely to be included as a part of May Revise.*

## **B. LCI –NPS/NPA Funding Formula**

**Presentation by Tom Parrish, American Institutes for Research on *Policies, Procedures, and Practices Affecting the Education of Children Residing in Group Homes*, March 2003.**

As identified by the LAO, implementation of the funding reforms contained in the AIR study is one of several options the Subcommittee may wish to consider in appropriating additional federal special education funds in 2004-05.

### **Youth with Disabilities in Foster Care**

Under current statute, the state provides full funding (100 percent reimbursement) for the non-public school (NPS) or non-public agency (NPA) costs for students who were placed in an licensed children’s institution (LCI) by a non-education agency. This formula is referred to as the “LCI –NPS/NPA formula”.

Under the formula, LCIs are defined broadly to include foster youth in group homes, foster family agencies, foster family homes, residential medical facilities and other similar facilities (Education Code Section 56836.16).

The non-education agencies making the placements are most often the courts -- social services or probation -- but also include a small number of regional center placements. Children in foster care are classified by the courts as dependents in the case of abuse or neglect or as wards in the case where they have violated the law.

Non-public schools are privately operated, publicly funded schools certified by the state Department of Education. State and local funding for non-public schools is only available for special education students. There are approximately 369 non-public schools certified in California.

There are approximately 15,000 students receiving special education services who reside in foster care settings in California. Of these students, approximately 4,700 attend non-public *schools* that receive state LCI-NPS/NPA funding (100 percent reimbursement) through LEAs. An additional number of students receive non-public *agency* services that are also reimbursed by the state under the 100 percent formula.

State LCI-NPS/NPA funding is *not* available to LEAs who provide special education to students who reside in foster care settings, but who do not receive services from non-public schools or agencies.

### **History of LCI-NPS/NPA Funding Studies**

AB 602, as enacted in 1997, implemented major special education funding reforms directed to simplify the funding model, equalize funding among schools districts and allow more flexibility in the use of funds to better serve students.

AB 602 removed fiscal incentives for NPS schools by eliminating state subsidies (70 percent reimbursement) when LCI placements were made by education agencies. However, the new formula retained full subsidy (100 percent state reimbursement) for NPS placements if the student was placed in an LCI by a non-education agency, and the parents rights were removed, or if the placement was located outside of the parent's district of residence.

While the reforms contained in AB 602 were comprehensive, several of the more complicated elements of the new funding required more study and could not be

addressed in the bill. Changes to 100 percent funding for LCI-NPS placements was one of these issues. As a result, AB 602 included three studies to address issues that needed further study and development before they could be added to the new funding system. These three studies addressed the following issues:

- Compliance -- Study to address possible improvements in special education system accountability to offset greater flexibility under the new funding formula.
- Incidence Adjustment -- Study to evaluate possible variation in distribution of students with low-incidence, high cost disabilities and possible adjustments in the formula.
- Licensed Children's Institutions-Non-Public Schools/Agencies -- (LCI-NPS/NPAs) Funding -- Study to address continuing incentives under the new funding formula for children residing in Licensed Children's Institutions (LCIs) and served by Non-Public Schools and Agencies (NPS/NPAs).

With regard to the LCI-NPS/NPA funding formula, an initial study was completed in September 1998 by the American Institutes of Research (AIR). The study included a number of recommendations, including the removal of all fiscal incentives for serving students in foster care in non-public schools. The study, limited by time and funding, was unable to develop an alternative funding plan and recommended that a follow-up study be conducted to develop such a specific funding plan.

Following this study, the 1999-00 Budget Act directed the DOF, CDE and LAO to convene a working group to review funding for LCIs, including NPS/NPA services for these students. The three agencies were to report to the Legislature on any recommended changes in status or funding for LCIs or NPS/NPAs by November 1, 1999. However, due to critical staffing changes the three agencies were unable to complete the report.

As a result, the 2000-01 Budget Act appropriated \$1 million for an independent evaluation of funding for LCI's, including NPS/NPA services for children residing in these institutions. The contract for this study was awarded to American Institutes for Research (AIR) in late 2001. The final report entitled *Policies, Procedures, and Practices Affecting the Education of Children Residing in Group Homes* was released by CDE in March 2003.

**Recommendations of the AIR Study:**

The AIR study made two key findings:

- California has a flawed system for funding educational services for youth living in group homes, foster family homes and foster family agency homes.
- The system for ensuring high-quality, appropriate educational services for youth residing in group homes has a number of problems.

With regard to the funding system, the AIR study's primary concern was that school districts have strong financial incentives to place foster youth into special education programs provided by non-public schools. When foster youth in special education are served by non-public schools and agencies LEAs receive 100 percent funding; when school districts provide services no additional funds are provided. This situation creates a number of significant problems identified by the AIR study:

- 1. The funding formula violates important provisions of federal law requiring youth in special education to receive services in the least restrictive environment appropriate to their educational needs, and it denies these students access to the same educational opportunities as youth without disabilities.*
- 2. Under the current 100 percent reimbursement system, LEAs lack appropriate incentives for controlling costs. Also under the state funding system, LEAs may take less responsibility for overseeing services and outcomes for students.*

In response, the AIR study proposes a new model for funding special education services for youth residing in foster care that is independent of whether or not they are served by non-public schools or agencies. Under the recommended formula, special education funds would be allocated based on the number of foster beds in the LEA. Specifically, the formula recommends using group home bed capacity and average annual counts for foster family home and agency youth to defined foster beds.

Under the recommended formula, bed counts would be weighted differently – from one to eight – within five separate formula tiers. Group home beds would be grouped in tiers based upon their rate classification level (RCL). Foster family homes would be given a weight of one; foster family agencies would be given a weight of two.

While the formula would be based upon total foster beds, special education funding would only be available for youth with disabilities eligible for special education.

The formula recommended by AIR proposes to increase special education funding under the AB 602 formula by approximately \$52.1 million to reflect the average costs of providing special education services to the 15,000 students in special education residing in foster care. Additional funding of \$13.8 million is recommended to hold LEAs harmless from any funding losses that would otherwise result from changes in the formula. This would bring total new funding to \$65.9 million, above the \$120 million provided for the program at the time of the study.

A Senate working group convened last fall has been working on some refinements to the funding formula recommended by AIR. These refinements have focused on (1) verifying data adding any missing bed counts for placements eligible for funding under the existing formula and (2) refining the relative weights among different kinds of foster beds to better reflect costs.

### **Related Legislation:**

The AIR study makes numerous findings about the lack of state and local oversight of students with disabilities placed in non-public schools. In response, most of the report's recommendations address improvements in accountability for non-public schools serving youth with disabilities. **The report emphasizes that the recommendations associated with improving accountability are “essential” for the success of the alternative funding formula.**

Several bills have been introduced this year in the Legislature that propose changes in state law to implement recommendations from the AIR study.

Two of these bills -- SB 1316 (Alpert) and AB 1858 (Steinberg)—implement major provisions of the AIR study tied to higher educational standards, increased state and local oversight, and improved accountability for non-public schools. The goal of these bills is to require non-public schools – serving students with disabilities and funded by the state -- to meet the same standards as public schools.

SB 1510 (Alpert) requires teachers at non-public schools to possess valid teaching credentials and requires that students have access to standards-based, core

curriculum and instructional materials, as well as, state and local assessments. The bill also requires the Department of Education to monitor non-public schools every two years instead of every four years, and to include these schools in a variety of existing state and local data, reporting, assessment and accountability systems for public schools and districts.

SB 1510 is also intended to accompany any changes in the LCI-NPS/NPA funding formula approved by the Legislature, with the intent that such a new funding structure is:

- (1) fiscally neutral to the type of educational placement necessary and best suited for the student; and
- (2) allows public schools to access funding currently available only for non-public schools and agencies in serving individuals with exceptional needs residing in foster care.

The Governor Budget proposes to continue the existing LCI-NPS/NPA formula in 2004-05. The budget includes \$129.4 million in General Fund dollars for this formula, which provides an increase of \$3.7 million over the 2003-04 budget. It is not known whether the Administration is considering the AIR recommendations as a possible use of the additional \$53.5 million in federal funds available for new purposes in 2004-05.

A Senate working group, with guidance from study AIR staff, is currently working on refinements to the AIR recommended funding formula. The revisions appear to minimize “win and losses” among local agencies and lower additional costs somewhat. Final data from the working group is expected by May. When the Subcommittee will consider all options for appropriating additional federal funds in 2004-05.

*Staff notes there is a great deal of urgency for making changes to the LCI-NPS/NPA formula – as contemplated by AB 602 -- to allow more flexible funding, assure less restrictive education settings, improve school accountability, and most importantly to improve options for students with disabilities in foster care.*

*As noted in the AIR study, the population of youth residing in foster care is very vulnerable and has extraordinary needs. With access to high quality services and adequate oversight, at risk for poor educational achievement, unemployment, public assistance, and incarceration.*

*Under the current formula school districts have no access to funds for providing special education services if students are not served by non-public schools or agencies. This creates problems for school districts when non-public schools close. This was the case in the Sweetwater Union School District where a local non-public school was closed under court advisory following the death of a student at the non-public school. The Sweetwater district took over the provision of education services, but the funding formula created no source of funding for the district to serve these students. The 2001-02 Budget Act provided \$1 million in special funding in order to allow Sweetwater to continue services. This funding has continued since then. The Governor's Budget 2004-05 proposes continuation of this funding item. Reportedly, there are non-public schools in other districts that face possibility of closure.*

*For all the reasons cited above, staff recommends that the Subcommittee appropriate some of the additional federal IDEA funds that are identified at May Revise to begin the process of phasing in changes to the LCI-NPS/NPA formula as recommended by the AIR study. Since these changes will require statutory changes, staff further recommends that changes to the funding formula be subject to SB 1510 (Alpert), or other legislation pending this year that implements the alternative funding model, as recommended by the AIR study.*

*Staff further recommends that changes to the formula allow school districts to access funds and hold school districts harmless, as recommended by the AIR study. In addition, staff recommends that the final formula lower the weights for foster family home and agency youth counts as recommended by LAO, and include regional center placements, as appropriate.*

*Staff also recommends, that special funding for the Sweetwater Union School District be phased-out beginning in 2004-05 as additional funding under a new special education funding formula for youth residing in foster care placements is made available to the district.*

*In addition, staff recommends that CDE report to the Subcommittee at its May 10<sup>th</sup> hearing on the number of department staff currently assigned to NPS certification and the number of additional staff necessary to assure that the department visit NPSs at least once every two years.*

*Similarly, staff recommends that the LAO gather data on the level of federal IDEA funds appropriated for state level activities in the Governor's Budget in 2004-05, and the specific programs and positions funded with these dollars.*

*Lastly, staff recommends that any changes to the LCI – NPS/NPA funding formula be accompanied by policy legislation that implements the accountability recommendations of the AIR study. According to the AIR study, “without incorporation of these accountability measure, there is a real danger that the more flexible funding approach recommended in this report could simply result in an overall decline in the number and quality of services available to youth in foster care.” The AIR report clearly states that the study team would not have recommended the alternative funding model “without the added accountability recommendations to ensure the provision of appropriate education services to the foster care population.”*

### **C. April Finance Letters – Special Education Items**

The April 1, 2004 budget letters from the Department of Finance propose two sets of changes to the Governor's January 10 Budget that are related to federal funds for special education. These two items are presented below:

#### **1. 6110-001-0890, Evaluation of Family Empowerment Centers on Disabilities (Issue 201)**

It is requested that \$180,000 be provided for the State Department of Education to contract with an outside entity for the evaluation of 12 Family Empowerment Centers on Disabilities.

It is requested that Provision (X) be added to this item to conform to this action:

(X) Of the funds appropriated in this item, \$180,000 is available for the contract with an outside entity to evaluate 12 Family Empowerment Centers on Disabilities pursuant to Chapter 690, Statutes of 2001.

***Staff recommends approval of this item. This study was required by SB 511 (Chapter 690; Statutes of 2001), which established the Family Empowerment Centers. The bill did not provide funding for the evaluation study.***

#### **2. 6110-161-0890, Special Education (Issues 200, 203)**

It is requested that this item be increased by a total of \$2,906,000, including \$363,000 to reflect an increase in the Capacity Building Schedule as the result of a technical error and \$2,543,000 for additional local assistance carryover authority for 2002-03 federal IDEA funds.

It is requested that Schedules (1) and (4) of this item be amended to conform to this action:

“(1) 10.60.050.012-Local Agency Entitlements, IDEA Special Education..~~\$871,676,000~~  
~~\$874,219,000~~

(4) 10.60.050.021-IDEA, Capacity Building, Special Education...~~\$72,857,000~~ \$73,220,000”

***Staff recommends that the Subcommittee not take any action on this item at this time and that this item remain open until May Revise when the Subcommittee considers the Governor’s proposes other budget changes to federal special education budget items.***

#### IV. Assessment and Accountability

##### A. No Child Left Behind Update (NCLB)

###### ➤ Presentations by State Board of Education & California Department of Education on NCLB Implementation

**Background:** In January 2002, President Bush signed legislation re-authorizing the Elementary and Secondary Education Act (ESEA). The newly signed law –No Child Left Behind Act (NCLB) of 2001– makes sweeping changes to the previous Title I program under the ESEA law.

California is slated to receive nearly \$3.1 billion in federal fiscal year (FFY) 2004 for federal elementary and secondary education programs authorized under NCLB. This represents an increase of \$197. 7 million for programs authorized under No Child Left Behind -- including Title I programs -- in 2004-05.

**The Subcommittee will consider the following budget items appropriating federal funds for two programs – Title I and Title VI -- authorized under the No Child Left Behind Act of 2002 (NCLB). These programs provide important new funding to states in meeting the requirements of the new federal law.**

***Staff recommends that the Subcommittee ask the Department of Education and Department of Finance to present their current expenditure proposals for Title I – Set-Aside funds and Title VI Assessment funds in the budget year.***

***Staff further recommends that the Department of Finance present final expenditure plans for both of the Title I and Title VI programs at the Subcommittee’s May 10<sup>th</sup> hearing. Such plans would be useful to clarify the***

*precise elements of the Governor's Budget proposals and changes to the budget currently underway. In addition, these plans would be useful in addressing the LAO's concerns about the possible loss of unspent Title I and Title VI federal funds in 2004-05.*

### **B. Title I – Part A Set-Aside Funds for School Improvement (6110-136-0890)**

**Background:** Federal law requires that states set-aside two percent of their Title I, Part A funds for school improvement purposes. These funds are to be used to assist schools, i.e. provide interventions and sanctions, identified as program improvement schools. **The two percent set-aside requirement in previous years grows to four percent in 2004-05.**

#### **Budget Action/Issues:**

The 2004-05 budget provides approximately \$32.9 million in new Title I set-aside funds for school intervention programs. This brings total, ongoing federal funding for Title I set-aside programs to \$65.7 million in the budget year – nearly double the amount currently available annually for school improvement. This increase is possible because the required federal set-aside grew from two to four percent.

In addition, because the state has not spent all of its Title I set-aside funds in the last two years, the state has accumulated significant additional funds that are available for expenditure in the 2004-05.

The table below, as prepared by the LAO, summarizes total funding available and expended for the Title I Set-Aside program.

**Federal Accountability Funding for School and District Interventions**

<i>Dollars in Millions</i>	<b>2002-03 Actual</b>	<b>2003-04 Estimated</b>	<b>2004-05 Proposed</b>
Funds Available	29.1	48.3	98.1
Expenditures	13.6	15.9	19.1
<b>Carryover</b>	<b>15.5</b>	<b>32.5</b>	<b>79.0</b>

*The LAO has raised strong concerns about the possible loss of approximately \$13 million in unallocated Title I available for school and district interventions to assist low-performing schools in the budget year. For this reason, the LAO recommends that the Legislature require CDE and DOF to provide a*

***comprehensive plan on how the funds will be used to assist low-performing schools and districts.***

CDE and DOF have been working on the development of such plans, although a final plan is not expected until May Revision. It is not clear if the Administration's plan will be tied to legislation or not.

An Assembly working group has been considering a number of reforms to the state's accountability system that would be funded with new Title I Set-Aside. These reforms would be tied to legislation – AB 2066 (Steinberg) and would establish new district level accountability programs, among other provisions.

**Questions for DOF and CDE:**

- *What assurances can DOF and CDE provide that the state will not lose any unspent federal Title I Set-Aside funds in the 2004-05?*
- *What is the final plan for spending Title I Set-Aside funds in the budget year, particularly as it relates to utilizing one-time carryover funds?*
- *Are DOF and CDE in agreement about funding to establish a new district-based accountability, as required by NCLB?*
- *Are the Governor's proposals for establishing district based accountability tied to any specific budget trailer bills?*

**C. Title VI – State Assessments (6110-113-0890)**

**Background:** The Title VI program provides states with funds to help cover the costs of meeting the assessment and data requirements of NCLB, including developing or improving assessments, developing curriculum and performance standards, expanding testing accommodations for English learners and students with disabilities, developing student data systems to track achievement and other indicators – such as graduation rates – required by NCLB, and increasing local capacity for improving student achievement.

**Budget Action/Issues:**

**2004-05 Funding.** The Governor's Budget provides appropriate \$32.0 million in 2004-05 for the Title VI program. This is an increase of \$4 million above the revised 2003-04 amount.

<b>Title VI Programs &amp; Proposed Funding</b>	<b>Jan 10 Budget</b>	<b>April Finance Letter</b>
Alternative Schools Accountability Model	775,000	775,000
STAR Program	8,099,000	<b>8,549,000</b>
STAR Test Development		<b>535,000</b>
NCLB Longitudinal Data Base	2,272,000	2,272,000
CELDT – Incentive Funding	7,100,000	<b>10,156,000</b>
High School Exit Exam Workbooks	2,500,000	2,500,000
California Alternate Performance Assessment	2,200,000	2,200,000
High School Exit Exam Evaluation	498,000	498,000
CELDT Vertical Scaling Project	300,000	300,000
Assessment Reporting and Review	400,000	400,000
CSIS Local Grants		<b>1,947,000</b>
CSIS Administration		<b>299,000</b>

The final 2003-04 budget provided \$16.2 million in unallocated funding for Title VI programs. The budget included provisional language tied to the appropriation that established a process for expending these set-aside funds. This process required the CDE to submit an expenditure plan to DOF and the Joint Legislative Budget Committee. The Department of Finance disapproved CDE's initial expenditure plan submitted last November, but partially approved a revised plan in January of this year.

The DOF has recently approved additional Title VI expenditures that should soon be official. DOF will update the Subcommittee on the status of the expenditure plan for the set-aside funds at today's hearing. In total, it appears that DOF has approved \$12 million of the \$16.2 million appropriated for set-aside. This leaves roughly \$4 million in unallocated funds that could be directed to other purposes in 2004-05.

The LAO has raised strong concerns about the possible loss of Title VI funding in 2004-05 as proposed by the Governor. According to the LAO, the state faces the possibility of losing approximately several millions of dollars in federal Title VI funds if they are not expended by September 30, 2004. Federal rules for Title VI require states to expend federal funds within 27 months of the fiscal year for which they were received. Under these same federal rules, unexpended Title VI funds must be returned by states to the federal government. The LAO is concerned that some of \$29 million in Title VI funds first appropriated for the program in 2002-03

may not all be spent by September 30<sup>th</sup>. The Title VI program has been characterized by large carryover funding in the first two years of the program.

**In response the LAO recommends that the Legislature adopt trailer bill language to appropriate \$8 million in unspent Title VI funds for the California English Language Development Test (CELDT) in 2003-04. This would remove any threat of losing federal funds in 2004-05.**

#### **Questions for DOF and CDE:**

- *What assurances can DOF and CDE provide that the state will not lose any unspent federal Title VI funds in the 2004-05?*
- *What is the final plan for spending Title VI State Assessment funds in the current and budget years?*
- *How does DOF and CDE propose to use approximately \$4 million in unallocated funds from the current year?*

#### **D. Title VI Federal Funds – State Assessments – April Finance Letters**

The April 1, 2004 budget letters from the Department of Finance propose a number of revisions to the Governor's January 10 Budget that are related to federal Title VI funds. These revisions are listed below.

***Staff recommends that the Subcommittee hold these items open until the May 10<sup>th</sup> when more formal information is available from the Administration about how it proposes to expend federal Title VI funds in the 2004-05.***

#### **6110-113-0890, Local Assistance, Federal Title VI Flexibility and Accountability (Issues 152, 153, 155, 156, and 179)**

- **Issue 152: California English Language Development Test Contract**—It is requested that Schedule (5) of this item be increased by \$563,000 for the purpose of making a technical adjustment to align program funding with current contract requirements. This request would restore the funding level to fully fund the contract for this program.
- **Issue 153: California English Language Development Test Apportionment**—It is requested that Schedule (5) of this item be increased by \$2,493,000 for apportionment funding to accommodate the additional 498,600 pupils projected to take the California English Language Development Test in 2004-05.
- **Issue 155: Standardized Testing and Reporting (STAR) Item Development**—It is requested that this item be increased by \$535,000 by adding Schedule (2.5) to ensure there

are sufficient test items for the STAR exam. The SDE will begin an annual release of 25 percent of the test items used in the most recent California English-language arts, mathematics and science California Standards Tests to the public. Since these items will no longer be used on future STAR tests, the continuous development of new items is necessary.

- **Issue 156: STAR Restoration Funds**—It is requested that Schedule (2) of this item be increased by \$450,000 to restore funding for STAR pre-test workshops and the STAR Technical Assistance Center that was reduced as part of the General Fund unallocated reduction to the various testing programs in 2003-04. This funding will provide technical assistance to school districts in administering the STAR exam and ensure that the required demographic fields on the exams are filled out properly.
- **Issue 179: Local Assistance for the California School Information Services (CSIS)**—It is requested that this item be increased by \$2,246,000 by adding Schedule (11) for \$1,947,000 and Schedule (12) for \$299,000. This funding will provide \$1,947,000 for the first of two years of funding for local implementation costs of a new CSIS cohort and \$299,000 for CSIS central operations for hardware and software to accommodate the new cohort.

It is also requested that schedules 2.5, 11, and 12 be added to this item and that Schedule 2 be amended as follows:

“6110-113-0890—for local assistance, Department of Education-Title VI Flexibility and Accountability, payable from the Federal Trust Fund.....~~32,028,000~~  
 38,315,000  
 Schedule:  
 (2) 20.70.030.006-STAR Program.....~~8,099,000~~ 8,549,000  
 (2.5) 20.70.030.016-Test Development: STAR Exam.....535,000  
 (5) 20.70.030.018-Incentive Funding—CELDT.....~~7,100,000~~ 10, 156, 00  
 (11) 20.90.001.010-CSIS Local Grants.....1,947,000  
 (12) 20.90.001.020-CSIS Administration.....299, 000”

It is further requested that conforming provisional language be added as follows:

- X. The funds appropriated in Schedule (2.5) of this item shall be available for test item development for the STAR program during the 2004-05 fiscal year. The test items developed with these funds shall make progress in aligning this exam with the State Board of Education-approved academic content standards and in ensuring that this exam is valid and reliable as measured to industry standards.
- X. Of the funds appropriated in Schedule (5) of this item, \$563,000 shall be available for approved contract costs for administration of an English language development test meeting the requirements of Chapter 7 (commencing with Section 60810) of Part 33 of the Education Code.
- X. The funds appropriated in Schedule (11) of this item are available for the first-year implementation costs of a new CSIS cohort.

X. The funds appropriated in Schedule (12) of this item are available for CSIS central operations costs for new hardware and software to support the new cohort.

### E. State Accountability Programs

The Immediate Intervention in Underperforming Schools Program (II/USP) was created in 2000 as part of the Public Schools Accountability Act (PSAA). The program allows schools in the lowest half of the state's Academic Performance Index ranking --Deciles 1-5 Schools -- to develop a school improvement plan. II/USP schools receive \$200 per ADA for up to three years. These schools must show progress toward meeting state improvement goals or face sanctions or state interventions.

The High Priority Schools Grant Program (HP) was created in 2001 and focuses on schools in the lowest 10% of the state's API ranking – Decile 1 Schools. Participating HP schools must also develop improvement plans and receive \$400 per student for up to a four-year period.

The Governor's budget proposes to reduce funding for the II/USP and HP programs by \$102.2 million in 2004-05. This reduces funding for II/UPS by \$76.8 million and funding for the HP program by \$25.4 million in the budget year, as indicated by the table below.

These reductions are the produce of program savings that result from two factors: (1) schools that entered the programs in earlier years have “timed out” of the program and their grants are expiring, and (2) the state has not funded grants for new schools since 2002-03. For the budget year, the Governor proposes funding for II/USP schools in Cohorts 2 and 3; Cohort 1 schools are not longer eligible for funding.

**Funding for II/USP and HP Programs**  
(Dollars in millions)

Program	2001-02	2002-03	2003-04	2004-05 Proposed
II/USP	\$161	\$151.4	\$129.8	\$ 53
High Priority Schools Grant Program	\$200	\$172	\$218.4	\$193

The LAO does not have any objections to these reductions.

## F. Budget Trailer Bills

- **District Accountability** – The Administration has developed language to provide for assessment of district-wide academic performance and provide sanctions for consistently low-performing districts. Sanctions would include interventions such as are not provided for low-performing schools and restrictions on management compensations. According to DOF, these provisions were going to be added to AB 2824 (Runner), the categorical reform bill sponsored by the Administration. The bill is currently being held in Assembly Education Committee.
- **1448 (Alpert) – Norm-Referenced Test Reductions in the 2004-05 Budget.** This bill reauthorizes the STAR program currently set to repeal on January 1, 2005. This bill also includes provisions that reduce the NRT tests – currently the CAT/6 –to the 3rd and 7th grade in order to conform to the \$6.5 million reduction for the STAR program in the Governor’s Budget for 2004-05. This reduction was agreed to as a part of the 2003-04 budget package.

## V. Education Mandates

**Background:** The California Constitution, as amended by Proposition 4 in 1979, requires the state to reimburse local agencies for costs incurred in complying with certain state-mandated education programs.

For K-12 education, this law provides for the reimbursement of costs incurred by school districts and county offices of education for any increased costs incurred after July 1, 1980 as a result of any statute enacted after January 1, 1975, which mandates a new program or a higher level of service for an existing program.

The Commission on State Mandates decides whether a statute creates a state-reimbursable mandate, and if so, estimates the statewide cost of the mandate. School districts and county offices of education then file reimbursement claims with the State Controller’s Office – detailing costs actually incurred. Once audited and approved, the SCO makes payments for these claims from funds appropriated by the State Budget Act, the State Mandates Claims fund, or specific legislation.

In the event the appropriation is insufficient to pay claims in full, claimants will receive prorated payments in proportion to the dollar amount of approved claims

for the program. Balances of prorated payments will be made when supplementary funds are made available.

The Government Code requires the state to pay interest (at the Pooled Money Investment Account rate) when paying overdue mandate claims to local agencies.

According to the LAO, the amount budgeted for K-12 mandates has been historically under-funded. This under-funding, coupled with recent decisions to defer payments for mandates, brings current state mandate liabilities – past year and ongoing – to approximately \$1 billion. However, the actual costs are not fully known since education mandate claims have not been fully audited.

The practice of deferring mandates does not reduce costs to the state – the costs remain and accumulate with interest. In this way, mandates are not like state grants where the amount paid out is discretionary on the part of the state. The claims, once audited and approved, must eventually be paid in full by the state. In addition, deferrals do not free local agencies from the need to comply with the mandates.

### **Budget Items/Actions:**

#### **A. Mandate Funding Deferrals:**

The Governor proposes to defer funding for education mandates in 2004-05. Technically, the budget appropriates \$1,000 for 39 separate mandates the Governor proposes to defer and zero funding for five mandates the Governor proposes to suspend in the budget year. The Governor's proposal is consistent with budget actions in recent years that have utilized mandate cost deferral – inside and outside of education – as a temporary budget solution.

The annual cost for mandate reimbursements is estimated by the LAO at over \$300 million alone in 2003-04. Given ongoing liability of over \$1 billion in 2003-04, the LAO estimates the state's liability for ongoing, unpaid claims is estimated to exceed \$1.6 billion by the end of 2004-05.

The Governor and Legislature have been silent on when these deferrals will be paid back. By deferring reimbursement of mandate claims, the state is not eliminating its obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account. According to the LAO,

the state has paid \$48.6 million in interest on the unpaid mandates through last year.

The Governor's Budget recognizes 39 ongoing mandates that LEAs can claim reimbursements for in 2004-05. (See Appendix C – page 44, for full list of mandates.)

The 39 mandates proposed by the Governor in 2004-05 include eight new mandates, recently approved by the Commission on State Mandates: 1) Peace Officer's Procedural Bill of Rights, 2) Financial and Compliance Audits, 3) Physical Education Reports, 4) Health Benefits for Survivors of Peace Officers and Firefighters, 5) County Office of Education Fiscal Accountability Reporting, 6) Employee Benefits Disclosure, 7) School District Fiscal Accountability, 8) Photographic Record of Evidence and 9) the Standardized Testing and Reporting (STAR) Mandate.

## **B. Mandate Exclusions/Suspensions:**

### ***Exclusions:***

The Governor's Budget does not recognize the STAR mandate because it believes the claims far overstate real costs, and proposes to delay recognition until claims are audited. The Commission on State Mandates recently approved STAR mandate claims from the year 2001-02 totaling \$36 million. If recognized and upheld as a legitimate mandate, these totals would be expected to climb substantially as more districts file claims.

The Administration proposes auditing claims for the STAR mandate before it recognizes and funds the mandate. It does not appear that the state can appeal the mandate as the three-year window for appeal by DOF has expired.

The LAO recommends that the Legislature adopt trailer bill language requesting the Commission on State Mandates to reconsider its decision on the STAR program mandate to clarify whether the federal testing requirement would reduce the scope of the state-mandate costs and to address the issue of offsetting costs.

### ***Suspensions:***

Mandate costs can be reduced through elimination or suspension of specific mandates. The Governor proposes to suspend five total mandates in 2004-05,

including School Crimes Reporting II, School Bus Safety II, Law Enforcement Sexual Harassment Training, County Treasury Oversight Committee, and Investment Reports. This action requires an amendment to Section 17581.5 of the Government Code. The Administration has proposed budget trailer bill language to accomplish this.

The LAO recommends elimination of the Physical Education Reports mandate and the Employee Benefits Disclosure mandate because they are both unnecessary. Elimination would result in savings of at least \$500,000 annually.

*Staff notes that the Assembly Special Committee on State Mandates has reviewed a number of long-standing mandates affecting school districts and local governments. Its recommendations are contained in Appendix D – page 45. If adopted, these recommendations would significantly reduce the state's future mandate obligations.*

### C. Mandate Reforms

The Administration is concerned about state audits of education mandate claims that found high rates of disallowable costs. In response, the Administration proposes legislation to reform state law governing mandates and address the new and ongoing state liability for these mandates.

The reforms sought by the Administration would: (1) allow the legislature to limit mandate costs through the annual budget act; (2) require the Legislature to approve reimbursement guidelines and cost estimates before they are finalized by the Commission on State Mandates; (3) limit reimbursements to the least costly approach; and (4) increase audits of mandate claims.

The LAO proposes a number of reforms related to the mandate reimbursement process. In particular, it proposes the following specific recommendations:

***Federal Mandate Exclusion:*** *The LAO recommends that the Legislature broaden the federal mandate exclusion so the Commission on State Mandates could waive state reimbursements any time federal law requires the same local programs -- regardless of whether the federal requirement predates the state mandate. This would result in significant savings for the STAR mandate and other potential new mandates.*

*Offsetting Revenues:* The LAO notes that several new mandates are offset by categorical programs that the state provides for a similar purpose. The LAO recommends that the subcommittee adopt budget bill language for the following budget items to require districts to use funds from these programs to first satisfy any related mandated costs: 1) State and federal testing programs, 2) County Offices of Education Fiscal Oversight, and 3) Remedial education programs. The LAO also recommends the Legislature adopt trailer bill language requiring the Commission to make modifications to the new county office fiscal oversight mandate to consider existing state funds as offsetting revenue.

### **Budget Trailer Bill Language**

- Mandate Reforms – The Administration proposes a number of statutory changes to limit new and ongoing state liability for these mandates. The Administration has provided the Subcommittee with proposed language that will be included in a stand-alone policy bill. (See Attachments)
- Education Mandates Suspensions – Suspends three additional education mandates including Investment Reports, Law Enforcement Sexual Harrassment Training, and County Treasurer Oversight Committees. Two mandates – School Bus Safety II and School Crimes Reporting II – were already suspended in 2003-04. This language is being proposed as a part of the omnibus budget trailer bill. (See Attachments)

## **VI. April Finance Letters –Governor’s Revisions to the Proposition 98 Agreements**

The April 1<sup>st</sup> Finance Letter provides formal notification of adjustments to the Governor’s January 10 Budget that implement the revised agreements between the Governor and the “education community” on Proposition 98 priorities. These pending adjustments were discussed at the Subcommittee’s March 15<sup>th</sup> hearing. (See Appendix E – page 54.)

***Staff recommends no action on the following items. These are major budget items that relate to funding within Proposition 98 and these items should remain open until the Subcommittee is ready to take action on the level of Proposition 98 funding and the allocation of funds within Proposition 98 in 2004-05.***

### **1. 6110-188-0001, Deferred Maintenance (Issue 651)**

It is requested that Item 6110-188-0001 be reduced by \$173.3 million to reflect an agreement between the Administration and the education community to fund this item at the current year level.

### **2. 6110-189-0001, Instructional Materials Block Grant (Issue 653)**

It is requested that Item 6110-189-0001 be reduced by \$188.0 million to reflect an agreement between the Administration and the education community to fund this item at the current year level.

### **3. 6110-230-0001, Funds for Distribution for K-12 Growth & COLA (Issue 654)**

It is requested that Item 6110-230-0001 be added and funded at \$53,157,000 to reflect an agreement between the Administration and the education community to provide growth and COLA adjustments for programs that are not funded to receive full growth and COLA adjustments.

It is further requested that conforming provisional language be added as follows:

#### Provisions

1. Funding in this item is for growth and cost-of-living adjustments for allocation to Items 6110-103-0001, 6110-107-0001, 6110-108-0001, 6110-109-0001, 6110-111-0001, 6110-113-0001, 6110-119-0001, 6110-120-0001, 6110-121-0001, 6110-122-0001, 6110-123-0001, 6110-124-0001, 6110-125-0001, 6110-127-0001, 6110-131-0001, 6110-139-0001, 6110-151-0001, 6110-158-0001, 6110-164-0001, 6110-166-0001, 6110-167-0001, 6110-181-0001, 6110-189-0001, 6110-191-0001, 6110-193-0001, 6110-195-0001, 6110-197-0001, 6110-198-0001, 6110-201-

0001, 6110-203-0001, 6110-208-0001, 6110-212-0001, 6110-224-0001, 6110-226-0001, 6110-228-0001, 6110-232-0001, 6110-235-0001, 6110-240-0001, 6110-243-0001, and 6110-280-0001.

2. Funding in all items listed in provision 1, except 6110-108-0001, 6110-158-0001, 6110-232-0001, and 6110-234-0001 shall be adjusted for growth by 1.02 percent. Funding for Items 6110-108-0001, 6110-158-0001, 6110-232-0001, and 6110-234-0001 shall be adjusted by the change in eligible participants for the programs funded in those items. Funding for all of these items shall be adjusted by 1.84 percent for cost-of-living except Item 6110-158-0001 which shall be adjusted by the statutory rate of 1.96 percent.

#### **4. 6110-601-0001, School District Revenue Limit Equalization (Issue 050)**

It is requested that Item 6110-601-0001 be reduced by \$27,770,000 to reflect a decline in funding for revenue limit equalization from \$109,914,000, to \$82,144,000. The appropriation for this issue will be made in SB 1298.

5. 6110-601-0001 and 6110-608-0001, School District and County Office of Education Deficit Factor (Issue 051)

It is requested that Item 6110-601-0001 be increased by \$264,813,000, and that Item 6110-608-0001 be increased by \$5,276,000, to reduce the deficit factor applied to school district and county office of education revenue limits. It is estimated that these adjustments will reduce the 2003-04 base deficit factor from approximately 1.2 percent, to approximately 0.3 percent. This change will be made through budget trailer legislation. No change is proposed to the 1.8 percent deficit factor related to the 2003-04 COLA adjustment.

## **VII. April Finance Letters – Other Issues**

The following revisions to the Governor's January 10 Budget are proposed by the April 1, 2004 budget letters from the Department of Finance. These items are itemized for separate vote because they require special action or contain increases in state agency positions. No issues have been raised with regard to any of these items.

### **Staff recommends approval of each of the following items.**

#### **1. 6110-001-0890, State Operations (Issue 150)**

- **Issue 150: Staff for Adequate Yearly Progress and Program Improvement**—It is requested that this item be increased by \$93,000 and that one Education Research and Evaluation Consultant position be approved to process and monitor statewide assessment data for determining Adequate Yearly Progress and identifying Program Improvement schools.

**2. 6110-125-0890, Language Acquisition and Migrant Education (Issues 006 and 009)**

It is requested that Schedule (1) of this item be increased by \$9,601,000 to reflect one-time carryover funds that is available for grants to the 22 Migrant Education regions. The proposed adjustment includes a one-time increase of \$10,200,000 from carryover, and a decrease in the federal grant of \$599,000. The carryover funds are available due to a one-time technical State and federal budget alignment and the liquidation of prior year encumbrances. The SDE would distribute \$6.2 million according to the current state funding formula that designates 75 percent for all eligible students, and targets 25 percent to students most at-risk of failing to meet academic achievement standards. The SDE would allocate the remaining \$4.0 million as grants to the 22 Migrant Education regions to promote parental involvement and leadership, a key focus under federal Migrant Education program guidelines.

The \$4.0 million for grants includes \$2.0 million previously proposed by the Administration in a letter to the Joint Legislative Budget Committee dated February 23, 2004, for use in 2003-04 for the same purpose. However, SDE subsequently reported that local agencies could not reasonably spend the requested funds effectively by the end of the current fiscal year. Accordingly, we are hereby rescinding our previously proposed use of the \$2.0 million in 2003-04. The Administration's revised proposal would give local agencies the ability to determine which local agencies would provide parental involvement services, and allow more time to plan and spend the entire \$4.0 million most effectively in 2004-05.

It is requested that Schedule (3) of this item be increased by \$22,916,000 to reflect federal grant increases (\$22,638,000) and one-time carryover (\$278,000) for educating limited English proficient and immigrant students. SDE will allocate these funds on a formula basis.

It is requested that Schedules (1) and (3) of this item be amended as follows to conform to these actions:

“(1) 10.30.010-Title I, Migrant Education . . . ~~126,077,000~~ 135,678,000”  
 “(3) 20.10.004-Title III, Language Acquisition . . . ~~132,793,000~~ 155,709,000”

It is further requested that the following provisional language be added to Item 6110-125-0890:

X. Of the funds appropriated in Schedule (1), \$10,200,000 in carryover funding for Migrant Education is provided on a one-time basis and shall be used for grants to the 22 Migrant Education regions. SDE shall allocate \$6,200,000 under the current state funding formula to promote academic achievement, and \$4,000,000 equitably to all 22 regions to promote parent involvement and leadership activities. Local education agencies shall decide which local entities can most effectively perform parental involvement services.

X. Of the funds appropriated in Schedule (3), \$278,000 in carryover funding for Title III, Language Acquisition, is provided on a one-time basis.

**3. 6110-203-0001, Reimbursement Authority Child Nutrition For Nutritional Grants To School Districts and Child Care Agencies (Issue 706)**

It is requested that reimbursement authority for this item be increased by \$150,000. SDE has submitted an application to the Attorney General's Office to obtain funding from the Salton Company Fund. These funds are the result of a settlement with a grill manufacturer for price fixing. These funds will be used to provide nutritional grants to school districts and childcare agencies, and will be contingent on the receipt of an award.

It is also requested that provisional language be added to this item to conform with this action:

3. Of the funds appropriated in Schedule (1), \$150,000 shall be made available to improve the health and nutrition of children through nutritional grants to school districts and childcare agencies. Funding for these grants shall be contingent on an award from the Salton Company Fund for this purpose. Funding for these grants shall not exceed the amount of the award.

**4. Control Section 12.40, Technically Revise Reporting Date (Issue 008)**

Section 12.40 requires local educational agencies to submit data to SDE by October 8, 2005, on how funds are being shifted between programs at the local level, as allowed. The SDE proposes changing the reporting date to October 15, 2005, which conforms to the date that the enabling year-end fiscal data is due from local education agencies.

It is requested that subdivision (c) of Control Section 12.40 be amended as follows to conform to this action:

“(c) As a condition of receiving the funds provided for the programs identified in subdivision (b), local education agencies shall report to the State Department of Education by ~~October 8, 2005~~ October 15, 2005, on any amounts shifted between these programs pursuant to the flexibility provided in subdivision (a). The Department of Education shall collect and provide this information to the Joint Legislative Budget Committee, chairs and vice chairs of the fiscal committees for education of the Legislature and the Department of Finance, by February 1, 2006.”

## VIII. Consent Items –April Finance Letters

***Staff recommends approval of the following revisions to the Governor’s January 10 Budget, as proposed by the April 1, 2004 budget letters from the Department of Finance. No issues have been raised with regard to any of these items.***

### **Federal Funds Adjustments**

#### **1. 6110-001-0890, State Operations (Issues 002 and 178)**

- **Issue 002: Provisional Language to Reflect Authorized Retirement Rates**—It is requested that provisional language in federal Item 6110-001-0890 be amended to conform with authorized retirement rates. These technical changes reflect approved Public Employment Retirement System (PERS) increases and would not result in expenditure or service changes.

It is requested that Provisions 3, 6, 7, 8, 10, 15, 16, 17, and 19 of this item be amended as follows to conform to these actions:

- “3. Of the funds appropriated in this item, ~~\$384,000~~ \$401,000 is available for programs for homeless youth and adults pursuant to the federal McKinney-Vento Homeless Assistance Act. The department shall consult with the State Departments of Economic Opportunity, Mental Health, Housing and Community Development, and Economic Development in operating this program.”
- “6. Of the amount appropriated in this item, ~~\$1,200,000~~ \$1,265,000 shall be used for the administration of the federal charter schools program. These activities include monitoring of grant recipients, and increased review and technical assistance support for federal charter school grant applicants and recipients. For the 2004-05 fiscal year, one Education Program Consultant position shall support fiscal issues pertaining to charter schools, including implementation of the funding model pursuant to Chapter 34 of the Statutes of 1998.”
- “7. Of the funds appropriated in this item, ~~\$11,268,000~~ \$11,368,000 is from the Child Care and Development Block Grant Fund and is available for support of Child Care Services. Of this amount, \$2,000,000 is one-time federal funds for administrative start-up costs associated with a child care anti-fraud proposal to be developed in collaboration between the Administration and Superintendent and implemented through enabling legislation for the 2004-05 fiscal year. These funds shall be available to the involved state entities, as determined in conjunction with the Department of Finance.”
- “8. Of the funds appropriated in this item, ~~\$2,101,000~~ \$2,159,000 shall be used for administration of the Enhancing Education Through Technology Grant Program. Of

this amount: (a) \$580,000 is available only for contracted technical support and evaluation services.”

“10. Of the amount provided in this item, ~~\$843,000~~ \$881,000 is provided for staff for the Special Education Focused Monitoring Pilot Program to be established by the State Department of Education for the purpose of monitoring local educational agency compliance with state and federal laws and regulations governing special education.”

“15. Of the funds appropriated in this item, ~~\$752,000~~ \$798,000 shall be available for costs associated with the administration of the High Priority Schools Grant Program pursuant to Article 3.5 (commencing with Section 52055.600) of Chapter 6.1 of Part 28 of the Education Code and the Immediate Intervention/Underperforming Schools Program pursuant to Article 3 (commencing with Section 52053) of Chapter 6.1 of Part 28 of the Education Code.”

“16. Of the funds appropriated in this item, ~~\$413,000~~ \$419,000 shall be available pursuant to Chapter 1020, Statutes of 2002 for the development and implementation of corrective action plans and sanctions pursuant to federal law.”

“17. Of the funds appropriated in this item, ~~\$1,373,000~~ \$1,414,000 is for administration of the Reading First Program. Of this amount, \$873,000 is to redirect 6.0 staff to assist in program administration, and \$500,000 is for the department to contract for annual evaluations of program effectiveness.”

“19. Of the appropriated funds in this item, ~~\$637,000~~ \$668,000 is for the department to continue developing a comprehensive strategy to address data reporting requirements associated with the No Child Left Behind Act (P.L. 107-110), and to establish 5.0 positions to assist with this task.”

- **Issue 178: Federal Mathematics and Science Partnership Grant Program**—It is requested that Schedule (2) of this item be increased by \$10,000 to provide additional state operations support for the federal Mathematics and Science Partnership Grant Program. This amount will allow additional participants to attend a collaboration meeting. The need for additional capacity at the collaboration meeting is the result of an anticipated grant increase of approximately \$6.2 million that will result in new program participants. (See Item 6110-193-0890, Issue 188 for local assistance).

## **2. 6110-102-0890, Federal Learn and Serve America Program (Issue 182)**

It is requested that this item be reduced by \$277,000. This adjustment includes a reduction of \$560,000 in order to align appropriation authority with the anticipated federal grant award amount and an increase of \$283,000 to provide carryover authority for unspent prior year funds. These funds will provide one-time grant augmentations for projects such as lesson plan development and youth-led mini-grants, which provide opportunities for students to organize service programs for pupil and staff participation at their school and other partnering schools.

### 3. 6110-136-0890, Augment Even Start, McKinney-Vento Homeless Children Education, Title I Basic, and Title I School Support (Issues 001, 004, 005, and 010)

It is requested that Schedule (1) be increased by a total of \$132,733,000 as follows:

- \$10,730,000 to reflect \$10,700,000 of carryover (one-time) and \$30,000 from a federal grant increase to Even Start. SDE will use the funds to expand existing literacy service projects.
- \$52,082,000 to reflect \$8,980,000 of carryover (one-time) and \$43,102,000 from a federal grant increase to Title I Basic.
- \$69,921,000 to reflect \$31,381,000 of carryover (one-time) and \$38,540,000 from a federal grant increase to Title I School Support.

It is requested that Schedule (2) of this item be increased by \$1,996,000, to reflect \$1,229,000 in one-time carryover funds and \$767,000 from a federal grant increase to McKinney-Vento Homeless Children Education. The SDE will use the funds on a competitive basis to provide grants for homeless child education. The program allows students who become homeless to continue attending the same school by providing a district liaison or transportation when necessary.

Title I consists of various programs which provide funds to Local Education Agencies (LEAs) for the academic improvement of disadvantaged students. According to the SDE, these carryover funds are available because local education agencies did not fully spend their original allocations. The federal government allows up to 15 percent of the grant to be carried into the next fiscal year. The SDE is requesting 3 percent to be carried over. The funds primarily go out as formula apportionments.

It is requested that Schedules (1) and (2) of this item be amended as follows to conform to these actions:

“(1) 10.30.060-Title I-ESEA . . . ~~1,695,361,000~~ 1,828,094,000  
 (2) 10.30.065-McKinney-Vento Homeless Children Education . . . ~~7,330,000~~ 9,326,000”

It is further requested that the following provisional language be added to the item:

X. Of the funds appropriated in Schedule (1), \$10,700,000 for Even Start, \$31,381,000 for Title I School Support, and \$8,980,000 for Title I Basic, are carryover funds provided on a one-time basis.

X. Of the funds appropriated in Schedule (2), \$1,229,000 in carryover funding for McKinney-Vento Homeless Children Education is provided on a one-time basis.

**4. 6110-156-0890, One-time Carryover for the Federal Adult Education Program (Issue 184)**

It is requested that Schedule (1) of this item be increased by \$5,521,000. This adjustment includes an increase of \$1,355,000 in order to align appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide funding to local programs that provide adult education courses. Further, this adjustment includes an increase of \$4,166,000 to provide carryover authority of unspent prior year funds to provide one-time augmentations for professional development in areas such as federal data collection requirements and on how to develop collaborations with local One-stop agencies.

**5. 6110-166-0890, One-time Carryover for Federal Vocational Education Program (Issue 186)**

It is requested that this item be increased by \$1,597,000. This adjustment includes a reduction of \$4.7 million in order to align appropriation authority with the anticipated federal grant award amount and an increase of \$6,297,000 to provide carryover authority of unspent prior year funds to provide one-time augmentations to existing program participants for Leadership and Tech-Prep priorities, including standards-aligned curriculum development and staff development activities.

**6. 6110-180-0890, Education Technology (Issue 652)**

It is requested that this item be increased by \$3,338,000 to reflect an increase in federal funding for the Enhancing Education Through Technology Grant Program.

It is requested that Provisions 1 and 2 of this item be amended as follows:

- “1. Of the funds appropriated in this item, ~~\$42,704,000~~ \$45,571,000 is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program.
2. Of the funds appropriated in this item, ~~\$42,703,000~~ \$45,570,000 is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of Division 3 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program—including the eligibility criteria established in federal law to target local education 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. Under no circumstances shall the legislation designate specific local education agencies as subgrant recipients.”

**7. 6110-183-0890, Drug Free Schools and Communities Program (Issue 708)**

It is requested that this item be decreased by \$177,000. Specifically, the proposed budget adjustment is the result of: (1) a base \$4,616,000 increase in the federal grant for Drug Free Schools, (2) a one-time carryover of \$1,526,000 from unused funds, and (3) the federal elimination of \$6,319,000 for community service grants. SDE will use the funds to provide

grants to local education agencies for providing drug and violence prevention and intervention services.

It is also requested that Provision 2 of this item be deleted and provisional language be added as follows:

3. Of the funds appropriated in this item, \$1,526,000 is available for one-time grants for drug and violence prevention and intervention services.

**8. 6110-193-0890, Federal Mathematics and Science Partnership (Issue 188)**

It is requested that this item be increased by \$6,238,000 in order to align the appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide additional competitive grant awards to institutes of higher education and low-performing schools to partner to provide staff development and curriculum support for mathematics and science teachers.

**9. 6110-195-0890, Federal Improving Teacher Quality Grant (Issue 189)**

It is requested that Schedule (1) of this item be reduced by \$11,291,000 in order to align appropriation authority with the anticipated federal grant award amount. This adjustment includes a technical correction of approximately \$8.6 million in federal Title II-Improving Teacher Quality funding that is provided by the US Department of Education directly to the California Postsecondary Education Commission, but was inadvertently reflected in SDE's appropriation.

**Other Adjustments**

**10. 6110-001-0687, Donated Food Revolving Fund (Issue 704)**

It is requested that this item be increased by \$400,000 to purchase additional equipment to handle the higher volumes and to replace aging equipment. Voluntary fees paid by local agencies (per unit of food) reimburse SDE for the costs of receiving, storing, handling, and distributing food items donated by the federal government to the local agencies. Higher volumes of food distribution and the collection of previously delinquent fees are available to support the proposed expenditures without increasing fees.

**11. 6110-113-0001, California High School Proficiency Exam Spending Authority (Issue 154)**

It is requested that this item be amended by increasing reimbursement authority by \$143,000 for an additional 1,676 pupils to take the California High School Proficiency Exam.

**12. 6110-301-0660, Department of Education, State Special Schools and Services Division**

It is requested that Item 6110-301-0660 be increased by \$3,312,000 to reauthorize the construction of the Pupil, Personnel Services building at the California School for the Deaf in

Fremont. This phase was previously approved for \$2,144,000 Lease Revenue Bond funding in 2002. However, all of the bids received in December 2003 exceed the appropriation by an amount that surpasses the Public Works Board augmentation authority. The project has been cancelled pending the Legislature's approval of the increased funding. The funds requested are based on revised estimates that reflect current market conditions.

**13. 6110-485 and 6110-605-0001, 2000-01 Certificated Staff Performance Awards (Issue 190)**

It is requested that \$32,672,000 be reappropriated from the Proposition 98 Reversion Account for payments to teachers in schools who qualify for Certificated Performance Awards by virtue of the courts' findings in the Boyd and Acevedo cases. It is therefore requested that Schedule (6) be added as follows:

(6) \$32,672,000 to the State Department of Education for the purpose of funding the 2000-01 Certificated Staff Incentive Awards.

**14. 6110-495, Proposition 98 Reversion Language, (Issue 007)**

It is requested that language in Schedule (2) of this item be amended to allow the unexpended balance, rather than the specific amount (\$569,000), to be reverted. The State Controller's Office indicates that it is unable to revert amounts that differ from the estimated year ending balances projected in the budget. This technical change would allow the Controller to revert whatever amount is remaining at the end of the fiscal year from designated funds, as intended. Every other schedule in the item already has the requested language.

It is requested that Item 6110-495- be amended as follows to conform to these actions:

“(2) \$569,000, or whatever greater or lesser amount reflects unexpended funds, from Schedule (3) of Item 6110-104-0001, Budget Act of 2002 (Ch. 379, Stats. 2002)”

**15. 6330-001-0890, California Occupational Information Coordinating Committee (Issue 190)**

It is requested that Item 6330-001-0890 be reduced by \$30,000 to remove excess authority provided due to an error in the billing amount used to calculate the 2004-05 Statewide Cost Allocation Plan (SWCAP) recovery total for the California Occupational Information Coordinating Committee (COICC). It was inadvertently reported that the COICC had used 90 hours of centralized legal services during the 2002-03 fiscal year. This incorrect reporting resulted in an increase in the SWCAP cost recovery estimate for 2004-05 of \$30,000. This misreporting has been corrected and the SWCAP recovery estimate reduced by \$30,000.

**16. Control Section 24.60, Lottery Expenditure Reports (Issue 321)**

Beginning in 2003-04, all school districts, county offices of education and joint powers agencies are reporting in the SACS format. Therefore, SDE is able to report statewide lottery expenditures, except for charter schools, without sampling expenditures from a few local educational agencies. It is therefore requested that Control Section 24.60 be amended as follows:

~~“SEC. 24.60. (a) From the funds appropriated in Items 4300-003-0814, 4440-011-0814, 5460-001-0831, 6110-006-0814, 6110-101-0814, 6440-001-0814, 6600-001-0814, and 6870-101-0814 of this act, the State Department of Developmental Services, the State Department of Mental Health, the Department of the Youth Authority, the State Special Schools, the Regents of the University of California, the Board of Directors of Hastings College of the Law, the Board of Trustees of the California State University, and community college districts through the Chancellor of the California Community Colleges Each entity receiving lottery funds shall annually report to the Governor and the Legislature no later than January 15, 2006 on or before May 15, the amount of lottery funds that each entity received and the purposes for which those funds were expended in the 2004-05 prior fiscal year, including administrative costs, and proposed expenditures and purposes for expenditure for the 2005-06 fiscal year. If applicable, the amount of lottery funds received on the basis of adult education average daily attendance (ADA) and the amount of lottery funds expended for adult education also shall be reported. (b) The State Department of Education shall determine the patterns of use of lottery funds in all local educational agencies having more than 200,000 ADA and representative local educational agencies randomly selected by size, range, type, and geographical dispersion. On or before May 15, 2005, the State Department of Education shall report this information to the Legislature and the Governor for the 2003-04 fiscal year.”~~

**IX. Consent Items -- Special Funds**

**Staff recommends that the following Special Fund Items be approved as budgeted.**  
**No issues have been raised with regard to any of these Items:**

1. 6110-001-0178, Support, Schoolbus Driver Instructor Training, payable from the Driver Training Penalty Assessment Fund, \$1,055,000.
2. 6110-001-0231, Support, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, \$916,000.
3. 6110-001-0687, Support, California State Agency for Donated Food Distribution, payable from the Donated Food Revolving Fund, \$5,298,000.
4. 6110-001-0975, Support, Library and Learning Services, payable from the California Public School Library Protection Fund, \$16,000.
5. 6110-001-6036, Support, Administrative Services to local educational agencies, payable from the 2002 State Schools Facilities Fund, \$2,290,000.
6. 6110-006-0814, Support, State Special Schools, payable from the California State Lottery Education Fund, \$133,000.
7. 6110-101-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, \$3,106,000.
8. 6110-101-0814, Local Assistance, School Apportionment, payable from the California State Lottery Education Fund, \$793,296,000.
9. 6110-101-0975, Local Assistance, Library and Learning Resources, payable California Public School Library Protection Fund, \$4,574,000.
10. 6110-102-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, \$18,998,000.
11. 6110-301-0660, Capital Outlay, payable from the Public Buildings Construction Fund, \$69,948,000. California School for the Deaf in Riverside, Dormitory Replacement and Chiller – Preliminary working plans, working drawings, construction, and equipment.

**Appendix A**  
**Federal Formula Grants to California from the**  
**U.S. Department of Education, FFY 2004 (2004-05)**

	2003 Actual	2004 Estimate	Change Fiscal Year 2003 to 2004 Amount
<b>Funds for State Formula-Allocated and Selected Student Aid Programs</b>			
ESEA Title I Grants to Local Educational Agencies	1,649,697,459	1,764,483,256	114,785,797
Reading First State Grants	142,801,723	146,071,447	3,269,724
Even Start	31,342,083	31,439,116	97,033
State Agency Program—Migrant	127,545,988	126,745,395	-800,593
State Agency Program--Neglected and Delinquent	3,350,153	3,349,803	-350
Comprehensive School Reform (Title I)	31,096,447	31,344,563	248,116
Capital Expenses for Private School Children	0	0	0
<b>Subtotal, Education for the Disadvantaged</b>	<b>1,985,833,853</b>	<b>2,103,433,580</b>	<b>117,599,727</b>
Impact Aid Basic Support Payments	57,206,080	68,163,325	10,957,245
Impact Aid Payments for Children with Disabilities	3,774,822	4,186,127	411,305
Impact Aid Construction	1,052,300	1,087,001	34,701
<b>Subtotal, Impact Aid</b>	<b>62,033,202</b>	<b>73,436,453</b>	<b>11,403,251</b>
Improving Teacher Quality State Grants	341,185,718	341,106,053	-79,665
Mathematics and Science Partnerships	13,901,945	20,513,767	6,611,822
Educational Technology State Grants	89,959,919	93,300,634	3,340,715
21st Century Community Learning Centers	76,288,342	136,981,161	60,692,819
State Grants for Innovative Programs	46,410,526	36,578,183	-9,832,343
State Assessments	30,621,018	32,388,547	1,767,529
Rural and Low-income Schools Program	2,573,030	2,575,759	2,729
Small, Rural School Achievement Program	7,489,667	7,493,659	3,992
State Grants for Community Service for Expelled or Suspended Students	6,652,068	0	-6,652,068
Indian Education--Grants to Local Educational Agencies	6,706,324	6,771,285	64,961
Fund for the Improvement of Education—Comprehensive School Reform	9,159,623	9,271,493	111,870
Safe and Drug-Free Schools and Communities State Grants	60,756,063	53,363,516	-7,392,547
Eisenhower Professional Development State Grants	0	0	0
Class Size Reduction	0	0	0
Language Acquisition State Grants	140,308,451	160,319,511	20,011,060
Immigrant Education	0	0	0
<b>Subtotal, All of the Above Programs, which constitute the No Child Left Behind Act of 2001</b>	<b>2,879,879,749</b>	<b>3,077,533,601</b>	<b>197,653,852</b>
Education for Homeless Children and Youth	7,713,390	8,497,997	784,607
State Grants for Incarcerated Youth Offenders	1,940,308	2,098,897	158,589
School Renovation Grants	0	0	0
Special Education--Grants to States	933,124,077	1,072,636,899	139,512,822
Special Education--Preschool Grants	39,529,222	39,550,707	21,485
Grants for infants and Families	52,016,926	54,325,050	2,308,124
<b>Subtotal, Special Education</b>	<b>1,024,670,225</b>	<b>1,166,512,656</b>	<b>141,842,431</b>
Secondary and Technical Education State Grants	0	0	0
Vocational Education State Grants	127,491,358	128,464,270	972,912
Tech-Prep Education State Grants	11,688,655	11,563,216	-125,439
Adult Basic and Literacy Education State Grants	63,213,469	64,223,365	1,009,896
English Literacy and Civics Education State Grants	18,324,637	18,019,237	-305,400
<b>Subtotal, Vocational and Adult Education</b>	<b>220,718,119</b>	<b>222,270,088</b>	<b>1,551,969</b>
<b>Subtotal, All Elementary/Secondary Level Programs</b>	<b>4,134,921,791</b>	<b>4,476,913,239</b>	<b>341,991,448</b>

Source: U.S. Dept. of Education, Budget Service, March 31, 2004

Appendix B**Special Education Enrollment by Disability,  
Statewide Report, 2002-03**

<b>Disability</b>	<b>Students Enrolled</b>	<b>Percentage</b>
Specific Learning Disability	344,571	51.0%
Speech or Language Impairment	172,417	25.5%
Mental Retardation	43,302	6.4%
Emotional Disturbance	26,144	3.9%
Other Health Impairment	28,161	4.2%
Autism	21,066	3.1%
Orthopedic Impairment	15,131	2.2%
Hard of Hearing	6,934	1.0%
Multiple Disability	6,670	1.0%
Deaf	4,540	.7%
Visual Impairment	4,624	.7%
Traumatic Brain Injury	1,565	.2%
Deaf-Blindness	207	.03%
<b>TOTAL</b>	<b>675,332</b>	<b>100%</b>

Source: California Department of Education, Special Education Division

**Appendix C**  
**State-Mandated Local Programs Proposed by the Governor in 2004-05**

Mandate
Annual Parent Notification
Caregiver Affidavits
Pupil Suspension – district employee reports
Intra-District Attendance
Inter-District Attendance
Inter-District Transfer – Parent's employment
Mandate Reimbursement process
Graduation Requirements
Notification Truancy
Pupil Expulsions/Expulsion Appeals
Open Meetings Acts
Pupil Exclusions
Charter Schools
Investment Reports
PERS Death Benefits
AIDS Prevention Instruction
Collective Bargaining
Pupil Classroom Suspension: counseling
Physical Performance Tests
Pupil Health Screenings
Juvenile Court Notices II
Removal of Chemicals
Law Enforcement Agency Notifications
Immunization Records
Habitual Truants
Collective Bargaining Agreement Disclosures
Expulsion Transcripts
Pupil Suspensions: Parents Classroom Visits
Notification to Teachers of Public Expulsion
Scoliosis Screening
Unused Sick Leave Credit
School Accountability Report Cards
Emergency Procedures
American Course Govt. Document
Pupil Residency Verification and Appeals
Criminal Background Checks
Peace Officer Procedural Bill of Rights*
Financial and Compliance Audits*
Physical Education Reports*
Health Benefits for Survivors of Peace Officers and Firefighters*
County Office of Education Fiscal Accountability Reporting*
Employee Benefits Disclosure*
School District Fiscal Accountability*
Photographic Record of Evidence*
<b>TOTAL</b>

\* New mandates approved by the Commission on State Mandates and included in the Governor's 2004-05 Budget.

**Appendix D**  
**Recommendations of the Assembly Special Committee on Mandates**

**Appendix A: Recommendations from the Assembly Special Committee on Mandates**

Ch/Yr	Title	Description	2004-05 Gov Budget	Estimated Annual Costs	Com. Action
<b>ADMINISTRATIVE</b>					
Ch. 98/94	Caregiver Affidavits	This mandate requires LEAs to (a) enroll a pupil living in the home of a caregiving adult living within the district, and (b) annually monitor a specified caregiver affidavit form. The highest reimbursable costs are for administrative tasks related to receiving and approving submitted affidavits and processing enrollment paperwork.	Defer	912	Make optional the annual renewal of affidavits
Ch.650/94 et al.	Employee Benefits Disclosure	Requires that districts (1) receive an actuarial estimate of the accrued, but unfunded portion of the health and welfare benefits of retired employees, (2) calculate and present at a public meeting the amount of accrued health and welfare benefits, (3) demonstrate that the budget contains sufficient funding to meet the current value, and (4) annually certify to the SPI the amount of reserve for the health and welfare benefits of current and retired employees. The largest cost component results from annually calculating the amount of accrued health and welfare benefits and determining than the budget contains sufficient funding to meet the liability. Secondary costs result from presenting that information at a public hearing and providing annual conformation to the SPI.	Defer	452	Make law inoperative. LAO to report back if GASB amendment does not take place in July.

Ch. 100/81 et al.	School District Fiscal Accountability Reporting	This mandate requires school districts to (a) provide specified financial information and certifications to the county superintendent; (b) adopt a revised budget one week earlier than was previously required; (c) to make available for public review an updated district budget after adoption of the State budget; (d) for districts with a negative or qualified budget certification, provide specified information to the SPI, SCO, and county superintendent. The mandate also requires county offices of education to review, verify, and forward to the SPI specified information related to district budgets. The greatest reimbursable costs are likely related to updating district budgets and providing specified information to the SPI, SCO, and county schools superintendent.	Defer	2,525	DOF was asked to ask CSM to review its statement of decision to clarify the extent to which costs can be offset by Budget Act appropriations.
Ch. 1463/89	School Accountability Report Cards	Section 8.5 of Article XVI of the State Constitution requires school districts maintaining an elementary or secondary school, to develop a SARC for each school. Ch. 1463/89 established the School Accountability Report Card (SARC), which requires schools to provide a report card including various non-constitutionally required information such as the average salary of principals in the district and the school's expulsion rate. Major activities include compiling, analyzing and reporting the required data and annually posting the SARC on the Internet.	Defer	4,598	DOF was asked to ask CSM to review prior Decision in light of federal law and recent SARC II & III decisions.
Ch. 828/97	Standardized Testing and Reporting (STAR)	Ch. 828/97 established the Standardized Testing and Reporting Program, which requires schools to test pupils in grades 2 through 11 using a nationally normed exam and a series of tests aligned with State-adopted content standards. Major activities include acquiring test materials, supplies and equipment, training staff on State policies, developing internal policies, and coordinating pretest and posttest activities. Most costs should be recovered from budget appropriations.	Not in budget	Unknown	DOF was asked to ask CSM to review prior Decision in light of federal law.
Ch. 309/95	Pupil Residency Verification and Appeals	This mandate requires LEAs adjacent to the international border to make reasonable efforts to determine a pupil's residency if a district employee has reason to believe false or unreliable documentation of residency has been provided and also requires district to establish an appeals process. The greatest reimbursable costs are related to residency verification efforts and complying with the established appeals process.	Defer	190	Do not change

Ch. 36/77 et al.	Financial and Compliance Audits	This mandate requires county offices of education to undertake additional activities related to financial and compliance audits of school districts, including (a) adding specified boilerplate language to audit contracts, (b) paying auditors with multiple instead of lump-sum payments, (c) upon request from SDE or SCO, consulting with State agencies and assisting districts to resolve audit exceptions, and (d) publicly reviewing annual audits. The greatest reimbursable costs will likely result from assisting districts to resolve audit exceptions and publicly reviewing annual audits.	Defer	1,133	Pending additional information, after review, make permissive: 1) respond to inquiries, 2) corrective action plans, and 3) report to the governing board
<b>Pupil Discipline, Suspension, and Expulsion</b>					
Ch. 965/77 & 498/83	Pupil Classroom Suspension : Counseling	Requires that school counselors or school psychologists attend post-classroom suspension parent-teacher conferences whenever practicable. Of the reimbursable activities associated with this mandate, the highest costs result from providing counseling services at parent-teacher conferences.	Defer	2,627	Repeal, make permissive
Ch. 1284/88 & 213/89	Pupil Suspension : Parent Classroom Visits	Requires (a) school district governing boards to adopt a policy authorizing teachers to require the parent or guardian of a pupil who has been classroom-suspended by a teacher, to attend a portion of a school day in his or her child's or ward's classroom on the day in which the pupil is scheduled to return to class, or within a reasonable period of time thereafter; (b) parents or guardians be notified of this policy prior to its implementation; (c) the principal to send a written notice to the parent or guardian stating that attendance is pursuant to law; (d) school staff to contact parents or guardians who do not respond to the request; and (e) the school administrator to meet with the parent after the classroom visitation and before leaving the school site. This applies only to a parent or guardian who is actually living with the pupil. Of the reimbursable activities associated with this mandate, the highest costs result from parental notices, follow up contacts, and meetings.	Defer	800	Repeal, make permissive

Ch. 498/83	Notification of Truancy	Requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by 1st class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Art. 6 (commencing with §48290) of Ch 2 of Part 27. Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district; and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy. Of the reimbursable activities associated with this mandate, the highest costs result from notification of parent or guardian and recordkeeping.	Defer	10,616	Repeal, make permissive
Ch. 1184/75	Habitual Truants	Defines habitual truant and states that no pupil shall be deemed a habitual truant, unless school districts make a "conscientious effort" to hold at least one conference with the pupil's parent or guardian and the pupil. Ch 1023/94 requires school districts to classify a pupil as a habitual truant as defined in EC §48262 upon the pupil's fourth truancy within the same school year. Of the reimbursable activities associated with this mandate, the highest costs result from reviewing school records and scheduling and holding parent conferences.	Defer	8,871	Repeal, make permissive
Ch. 1253/75	Expulsion Transcripts	Provides that school districts must not charge the parents or guardians of pupils for the cost of the transcript of the initial expulsion hearing when the parents or guardians have limited income, and to refund the cost of the transcript to the parents or guardians when the county board reverses the local board's decision to expel the pupil pursuant to EC §48921, as renumbered by Ch 498/83. Of the reimbursable components associated with this mandate, the highest costs result from salaries and benefits of employees who perform the duties associated with providing a written transcript.	Defer	14	No Action

Ch. 1306/89 & 1257/93	Notificatio n to Teachers of Pupil Expulsion	Requires that school districts report to each teacher the name of any student who has caused, or attempted to cause, serious bodily injury or injury to another person. The notification is based on written records the district maintains or receives from a law enforcement agency. Districts are not liable for failure to comply as long as a good faith effort is made to notify teachers. School personnel are immune from civil or criminal liability unless the information they provide is knowingly false. Of the reimbursable activities associated with this mandate, the highest costs result from information maintenance and notifying teachers.	Defer	6,154 <b>Leg Counsel suggests we do not try to combine.</b>	Accept LAO Recco: Ask SCO to 1) review claims and ID high cost components and, 2) recommend unit cost. <b>Unit cost difficult at this time, ask SCO to prioritize this mandate for audits</b>
Ch. 498/83 et al.	Pupil Suspension s, Expulsions, and Expulsion Appeals	This consolidated mandate covers activities relating to mandatory pupil suspensions and expulsions, required expulsion appeals procedures, pre-suspension conferences, etc. Of the reimbursable activities associated with this mandate, the highest costs result from salaries and wages of employees required to prepare reports and attend hearings for suspended and expelled students (due process activities). (Consolidated with Pupil Suspensions: District Employee Reports mandate per COSM amended parameters and guidelines.)	Defer	4,380	Leave alone for now, but may be part of the "federal" discussion
<b>SAFETY</b>					
Ch. 1107/84	Removal of Chemicals	Requires districts to comply with guidelines for the removal and disposal and chemicals whose shelf life has elapsed. Eligible claimants are reimbursed for ongoing costs of maintaining a program for the regular removal and disposal of identified chemicals. Eligible costs include school district staff costs associated with the removal or inventorying of chemicals, and consultant and contractor fees or charges. Potential high costs include: initial inventory development, maintaining the inventory, and removal and disposal of chemicals. We note that there has been relatively low funding claimed by all districts for this mandate.	Defer	2,091	DOF was asked to ask CSM to review P&Gs to reflect changes in this mandate

**Budget and Fiscal Review Subcommittee No. 1**

**Education**

Ch. 736/97 et al.	Comprehensive School Safety (pending claim)	Requires school sites to write, develop, and adopt comprehensive school safety plans and submit them to the school district or COE for approval. Reimbursable activities associated with this mandate include consulting with law enforcement in the development of the plan; assessing the current status of school crime committed on school campuses and school related functions; annual review and update of the plan.	Not in Budget	No Estimate Available (Pending Claim)	Look into consolidating this with "Emergency Procedures". The "other funding source will be part of the April discussion. Repeal annual update requirement
Ch. 1659/84	Emergency Procedures; Earthquake and Disasters	Requires LEAs to have earthquake emergency procedures for all school buildings. Eligible claimants are reimbursed for increased costs incurred to prepare an emergency procedure system and providing specified mass care and welfare shelters. Of the reimbursable activities associated with this mandate, the highest costs result from the ensuring that students and staff are aware of and properly trained in the emergency plans and performance of a quarterly drop procedure practiced by every student and staff member.	Defer	19,799	Leave earthquake plan alone. Make implementation permissive. Combine with "Comprehensive" above.
Ch. 1423/84 et al.	Juvenile Court Notices II	Requires school district superintendents to distribute to relevant school-site personnel written notices provided by the juvenile court system regarding pupils enrolled in their districts who have been convicted of certain felonies or misdemeanors, and to maintain these files until the student graduates from high school, is released from juvenile court jurisdiction, or reaches the age of 18, whichever comes first. Of the reimbursable activities associated with this mandate, the highest costs result from record retention and destruction.	Defer	811	Ask Leg Counsel to look into combining with "Notification of Teachers..." Pick least costly methodology <b>Leg Counsel suggests we do not try to combine.</b>
Ch. 1117/89	Law Enforcement Agency Notifications	Requires that school authorities notify the appropriate law enforcement agency of any acts of a pupil that may involve the possession or sale of a controlled substance or a violation of PC §626.9 and 626.10. Of the reimbursable activities associated with this mandate, the highest costs result from preparation and filing of reports and record maintenance.	Defer	2,082	No Action

HEALTH					
Ch. 668/78	Pupil Health Exclusions	Requires school districts to: (a) send a notice to a pupil's parent/guardian, (b) grant the parent/guardian the right to meet with the governing board, (c) conduct the meeting in accordance with certain procedural rules, and (d) provide periodic review of the exclusion. HSC§120230 specifies that no pupil who resides where any contagious, infectious, or communicable disease exists/existed, and that is subject to strict isolation/quarantine, shall be permitted to attend school except by written permission of a county health officer. EC§49451 states that when a pupil's parent/guardian has refused to consent to a physical examination of his or her child, and there is good reason to believe that he pupil is suffering from a recognized contagious or infectious disease, the pupil shall be excluded from school until school authorities are satisfied that no contagious or infectious disease exists. Of the reimbursable activities associated with this mandate, the highest costs result from producing written reports and	Defer	1,469	Repeal, but keep "due process" part of the mandate
Ch.120 8/76 et al.	Pupil Health Screenings	Requires (a) the governing body of every school district which has kindergarten children enrolled to provide Child Health & Disability Prevention (CHDP) information to parents; (b) districts to report to the county and DHS the number of pupils enrolled in first grade and number of health screening certificates (and waivers) received; (c) counties to reimburse districts for the information collection process; (d) districts to exclude pupils who do not have a health screening (or waiver) from school under specified circumstances; and (e) districts to make specified family contacts before excluding a pupil from attendance. Of the reimbursable activities associated with this mandate, the highest costs result from parental notification, obtaining parental compliance, exclusion of pupils, and statistical reporting.	Defer	4,884	Eliminate reporting requirement to DHS, unless DOF finds out this information is used by DHS
Ch.640/97	Physical Education Compliance Reports	Adds a new reporting and compliance requirement to determine whether districts are actually providing their students with the statutory minimum minutes of physical education. Of the reimbursable activities associated with this mandate, the highest costs will result from staff training and record keeping.	Defer	14	Repeal, pending DOF report as to whether or not CCR is sufficient

Ch. 1176/77	Immunization Records - Including Hepatitis B	Provides uniform requirements for immunization of students prior to entering private or public elementary, secondary school or other specific institutions. In addition, the governing authority of the school or specified institution is required to maintain immunization records on each student and file a written report on the immunization status of new entrants to the school or institution with the State Department of Health Services at times and on forms prescribed by the department. Of the reimbursable activities associated with this mandate, the highest costs result from record maintenance and periodic reporting. <b>Hepatitis B:</b> Ch 291/95 required documentation of Hepatitis B immunization for all children entering the Kindergarten level or below. Ch. 882/97 further required Hep B immunization for all students entering 7th grade.	Defer	3,650	Leave alone
<b>CURRICULUM</b>					
Ch. 778/96	American Government Course Document	Requires school districts to teach students to read the Declaration of Independence, U.S. Constitution, Federalist Papers, Emancipation Proclamation, Gettysburg Address, and George Washington's Farewell Address, as part of American Government and Civics courses required for graduation. The highest cost resulting from this mandate is the cost of training teachers how to teach American Government or Civics courses to the students. This cost may include the salary/fee of the trainer and related travel expenses. Other costs may include travel expenses to and from seminars for teachers. Other high costs include the adoption of new textbooks or instructional materials.	Defer	194	Repeal mandate statute; mandate subject matter in state assessments and content sdts.- LAO suggestion
Ch. 498/83	Graduation Requirements	Requires districts to provide two science classes to pupils before their graduation from Grade 12. Previously, only one science class was required for graduation. This mandate is for the incremental cost associated with requiring one additional science course as a prerequisite for graduation. Costs include staffing, facilities, and equipment that are unique to science courses.	Defer	11,349	Defer action - Add language to require that State or Local bond money must be used to offset reimbursable state mandate. DOF to report back
<b>Conforming to other Non Proposition 98 issues</b>					

**Budget and Fiscal Review Subcommittee No. 1**

**Education**

Ch. 783/95 et al.	Investment Reports	This mandate requires LEAs to submit an annual statement of investment policy as well as quarterly report of investments. The greatest reimbursable costs are related to compiling data to prepare quarterly investment reports for submission to the district CEO, internal auditor, and governing board and preparing annual investment policy for submission to the district governing board and county board of supervisors.	Suspend to conform to 2003 Budget Act suspension of non-98 mandate	318	<b>Conforming</b>
Ch. 784/95 & 156/96	County Treasury Oversight Committees	This mandate requires the establishment of a county treasury oversight committee for any county that is investing surplus funds and allows for reimbursement of costs incurred by committee members, including county superintendents of schools or designees, to prepare for and attend committee meetings. Education-related costs result if a county superintendent of schools is reimbursed for time served on the oversight committee.	Suspend to conform to 2003 Budget Act suspension of non-98 mandate	57	<b>Conforming</b>
Ch. 126/93	Law Enforcement: Sexual Harassment Training	Requires peace officers who are victims of sexual harassment in the workplace to follow complaint guidelines developed by the Commission on Peace Officer Standards and Training, and requires peace officers who completed basic training before January 1, 1995 to attend supplementary training on sexual harassment in the workplace. Of the reimbursable activities associated with this mandate, the highest costs will result from salaries and benefits of the trainees required to take the training class.	Repeal	20	<b>Conforming</b>

Appendix E.**Revisions to the Governor's Agreement for K-14 Education \***

<i>Dollars In Millions</i>	<b>Governor's Jan 10 Budget Agreement</b>	<b>Governor's Jan 21 Budget Agreement</b>	<b>Change</b>
K-12 Equalization	110,000	82,230	-27,770
CCC Equalization	80,000	59,804	-20,196
Deferred Maintenance	173,300	0	-173,300
Instructional Materials	188,000	0	-188,000
Discretionary Growth & COLAs**	0	139,177	139,177
Deficit Reduction (Revenue Limit Funds)	0	270,089	270,089
<b>Total</b>	<b>\$551,300</b>	<b>\$551,300</b>	<b>0</b>

\* Beyond the Governor's \$1.2 billion agreement for statutory growth and COLAs for revenue limits and categorical programs in 2004-05.

\*\*Includes approximately \$86 million in growth and COLAs for community colleges apportionments and categorical programs, and \$53.1 million in growth and COLAs for K-12 categorical programs that traditionally receive growth and COLAS.



Jack Scott, Chair  
 Bob Margett  
 John Vasconcellos

April 26, 2004  
 1:30 p.m. – Room 113

**Outcomes – Several Actions – April Finance Letters**

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**Department of Education – Local Assistance (6110)****I. State Categorical Programs:**

Two budget items that relate to the previous (April 12<sup>th</sup>) Subcommittee hearing on the Governor's 2004-05 proposals for K-12 categorical program reform are presented below. The Economic Impact Aid proposal was developed by the LAO, in part, as an alternative to the Governor's major categorical consolidation-shift proposal. The Governor's proposal to phase-out the Early Mental Health Initiative is a part of a list of categorical program reductions and eliminations proposed by the Governor that were discussed at April 12<sup>th</sup> hearing.

**A. Economic Impact Aid – LAO Proposal**

The Governor's Budget proposes \$548 million for the Economic Impact Aid (EIA) program in 2004-05. This includes an increase of \$49.1 million over the 2003-04 budget providing (1) \$34.6 million for growth and COLA and (2) \$14.5 million from EIA funding shifted from Charter Schools to EIA.

EIA is a categorical program that was created more than 25 years ago to provide funding for compensatory education services to low-performing and English learner students.

The EIA formula provides funding to school districts through a complicated set of formulas that recognizes need as measured by the concentration of English learner, poor, and transient students. Funding is distributed to districts through pup-pupil grants and minimum district grants.

There are approximately 1,559,542 students who are English learners in California – more than 25.6 percent of the student population. With regard to poverty measures, there are roughly 3,006,877 students – 49 percent of the student population receiving free and reduced price meals and 622,845 pupils—10 percent of students -- from families receiving CalWORKs.

The LAO notes a number of problems with the EIA formula. First, the EIA formula is felt to be outdated in terms of its heavy emphasis on poverty over English learners. English learners have become a larger group than students in

poverty since the formula was established. Secondly, the formula results in allocations that appear arbitrary and unpredictable based upon need.

For this reason, the LAO recommends that the EIA formula be redesigned to base funding more directly on the number of students who are poor and English learners. The new formula would be more simple and make allocations to districts more predictable.

As a part of the formula redesign, the LAO recommends that funding from two other categorical programs be consolidated into the EIA formula, as follows:

- Shift \$53.2 million for the English Learner Student Assistance Program (ELAP) into the main EIA formula. The Governor proposes shifting ELAP funding into revenue limits in the budget year. While the LAO was supportive of the Governor's categorical consolidation-shift proposal, the LAO does not support the Governor's shift for programs serving special needs students such as ELAP.
- Shift an unspecified portion of Targeted Instructional Improvement Grant (TIIG) funds used for instructional purposes as an add-on to the EIA formula. The Governor proposes to shift these funds into revenue limits as a part of his categorical reform proposal.

## **B. Early Mental Health Initiative Program**

**Background:** The Early Mental Health Initiative (EMHI) was authorized by Chapter 757, Statutes of 1991 (AB 1650). The goals of the program are to minimize the need for more intensive and costly services as students grow older and to increase the likelihood that students experiencing school adjustment difficulties will succeed in school.

The program targets school-aged children between Kindergarten and third grade who are experiencing mild to moderate school adjustment issues and who are *not* otherwise eligible for special education assistance or county mental health services because their condition is not severe enough to meet the eligibility criteria in these other programs.

The program is funded with Proposition 98 dollars, but administered by the Department of Mental Health (DMH). Under the Early Mental Health Initiative, DMH awards grants (for up to three-years) to local education agencies (LEAs) to

implement early mental health intervention and prevention programs. Schools that receive grants must match state EMHI funds.

EMHI grant programs are required to utilize researched-based services delivered by trained paraprofessionals in collaboration with County Mental Health Departments. Services are school-based and targeted specifically to students from low-income families who are in out-of-home placements or who are at risk of out-of-home placement. The average cost of the program is \$600 per student. The vast majority of student participants (84 percent) receive only one cycle of services (once a week for 12 to 15 weeks).

The EMHI program has been evaluated to be effective in improving the long-term social competence and school adjustment issues presented by children in the target population. A study conducted by an independent contractor for the Department of Mental Health in 2000 demonstrated that the children who were served in EMHI in the fall showed improved scores on social competence and school adjustment by the end of their program in winter. The comparison group of children, who were waiting to begin services, did not show comparable growth during the same time period, and in contrast, their social competency and school adjustment scores actually declined.

The same independent contractor demonstrated a large improvement in social competence and school adjustment related behaviors between the baseline and year-one follow-up. These gains were maintained into the second year following services.

**Governor's Proposed Budget:** The Governor proposes to reduce the Early Mental Health Initiative Program from \$10 million in 2003-04 to \$5 million in 2004-05 in order to eliminate funding for a new cycle of three-year grants. The remaining \$5 million in 2004-05 would cover existing grants that will be in the third (and final) year of the grant cycle.

In the current year, the program is supporting a total of 137 grants, with 73 grants being in their second-year of the three-year grant cycle, and 64 grants being in their third and final year of the cycle.

In 2003-04, the Davis Administration proposed eliminating all \$15 million in funding for the program, but partial funding of \$10 million was restored in the final 2003-04 Budget. By phasing third year grants out in 2004-05, the Schwarzenegger Administration is proposing to eliminate the program 2005-06.

When Governor Davis proposed an elimination of funding for the program, the proposal included an elimination of five DMH positions. When the Legislature restored \$10 million in the 2003-04 budget, none of these positions were restored. The Department of Mental Health's budget was reduced by \$439,000 to reflect the elimination of these positions.

The department is evaluating what staffing level it would need to initiate a new RFP process if the Legislature restores \$5 million in funding. The department is looking into this matter and will have a response next week.

The LAO does not object to the Governor's proposal to eliminate funding for the EMHI program. Although the program has demonstrated positive outcomes for children, the LAO believes that elimination is an option that the Legislature may want to consider during this difficult budget year.

## II. Federal Funds Overview (Information Only)

California receives state education grant funding from three major federal agencies – the Department of Education, the Department of Health and Human Services and the Department of Agriculture. Four federal programs – child nutrition (school meals), Title I (compensatory education), child development (child care) and special education -- provide most of the funding to K-12 schools in California. These four programs are among the largest federal grant programs to our state overall.

Estimated funding for these programs in 2004-05 is summarized by the table below. According to the latest estimates available from the federal government, California will receive approximately \$7.0 billion in federal education funds in 2004-05 (Federal Fiscal Year 2004), an increase of \$362.1 million, or 5.5 percent from 2003-04.

Federal Funds Agency/Program	FFY 2003	FFY 2004	Change
<i>US Dept. of Education:</i>			
Title I and Other Programs Authorized Under NCLB	2,879,879,749	3,077,533,610	197,653,852
Special Education – IDEA	1,024,670,225	1,166,512,656	141,842,431
Vocational and Adult Education – Perkins & WIA,	220,718,119	222,270,088	1,551,969
<b>Subtotal, USDE Funds</b>	<b>4,134,921,791</b>	<b>4,476,913,239</b>	<b>341,991,448</b>

<b><i>US Dept of Agriculture:</i></b>			
School Nutrition – School Lunch, Breakfast, Summer Meal Programs	1,444,865,000	1,616,804,000	171,939,000
<b><i>Subtotal, USDA Funds</i></b>	<b><i>1,444,865,000</i></b>	<b><i>1,616,804,000</i></b>	<b><i>171,939,000</i></b>
<b><i>US Dept of Health &amp; Human Services:</i></b>			
Child Care – TANF & Child Care and Development Block Grant	1,044,876,000	893,041,000	-151,835,000
<b><i>Subtotal, USHHS Funds</i></b>	<b><i>1,044,876,000</i></b>	<b><i>893,041,000</i></b>	<b><i>-151,835,000*</i></b>
<b><i>Total, Federal Funds K-12 Education Funds to California</i></b>	<b><i>\$6,624,662,791</i></b>	<b><i>\$6,986,758,239</i></b>	<b><i>\$362,095,448</i></b>

\* Reductions reflect adjustments for the loss of one-time TANF funds (\$118.0 m), TANF savings associated with Stage II Child Care (\$53.8m), and a reduction (\$20 m) in the level of Child Care and Development Block Grant funds in 2004-05.

Federal funds appropriated from the U.S. Department of Education (USDE) for elementary and secondary education will increase by \$342.0 million (8.3 percent) in 2004-05, to California. This includes an increase of \$197.7 million (6.9 percent) for programs authorized under No Child Left Behind (NCLB) -- including Title I programs -- in 2004-05. In addition, special education funds authorized under the Individuals with Disabilities Education Act will increase by \$141.8 million in 2004-05, of which \$139.5 million is for Part B grants for school-age children and youth. (See [Appendix A – page 42](#), for the latest federal estimates of USDE grants to California for FFY 2004.)

The Governor's January 10 Budget reflects \$6.6 billion in federal funds in 2004-05, approximately \$366.8 million below the latest federal grant estimates. The Governor proposes to revise federal funding estimates for most state programs via the April Finance Letter. Other remaining revisions will follow at May Revise. These revisions reflect new amounts in the Consolidated Appropriations Act (H.R. 2673) signed by President Bush on January 23, 2004, after the Governor's Budget was released. This Act contains the appropriations for Labor, Health and Human Services (HHS), and Education departments for federal fiscal year 2004.

The Subcommittee will consider proposals for appropriating new and ongoing federal funds for education programs at this and future hearings.

### **III. Special Education:**

**Background:** There are approximately 675,332 children and youth with disabilities receiving special education services in California schools. Special education students ages 5 to 18 years represent approximately 10 percent of our state's K-12 student population statewide.

The overwhelming majority (92.6 percent) of children and youth receiving special education services in our state are 5 to 18 years old. However, 6.0 percent are under age 5 years and another 1.4 percent of students are age 19-22.

The population of children and youth with disabilities receiving special education services in California is very diverse racially and ethnically. Most students with disabilities in California -- 62.2 percent -- are students of color.

Federal law defines 13 categories of disability. More than two-thirds of the students with disabilities in California fall in two categories -- specific learning disability and speech or language impairment. (See Appendix B -- page 43)

The Governor's Budget proposes **\$2.67 billion** in General Fund support (Proposition 98) for special education in 2004-05.

The Governor's Budget also includes **\$1.03 billion** in federal special education funds for students ages 3-21 years in the budget year in 2004-05, which reflects an increase of \$74.3 million in the budget year. These federal funds are authorized under Part B of the Individuals with Disabilities Act (IDEA).

The latest estimates from the U.S. Department of Education indicate California will receive a total of **\$139.5 million** in additional federal IDEA funds in 2004-05 - \$65.0 million above the Governor's projections. These additional dollars will increase IDEA, Part B funding to a total of approximately **\$1.1 billion** in 2004-05. The Administration will propose revisions to the Governor's Budget at May Revise to update the latest federal estimates.

### **Budget Items/Issues:**

#### **A. Special Education -- Federal Funding Offset**

**Background:** State law requires that federal special education funds be used as an "offset" to state funding in any year where total funding for special education funding is higher than the prior year. In practice, federal special education funds are used to fund state General Fund increases for special education growth and COLA each year.

The offset (or deduct) has been authorized in law since the early 1980's and was continued by AB 602 (Davis & Poochigian) -- the state's special education funding

reform measure enacted in 1997. **However, the statutory provisions of the deduct were placed on hold from 1997-98 to 2000-01, so that new IDEA funds could be used to supplement state special education funding and implement funding equalization under AB 602.** The Administration continued to place most of the offset on hold in 2001-02, but returned to using the offset in 2002-03.

IDEA statutes and regulations stipulate that states must ensure federal IDEA funds are used to supplement, not supplant state and local funds. These laws and statutes also require states to maintain maintenance-of-effort (MOE) in order to qualify for federal funding.

In the early 1990's U.S. Representative George Miller became concerned about whether California's deduct provision was legal and in compliance with Congressional intent regarding federal special education law.

A couple of legal opinions developed in the early 1990's found the deduct provision to meet the legal test as long as the state provided maintenance-of-effort so that state and local funding for special education was not any less that the year before. These decisions also seem to require the state to use offset funds for new purposes, such as growth and COLA.

Under these MOE provisions, California must provide annual assurances that state funding – defined as state General Funds and property taxes expended for special education – does not decrease from year-to-year. Failure to comply results in penalties in the form of reduced federal funding in the amount of the state shortfall.

The Governor's 2004-05 Budget proposes a \$107.4 million increase for special education programs to cover enrollment growth (\$37.4 million) and a 1.84 percent COLA (\$70 million). This proposed increase is consistent with the Governor's proposal to provide statutory growth and COLA's for all education revenue limit and categorical programs in 2004-05.

The Governor's Budget proposes to fund the \$107.4 million in special education growth and COLA expenses with \$74.5 million in new federal IDEA funds that offset state General Funds costs, and with \$23.6 million in local property taxes and \$9.3 million in state General Funds.

The level of the federal funding offset in 2004-05 will change when the Administration adds the \$65.0 million in additional federal funds to the budget at May Revise. It is not clear how the Administration will propose to use these funds. According to the DOF, an additional \$11.5 million in federal funds can be used as

an offset without creating maintenance of effort problems. (In addition to the \$74.5 million already proposed in the Governor's Budget, this would bring the total offset to \$86.0 million in 2004-05.)

The LAO supports the Governor's January 10 proposal to use \$74.5 million in federal IDEA funds as an offset to special education growth and COLA costs in 2004-05. With regard to additional federal IDEA funds available at May Revise, the LAO's first priority is to use any new federal funds to further offset state General Fund growth and COLA expenses in 2004-05. Specifically, the LAO recommends using an additional \$11.5 million in federal funds --the maximum allowable -- to offset state general fund costs for growth and COLA. This would leave \$53.5 million in new federal funds for other purposes.

As a second priority, the LAO has identified several possible purposes for the remaining \$53.5 million:

- Provide additional funding for educationally related, mental health services for students with disabilities pursuant to AB 3632. The 2004-05 Budget continues \$69 million in federal funds that were added to the 2003-04 Budget for these federally mandated services, which are currently provided under agreements with county mental health agencies.
- Augment funding as a part of reforms to the state funding formula for students receiving special education services who reside in foster care, as recommended by a legislatively required study published by AIR in March 2003. The study recommends implementation of a placement-neutral funding formula that removes strong incentives for placing students in non-public schools and allows districts to access state special education funding for students they serve. The study also recommends a formula that recognizes costs for all students in special education who reside in foster care, not just those in non-public schools.
- Update the "incidence adjustment" as recommended by another legislatively-required study by AIR, as published in August 2003. The incidence adjustment accounts for high cost disabilities as a part of the AB 602 funding model, which is based on the level of the general school population.

*Staff recommends that the Subcommittee consider two of the options identified by the LAO – (1) LCI-NPS/NPA funding reforms to accompany SB 1316 (Alpert) and (2) additional funding for mental health, related services tied to SB 1895 (Burton).*

*LCI-NPS/NPA funding augmentations and reforms are discussed in the next section. Proposals to augment and reform funding for AB 3632 services are still under development as a part of a Senate working group and will be discussed at a future Subcommittee hearing.*

*Staff further recommends that the Subcommittee delay any action on the recommendations of the incidence adjustment study by AIR until next year. There are several reasons for this recommendation. First, the state already adopted an initial incidence adjustment pursuant to recommendations of the 1998 AIR study required by AB 602. The latest AIR study is intended to update the adjustments now in place. Secondly, the latest AIR recommendations would make substantial changes to definitions, costs, and allocations for the incidence adjustments now in place among districts that. Given their complexity, these changes require further study. In addition, the recommended revisions to the incidence adjustment interact with the recommended LCI-NPS/NPA funding reforms in ways that are not well understood and also require study and development. For this reason, it makes sense to sequence changes to the incidence adjustment after implementation of proposed LCI-NPS/NPA reforms in order to minimize both costs and unintended consequences. Staff notes that because the existing incidence adjustment expires at the end of the fiscal year, budget bill language is needed to continue the existing formula in the budget year. DOF indicates such a provision is likely to be included as a part of May Revise.*

## **B. LCI –NPS/NPA Funding Formula**

**Presentation by Tom Parrish, American Institutes for Research on *Policies, Procedures, and Practices Affecting the Education of Children Residing in Group Homes*, March 2003.**

As identified by the LAO, implementation of the funding reforms contained in the AIR study is one of several options the Subcommittee may wish to consider in appropriating additional federal special education funds in 2004-05.

### **Youth with Disabilities in Foster Care**

Under current statute, the state provides full funding (100 percent reimbursement) for the non-public school (NPS) or non-public agency (NPA) costs for students who were placed in an licensed children’s institution (LCI) by a non-education agency. This formula is referred to as the “LCI –NPS/NPA formula”.

Under the formula, LCIs are defined broadly to include foster youth in group homes, foster family agencies, foster family homes, residential medical facilities and other similar facilities (Education Code Section 56836.16).

The non-education agencies making the placements are most often the courts -- social services or probation -- but also include a small number of regional center placements. Children in foster care are classified by the courts as dependents in the case of abuse or neglect or as wards in the case where they have violated the law.

Non-public schools are privately operated, publicly funded schools certified by the state Department of Education. State and local funding for non-public schools is only available for special education students. There are approximately 369 non-public schools certified in California.

There are approximately 15,000 students receiving special education services who reside in foster care settings in California. Of these students, approximately 4,700 attend non-public *schools* that receive state LCI-NPS/NPA funding (100 percent reimbursement) through LEAs. An additional number of students receive non-public *agency* services that are also reimbursed by the state under the 100 percent formula.

State LCI-NPS/NPA funding is *not* available to LEAs who provide special education to students who reside in foster care settings, but who do not receive services from non-public schools or agencies.

### **History of LCI-NPS/NPA Funding Studies**

AB 602, as enacted in 1997, implemented major special education funding reforms directed to simplify the funding model, equalize funding among schools districts and allow more flexibility in the use of funds to better serve students.

AB 602 removed fiscal incentives for NPS schools by eliminating state subsidies (70 percent reimbursement) when LCI placements were made by education agencies. However, the new formula retained full subsidy (100 percent state reimbursement) for NPS placements if the student was placed in an LCI by a non-education agency, and the parents rights were removed, or if the placement was located outside of the parent's district of residence.

While the reforms contained in AB 602 were comprehensive, several of the more complicated elements of the new funding required more study and could not be

addressed in the bill. Changes to 100 percent funding for LCI-NPS placements was one of these issues. As a result, AB 602 included three studies to address issues that needed further study and development before they could be added to the new funding system. These three studies addressed the following issues:

- Compliance -- Study to address possible improvements in special education system accountability to offset greater flexibility under the new funding formula.
- Incidence Adjustment -- Study to evaluate possible variation in distribution of students with low-incidence, high cost disabilities and possible adjustments in the formula.
- Licensed Children's Institutions-Non-Public Schools/Agencies -- (LCI-NPS/NPAs) Funding -- Study to address continuing incentives under the new funding formula for children residing in Licensed Children's Institutions (LCIs) and served by Non-Public Schools and Agencies (NPS/NPAs).

With regard to the LCI-NPS/NPA funding formula, an initial study was completed in September 1998 by the American Institutes of Research (AIR). The study included a number of recommendations, including the removal of all fiscal incentives for serving students in foster care in non-public schools. The study, limited by time and funding, was unable to develop an alternative funding plan and recommended that a follow-up study be conducted to develop such a specific funding plan.

Following this study, the 1999-00 Budget Act directed the DOF, CDE and LAO to convene a working group to review funding for LCIs, including NPS/NPA services for these students. The three agencies were to report to the Legislature on any recommended changes in status or funding for LCIs or NPS/NPAs by November 1, 1999. However, due to critical staffing changes the three agencies were unable to complete the report.

As a result, the 2000-01 Budget Act appropriated \$1 million for an independent evaluation of funding for LCI's, including NPS/NPA services for children residing in these institutions. The contract for this study was awarded to American Institutes for Research (AIR) in late 2001. The final report entitled *Policies, Procedures, and Practices Affecting the Education of Children Residing in Group Homes* was released by CDE in March 2003.

**Recommendations of the AIR Study:**

The AIR study made two key findings:

- California has a flawed system for funding educational services for youth living in group homes, foster family homes and foster family agency homes.
- The system for ensuring high-quality, appropriate educational services for youth residing in group homes has a number of problems.

With regard to the funding system, the AIR study's primary concern was that school districts have strong financial incentives to place foster youth into special education programs provided by non-public schools. When foster youth in special education are served by non-public schools and agencies LEAs receive 100 percent funding; when school districts provide services no additional funds are provided. This situation creates a number of significant problems identified by the AIR study:

- 1. The funding formula violates important provisions of federal law requiring youth in special education to receive services in the least restrictive environment appropriate to their educational needs, and it denies these students access to the same educational opportunities as youth without disabilities.*
- 2. Under the current 100 percent reimbursement system, LEAs lack appropriate incentives for controlling costs. Also under the state funding system, LEAs may take less responsibility for overseeing services and outcomes for students.*

In response, the AIR study proposes a new model for funding special education services for youth residing in foster care that is independent of whether or not they are served by non-public schools or agencies. Under the recommended formula, special education funds would be allocated based on the number of foster beds in the LEA. Specifically, the formula recommends using group home bed capacity and average annual counts for foster family home and agency youth to defined foster beds.

Under the recommended formula, bed counts would be weighted differently – from one to eight – within five separate formula tiers. Group home beds would be grouped in tiers based upon their rate classification level (RCL). Foster family homes would be given a weight of one; foster family agencies would be given a weight of two.

While the formula would be based upon total foster beds, special education funding would only be available for youth with disabilities eligible for special education.

The formula recommended by AIR proposes to increase special education funding under the AB 602 formula by approximately \$52.1 million to reflect the average costs of providing special education services to the 15,000 students in special education residing in foster care. Additional funding of \$13.8 million is recommended to hold LEAs harmless from any funding losses that would otherwise result from changes in the formula. This would bring total new funding to \$65.9 million, above the \$120 million provided for the program at the time of the study.

A Senate working group convened last fall has been working on some refinements to the funding formula recommended by AIR. These refinements have focused on (1) verifying data adding any missing bed counts for placements eligible for funding under the existing formula and (2) refining the relative weights among different kinds of foster beds to better reflect costs.

### **Related Legislation:**

The AIR study makes numerous findings about the lack of state and local oversight of students with disabilities placed in non-public schools. In response, most of the report's recommendations address improvements in accountability for non-public schools serving youth with disabilities. **The report emphasizes that the recommendations associated with improving accountability are “essential” for the success of the alternative funding formula.**

Several bills have been introduced this year in the Legislature that propose changes in state law to implement recommendations from the AIR study.

Two of these bills -- SB 1316 (Alpert) and AB 1858 (Steinberg)—implement major provisions of the AIR study tied to higher educational standards, increased state and local oversight, and improved accountability for non-public schools. The goal of these bills is to require non-public schools – serving students with disabilities and funded by the state -- to meet the same standards as public schools.

SB 1510 (Alpert) requires teachers at non-public schools to possess valid teaching credentials and requires that students have access to standards-based, core

curriculum and instructional materials, as well as, state and local assessments. The bill also requires the Department of Education to monitor non-public schools every two years instead of every four years, and to include these schools in a variety of existing state and local data, reporting, assessment and accountability systems for public schools and districts.

SB 1510 is also intended to accompany any changes in the LCI-NPS/NPA funding formula approved by the Legislature, with the intent that such a new funding structure is:

- (1) fiscally neutral to the type of educational placement necessary and best suited for the student; and
- (2) allows public schools to access funding currently available only for non-public schools and agencies in serving individuals with exceptional needs residing in foster care.

The Governor Budget proposes to continue the existing LCI-NPS/NPA formula in 2004-05. The budget includes \$129.4 million in General Fund dollars for this formula, which provides an increase of \$3.7 million over the 2003-04 budget. It is not known whether the Administration is considering the AIR recommendations as a possible use of the additional \$53.5 million in federal funds available for new purposes in 2004-05.

A Senate working group, with guidance from study AIR staff, is currently working on refinements to the AIR recommended funding formula. The revisions appear to minimize “win and losses” among local agencies and lower additional costs somewhat. Final data from the working group is expected by May. When the Subcommittee will consider all options for appropriating additional federal funds in 2004-05.

*Staff notes there is a great deal of urgency for making changes to the LCI-NPS/NPA formula – as contemplated by AB 602 -- to allow more flexible funding, assure less restrictive education settings, improve school accountability, and most importantly to improve options for students with disabilities in foster care.*

*As noted in the AIR study, the population of youth residing in foster care is very vulnerable and has extraordinary needs. With access to high quality services and adequate oversight, at risk for poor educational achievement, unemployment, public assistance, and incarceration.*

*Under the current formula school districts have no access to funds for providing special education services if students are not served by non-public schools or agencies. This creates problems for school districts when non-public schools close. This was the case in the Sweetwater Union School District where a local non-public school was closed under court advisory following the death of a student at the non-public school. The Sweetwater district took over the provision of education services, but the funding formula created no source of funding for the district to serve these students. The 2001-02 Budget Act provided \$1 million in special funding in order to allow Sweetwater to continue services. This funding has continued since then. The Governor's Budget 2004-05 proposes continuation of this funding item. Reportedly, there are non-public schools in other districts that face possibility of closure.*

*For all the reasons cited above, staff recommends that the Subcommittee appropriate some of the additional federal IDEA funds that are identified at May Revise to begin the process of phasing in changes to the LCI-NPS/NPA formula as recommended by the AIR study. Since these changes will require statutory changes, staff further recommends that changes to the funding formula be subject to SB 1510 (Alpert), or other legislation pending this year that implements the alternative funding model, as recommended by the AIR study.*

*Staff further recommends that changes to the formula allow school districts to access funds and hold school districts harmless, as recommended by the AIR study. In addition, staff recommends that the final formula lower the weights for foster family home and agency youth counts as recommended by LAO, and include regional center placements, as appropriate.*

*Staff also recommends, that special funding for the Sweetwater Union School District be phased-out beginning in 2004-05 as additional funding under a new special education funding formula for youth residing in foster care placements is made available to the district.*

*In addition, staff recommends that CDE report to the Subcommittee at its May 10<sup>th</sup> hearing on the number of department staff currently assigned to NPS certification and the number of additional staff necessary to assure that the department visit NPSs at least once every two years.*

*Similarly, staff recommends that the LAO gather data on the level of federal IDEA funds appropriated for state level activities in the Governor's Budget in 2004-05, and the specific programs and positions funded with these dollars.*

*Lastly, staff recommends that any changes to the LCI – NPS/NPA funding formula be accompanied by policy legislation that implements the accountability recommendations of the AIR study. According to the AIR study, “without incorporation of these accountability measure, there is a real danger that the more flexible funding approach recommended in this report could simply result in an overall decline in the number and quality of services available to youth in foster care.” The AIR report clearly states that the study team would not have recommended the alternative funding model “without the added accountability recommendations to ensure the provision of appropriate education services to the foster care population.”*

### **C. April Finance Letters – Special Education Items**

The April 1, 2004 budget letters from the Department of Finance propose two sets of changes to the Governor's January 10 Budget that are related to federal funds for special education. These two items are presented below:

#### **1. 6110-001-0890, Evaluation of Family Empowerment Centers on Disabilities (Issue 201)**

It is requested that \$180,000 be provided for the State Department of Education to contract with an outside entity for the evaluation of 12 Family Empowerment Centers on Disabilities.

It is requested that Provision (X) be added to this item to conform to this action:

(X) Of the funds appropriated in this item, \$180,000 is available for the contract with an outside entity to evaluate 12 Family Empowerment Centers on Disabilities pursuant to Chapter 690, Statutes of 2001.

***Staff recommends approval of this item. This study was required by SB 511 (Chapter 690; Statutes of 2001), which established the Family Empowerment Centers. The bill did not provide funding for the evaluation study.***

**Adopted April DOF letter – Vote: Yes – Scott, Margett, Vasconcellos, (3-0)**

#### **2. 6110-161-0890, Special Education (Issues 200, 203)**

It is requested that this item be increased by a total of \$2,906,000, including \$363,000 to reflect an increase in the Capacity Building Schedule as the result of a technical error and \$2,543,000 for additional local assistance carryover authority for 2002-03 federal IDEA funds.

It is requested that Schedules (1) and (4) of this item be amended to conform to this action:

“(1) 10.60.050.012-Local Agency Entitlements, IDEA Special Education..~~\$871,676,000~~  
~~\$874,219,000~~

(4) 10.60.050.021-IDEA, Capacity Building, Special Education...~~\$72,857,000~~ \$73,220,000”

***Staff recommends that the Subcommittee not take any action on this item at this time and that this item remain open until May Revise when the Subcommittee considers the Governor’s proposes other budget changes to federal special education budget items. No Action.***

#### IV. Assessment and Accountability

##### A. No Child Left Behind Update (NCLB)

###### ➤ Presentations by State Board of Education & California Department of Education on NCLB Implementation

**Background:** In January 2002, President Bush signed legislation re-authorizing the Elementary and Secondary Education Act (ESEA). The newly signed law –No Child Left Behind Act (NCLB) of 2001– makes sweeping changes to the previous Title I program under the ESEA law.

California is slated to receive nearly \$3.1 billion in federal fiscal year (FFY) 2004 for federal elementary and secondary education programs authorized under NCLB. This represents an increase of \$197. 7 million for programs authorized under No Child Left Behind -- including Title I programs -- in 2004-05.

**The Subcommittee will consider the following budget items appropriating federal funds for two programs – Title I and Title VI -- authorized under the No Child Left Behind Act of 2002 (NCLB). These programs provide important new funding to states in meeting the requirements of the new federal law.**

***Staff recommends that the Subcommittee ask the Department of Education and Department of Finance to present their current expenditure proposals for Title I – Set-Aside funds and Title VI Assessment funds in the budget year.***

***Staff further recommends that the Department of Finance present final expenditure plans for both of the Title I and Title VI programs at the Subcommittee’s May 10<sup>th</sup> hearing. Such plans would be useful to clarify the***

*precise elements of the Governor's Budget proposals and changes to the budget currently underway. In addition, these plans would be useful in addressing the LAO's concerns about the possible loss of unspent Title I and Title VI federal funds in 2004-05.*

### **B. Title I – Part A Set-Aside Funds for School Improvement (6110-136-0890)**

**Background:** Federal law requires that states set-aside two percent of their Title I, Part A funds for school improvement purposes. These funds are to be used to assist schools, i.e. provide interventions and sanctions, identified as program improvement schools. **The two percent set-aside requirement in previous years grows to four percent in 2004-05.**

#### **Budget Action/Issues:**

The 2004-05 budget provides approximately \$32.9 million in new Title I set-aside funds for school intervention programs. This brings total, ongoing federal funding for Title I set-aside programs to \$65.7 million in the budget year – nearly double the amount currently available annually for school improvement. This increase is possible because the required federal set-aside grew from two to four percent.

In addition, because the state has not spent all of its Title I set-aside funds in the last two years, the state has accumulated significant additional funds that are available for expenditure in the 2004-05.

The table below, as prepared by the LAO, summarizes total funding available and expended for the Title I Set-Aside program.

**Federal Accountability Funding for School and District Interventions**

<i>Dollars in Millions</i>	<b>2002-03 Actual</b>	<b>2003-04 Estimated</b>	<b>2004-05 Proposed</b>
Funds Available	29.1	48.3	98.1
Expenditures	13.6	15.9	19.1
<b>Carryover</b>	<b>15.5</b>	<b>32.5</b>	<b>79.0</b>

*The LAO has raised strong concerns about the possible loss of approximately \$13 million in unallocated Title I available for school and district interventions to assist low-performing schools in the budget year. For this reason, the LAO recommends that the Legislature require CDE and DOF to provide a*

***comprehensive plan on how the funds will be used to assist low-performing schools and districts.***

CDE and DOF have been working on the development of such plans, although a final plan is not expected until May Revision. It is not clear if the Administration's plan will be tied to legislation or not.

An Assembly working group has been considering a number of reforms to the state's accountability system that would be funded with new Title I Set-Aside. These reforms would be tied to legislation – AB 2066 (Steinberg) and would establish new district level accountability programs, among other provisions.

**Questions for DOF and CDE:**

- *What assurances can DOF and CDE provide that the state will not lose any unspent federal Title I Set-Aside funds in the 2004-05?*
- *What is the final plan for spending Title I Set-Aside funds in the budget year, particularly as it relates to utilizing one-time carryover funds?*
- *Are DOF and CDE in agreement about funding to establish a new district-based accountability, as required by NCLB?*
- *Are the Governor's proposals for establishing district based accountability tied to any specific budget trailer bills?*

**C. Title VI – State Assessments (6110-113-0890)**

**Background:** The Title VI program provides states with funds to help cover the costs of meeting the assessment and data requirements of NCLB, including developing or improving assessments, developing curriculum and performance standards, expanding testing accommodations for English learners and students with disabilities, developing student data systems to track achievement and other indicators – such as graduation rates – required by NCLB, and increasing local capacity for improving student achievement.

**Budget Action/Issues:**

**2004-05 Funding.** The Governor's Budget provides appropriate \$32.0 million in 2004-05 for the Title VI program. This is an increase of \$4 million above the revised 2003-04 amount.

<b>Title VI Programs &amp; Proposed Funding</b>	<b>Jan 10 Budget</b>	<b>April Finance Letter</b>
Alternative Schools Accountability Model	775,000	775,000
STAR Program	8,099,000	<b>8,549,000</b>
STAR Test Development		<b>535,000</b>
NCLB Longitudinal Data Base	2,272,000	2,272,000
CELDT – Incentive Funding	7,100,000	<b>10,156,000</b>
High School Exit Exam Workbooks	2,500,000	2,500,000
California Alternate Performance Assessment	2,200,000	2,200,000
High School Exit Exam Evaluation	498,000	498,000
CELDT Vertical Scaling Project	300,000	300,000
Assessment Reporting and Review	400,000	400,000
CSIS Local Grants		<b>1,947,000</b>
CSIS Administration		<b>299,000</b>

The final 2003-04 budget provided \$16.2 million in unallocated funding for Title VI programs. The budget included provisional language tied to the appropriation that established a process for expending these set-aside funds. This process required the CDE to submit an expenditure plan to DOF and the Joint Legislative Budget Committee. The Department of Finance disapproved CDE's initial expenditure plan submitted last November, but partially approved a revised plan in January of this year.

The DOF has recently approved additional Title VI expenditures that should soon be official. DOF will update the Subcommittee on the status of the expenditure plan for the set-aside funds at today's hearing. In total, it appears that DOF has approved \$12 million of the \$16.2 million appropriated for set-aside. This leaves roughly \$4 million in unallocated funds that could be directed to other purposes in 2004-05.

The LAO has raised strong concerns about the possible loss of Title VI funding in 2004-05 as proposed by the Governor. According to the LAO, the state faces the possibility of losing approximately several millions of dollars in federal Title VI funds if they are not expended by September 30, 2004. Federal rules for Title VI require states to expend federal funds within 27 months of the fiscal year for which they were received. Under these same federal rules, unexpended Title VI funds must be returned by states to the federal government. The LAO is concerned that some of \$29 million in Title VI funds first appropriated for the program in 2002-03

may not all be spent by September 30<sup>th</sup>. The Title VI program has been characterized by large carryover funding in the first two years of the program.

**In response the LAO recommends that the Legislature adopt trailer bill language to appropriate \$8 million in unspent Title VI funds for the California English Language Development Test (CELDT) in 2003-04. This would remove any threat of losing federal funds in 2004-05.**

#### **Questions for DOF and CDE:**

- *What assurances can DOF and CDE provide that the state will not lose any unspent federal Title VI funds in the 2004-05?*
- *What is the final plan for spending Title VI State Assessment funds in the current and budget years?*
- *How does DOF and CDE propose to use approximately \$4 million in unallocated funds from the current year?*

#### **D. Title VI Federal Funds – State Assessments – April Finance Letters**

The April 1, 2004 budget letters from the Department of Finance propose a number of revisions to the Governor's January 10 Budget that are related to federal Title VI funds. These revisions are listed below.

***Staff recommends that the Subcommittee hold these items open until the May 10<sup>th</sup> when more formal information is available from the Administration about how it proposes to expend federal Title VI funds in the 2004-05. No Action.***

#### **6110-113-0890, Local Assistance, Federal Title VI Flexibility and Accountability (Issues 152, 153, 155, 156, and 179)**

- **Issue 152: California English Language Development Test Contract**—It is requested that Schedule (5) of this item be increased by \$563,000 for the purpose of making a technical adjustment to align program funding with current contract requirements. This request would restore the funding level to fully fund the contract for this program.
- **Issue 153: California English Language Development Test Apportionment**—It is requested that Schedule (5) of this item be increased by \$2,493,000 for apportionment funding to accommodate the additional 498,600 pupils projected to take the California English Language Development Test in 2004-05.
- **Issue 155: Standardized Testing and Reporting (STAR) Item Development**—It is requested that this item be increased by \$535,000 by adding Schedule (2.5) to ensure there

are sufficient test items for the STAR exam. The SDE will begin an annual release of 25 percent of the test items used in the most recent California English-language arts, mathematics and science California Standards Tests to the public. Since these items will no longer be used on future STAR tests, the continuous development of new items is necessary.

- **Issue 156: STAR Restoration Funds**—It is requested that Schedule (2) of this item be increased by \$450,000 to restore funding for STAR pre-test workshops and the STAR Technical Assistance Center that was reduced as part of the General Fund unallocated reduction to the various testing programs in 2003-04. This funding will provide technical assistance to school districts in administering the STAR exam and ensure that the required demographic fields on the exams are filled out properly.
- **Issue 179: Local Assistance for the California School Information Services (CSIS)**—It is requested that this item be increased by \$2,246,000 by adding Schedule (11) for \$1,947,000 and Schedule (12) for \$299,000. This funding will provide \$1,947,000 for the first of two years of funding for local implementation costs of a new CSIS cohort and \$299,000 for CSIS central operations for hardware and software to accommodate the new cohort.

It is also requested that schedules 2.5, 11, and 12 be added to this item and that Schedule 2 be amended as follows:

“6110-113-0890—for local assistance, Department of Education-Title VI Flexibility and Accountability, payable from the Federal Trust Fund.....~~32,028,000~~  
 38,315,000  
 Schedule:  
 (2) 20.70.030.006-STAR Program.....~~8,099,000~~ 8,549,000  
 (2.5) 20.70.030.016-Test Development: STAR Exam.....535,000  
 (5) 20.70.030.018-Incentive Funding—CELDT.....~~7,100,000~~ 10, 156, 00  
 (11) 20.90.001.010-CSIS Local Grants.....1,947,000  
 (12) 20.90.001.020-CSIS Administration.....299, 000”

It is further requested that conforming provisional language be added as follows:

- X. The funds appropriated in Schedule (2.5) of this item shall be available for test item development for the STAR program during the 2004-05 fiscal year. The test items developed with these funds shall make progress in aligning this exam with the State Board of Education-approved academic content standards and in ensuring that this exam is valid and reliable as measured to industry standards.
- X. Of the funds appropriated in Schedule (5) of this item, \$563,000 shall be available for approved contract costs for administration of an English language development test meeting the requirements of Chapter 7 (commencing with Section 60810) of Part 33 of the Education Code.
- X. The funds appropriated in Schedule (11) of this item are available for the first-year implementation costs of a new CSIS cohort.

X. The funds appropriated in Schedule (12) of this item are available for CSIS central operations costs for new hardware and software to support the new cohort.

### E. State Accountability Programs

The Immediate Intervention in Underperforming Schools Program (II/USP) was created in 2000 as part of the Public Schools Accountability Act (PSAA). The program allows schools in the lowest half of the state's Academic Performance Index ranking --Deciles 1-5 Schools -- to develop a school improvement plan. II/USP schools receive \$200 per ADA for up to three years. These schools must show progress toward meeting state improvement goals or face sanctions or state interventions.

The High Priority Schools Grant Program (HP) was created in 2001 and focuses on schools in the lowest 10% of the state's API ranking – Decile 1 Schools. Participating HP schools must also develop improvement plans and receive \$400 per student for up to a four-year period.

The Governor's budget proposes to reduce funding for the II/USP and HP programs by \$102.2 million in 2004-05. This reduces funding for II/UPS by \$76.8 million and funding for the HP program by \$25.4 million in the budget year, as indicated by the table below.

These reductions are the produce of program savings that result from two factors: (1) schools that entered the programs in earlier years have “timed out” of the program and their grants are expiring, and (2) the state has not funded grants for new schools since 2002-03. For the budget year, the Governor proposes funding for II/USP schools in Cohorts 2 and 3; Cohort 1 schools are not longer eligible for funding.

**Funding for II/USP and HP Programs**  
(Dollars in millions)

Program	2001-02	2002-03	2003-04	2004-05 Proposed
II/USP	\$161	\$151.4	\$129.8	\$ 53
High Priority Schools Grant Program	\$200	\$172	\$218.4	\$193

The LAO does not have any objections to these reductions.

## F. Budget Trailer Bills

- **District Accountability** – The Administration has developed language to provide for assessment of district-wide academic performance and provide sanctions for consistently low-performing districts. Sanctions would include interventions such as are not provided for low-performing schools and restrictions on management compensations. According to DOF, these provisions were going to be added to AB 2824 (Runner), the categorical reform bill sponsored by the Administration. The bill is currently being held in Assembly Education Committee.
- **1448 (Alpert) – Norm-Referenced Test Reductions in the 2004-05 Budget.** This bill reauthorizes the STAR program currently set to repeal on January 1, 2005. This bill also includes provisions that reduce the NRT tests – currently the CAT/6 –to the 3rd and 7th grade in order to conform to the \$6.5 million reduction for the STAR program in the Governor’s Budget for 2004-05. This reduction was agreed to as a part of the 2003-04 budget package.

## V. Education Mandates

**Background:** The California Constitution, as amended by Proposition 4 in 1979, requires the state to reimburse local agencies for costs incurred in complying with certain state-mandated education programs.

For K-12 education, this law provides for the reimbursement of costs incurred by school districts and county offices of education for any increased costs incurred after July 1, 1980 as a result of any statute enacted after January 1, 1975, which mandates a new program or a higher level of service for an existing program.

The Commission on State Mandates decides whether a statute creates a state-reimbursable mandate, and if so, estimates the statewide cost of the mandate. School districts and county offices of education then file reimbursement claims with the State Controller’s Office – detailing costs actually incurred. Once audited and approved, the SCO makes payments for these claims from funds appropriated by the State Budget Act, the State Mandates Claims fund, or specific legislation.

In the event the appropriation is insufficient to pay claims in full, claimants will receive prorated payments in proportion to the dollar amount of approved claims

for the program. Balances of prorated payments will be made when supplementary funds are made available.

The Government Code requires the state to pay interest (at the Pooled Money Investment Account rate) when paying overdue mandate claims to local agencies.

According to the LAO, the amount budgeted for K-12 mandates has been historically under-funded. This under-funding, coupled with recent decisions to defer payments for mandates, brings current state mandate liabilities – past year and ongoing – to approximately \$1 billion. However, the actual costs are not fully known since education mandate claims have not been fully audited.

The practice of deferring mandates does not reduce costs to the state – the costs remain and accumulate with interest. In this way, mandates are not like state grants where the amount paid out is discretionary on the part of the state. The claims, once audited and approved, must eventually be paid in full by the state. In addition, deferrals do not free local agencies from the need to comply with the mandates.

### **Budget Items/Actions:**

#### **A. Mandate Funding Deferrals:**

The Governor proposes to defer funding for education mandates in 2004-05. Technically, the budget appropriates \$1,000 for 39 separate mandates the Governor proposes to defer and zero funding for five mandates the Governor proposes to suspend in the budget year. The Governor's proposal is consistent with budget actions in recent years that have utilized mandate cost deferral – inside and outside of education – as a temporary budget solution.

The annual cost for mandate reimbursements is estimated by the LAO at over \$300 million alone in 2003-04. Given ongoing liability of over \$1 billion in 2003-04, the LAO estimates the state's liability for ongoing, unpaid claims is estimated to exceed \$1.6 billion by the end of 2004-05.

The Governor and Legislature have been silent on when these deferrals will be paid back. By deferring reimbursement of mandate claims, the state is not eliminating its obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account. According to the LAO,

the state has paid \$48.6 million in interest on the unpaid mandates through last year.

The Governor's Budget recognizes 39 ongoing mandates that LEAs can claim reimbursements for in 2004-05. (See Appendix C – page 44, for full list of mandates.)

The 39 mandates proposed by the Governor in 2004-05 include eight new mandates, recently approved by the Commission on State Mandates: 1) Peace Officer's Procedural Bill of Rights, 2) Financial and Compliance Audits, 3) Physical Education Reports, 4) Health Benefits for Survivors of Peace Officers and Firefighters, 5) County Office of Education Fiscal Accountability Reporting, 6) Employee Benefits Disclosure, 7) School District Fiscal Accountability, 8) Photographic Record of Evidence and 9) the Standardized Testing and Reporting (STAR) Mandate.

## **B. Mandate Exclusions/Suspensions:**

### ***Exclusions:***

The Governor's Budget does not recognize the STAR mandate because it believes the claims far overstate real costs, and proposes to delay recognition until claims are audited. The Commission on State Mandates recently approved STAR mandate claims from the year 2001-02 totaling \$36 million. If recognized and upheld as a legitimate mandate, these totals would be expected to climb substantially as more districts file claims.

The Administration proposes auditing claims for the STAR mandate before it recognizes and funds the mandate. It does not appear that the state can appeal the mandate as the three-year window for appeal by DOF has expired.

The LAO recommends that the Legislature adopt trailer bill language requesting the Commission on State Mandates to reconsider its decision on the STAR program mandate to clarify whether the federal testing requirement would reduce the scope of the state-mandate costs and to address the issue of offsetting costs.

### ***Suspensions:***

Mandate costs can be reduced through elimination or suspension of specific mandates. The Governor proposes to suspend five total mandates in 2004-05,

including School Crimes Reporting II, School Bus Safety II, Law Enforcement Sexual Harassment Training, County Treasury Oversight Committee, and Investment Reports. This action requires an amendment to Section 17581.5 of the Government Code. The Administration has proposed budget trailer bill language to accomplish this.

The LAO recommends elimination of the Physical Education Reports mandate and the Employee Benefits Disclosure mandate because they are both unnecessary. Elimination would result in savings of at least \$500,000 annually.

*Staff notes that the Assembly Special Committee on State Mandates has reviewed a number of long-standing mandates affecting school districts and local governments. Its recommendations are contained in Appendix D – page 45. If adopted, these recommendations would significantly reduce the state's future mandate obligations.*

### C. Mandate Reforms

The Administration is concerned about state audits of education mandate claims that found high rates of disallowable costs. In response, the Administration proposes legislation to reform state law governing mandates and address the new and ongoing state liability for these mandates.

The reforms sought by the Administration would: (1) allow the legislature to limit mandate costs through the annual budget act; (2) require the Legislature to approve reimbursement guidelines and cost estimates before they are finalized by the Commission on State Mandates; (3) limit reimbursements to the least costly approach; and (4) increase audits of mandate claims.

The LAO proposes a number of reforms related to the mandate reimbursement process. In particular, it proposes the following specific recommendations:

***Federal Mandate Exclusion:*** *The LAO recommends that the Legislature broaden the federal mandate exclusion so the Commission on State Mandates could waive state reimbursements any time federal law requires the same local programs -- regardless of whether the federal requirement predates the state mandate. This would result in significant savings for the STAR mandate and other potential new mandates.*

*Offsetting Revenues:* The LAO notes that several new mandates are offset by categorical programs that the state provides for a similar purpose. The LAO recommends that the subcommittee adopt budget bill language for the following budget items to require districts to use funds from these programs to first satisfy any related mandated costs: 1) State and federal testing programs, 2) County Offices of Education Fiscal Oversight, and 3) Remedial education programs. The LAO also recommends the Legislature adopt trailer bill language requiring the Commission to make modifications to the new county office fiscal oversight mandate to consider existing state funds as offsetting revenue.

### **Budget Trailer Bill Language**

- Mandate Reforms – The Administration proposes a number of statutory changes to limit new and ongoing state liability for these mandates. The Administration has provided the Subcommittee with proposed language that will be included in a stand-alone policy bill. (See Attachments)
- Education Mandates Suspensions – Suspends three additional education mandates including Investment Reports, Law Enforcement Sexual Harrassment Training, and County Treasurer Oversight Committees. Two mandates – School Bus Safety II and School Crimes Reporting II – were already suspended in 2003-04. This language is being proposed as a part of the omnibus budget trailer bill. (See Attachments)

## VI. April Finance Letters –Governor’s Revisions to the Proposition 98 Agreements

The April 1<sup>st</sup> Finance Letter provides formal notification of adjustments to the Governor’s January 10 Budget that implement the revised agreements between the Governor and the “education community” on Proposition 98 priorities. These pending adjustments were discussed at the Subcommittee’s March 15<sup>th</sup> hearing. (See Appendix E – page 54.)

***Staff recommends no action on the following items. These are major budget items that relate to funding within Proposition 98 and these items should remain open until the Subcommittee is ready to take action on the level of Proposition 98 funding and the allocation of funds within Proposition 98 in 2004-05. No Action.***

### 1. 6110-188-0001, Deferred Maintenance (Issue 651)

It is requested that Item 6110-188-0001 be reduced by \$173.3 million to reflect an agreement between the Administration and the education community to fund this item at the current year level.

### 2. 6110-189-0001, Instructional Materials Block Grant (Issue 653)

It is requested that Item 6110-189-0001 be reduced by \$188.0 million to reflect an agreement between the Administration and the education community to fund this item at the current year level.

### 3. 6110-230-0001, Funds for Distribution for K-12 Growth & COLA (Issue 654)

It is requested that Item 6110-230-0001 be added and funded at \$53,157,000 to reflect an agreement between the Administration and the education community to provide growth and COLA adjustments for programs that are not funded to receive full growth and COLA adjustments.

It is further requested that conforming provisional language be added as follows:

#### Provisions

1. Funding in this item is for growth and cost-of-living adjustments for allocation to Items 6110-103-0001, 6110-107-0001, 6110-108-0001, 6110-109-0001, 6110-111-0001, 6110-113-0001, 6110-119-0001, 6110-120-0001, 6110-121-0001, 6110-122-0001, 6110-123-0001, 6110-124-0001, 6110-125-0001, 6110-127-0001, 6110-131-0001, 6110-139-0001, 6110-151-0001, 6110-158-0001, 6110-164-0001, 6110-166-0001, 6110-167-0001, 6110-181-0001, 6110-189-0001, 6110-191-0001, 6110-193-0001, 6110-195-0001, 6110-197-0001, 6110-198-0001, 6110-201-

0001, 6110-203-0001, 6110-208-0001, 6110-212-0001, 6110-224-0001, 6110-226-0001, 6110-228-0001, 6110-232-0001, 6110-235-0001, 6110-240-0001, 6110-243-0001, and 6110-280-0001.

2. Funding in all items listed in provision 1, except 6110-108-0001, 6110-158-0001, 6110-232-0001, and 6110-234-0001 shall be adjusted for growth by 1.02 percent. Funding for Items 6110-108-0001, 6110-158-0001, 6110-232-0001, and 6110-234-0001 shall be adjusted by the change in eligible participants for the programs funded in those items. Funding for all of these items shall be adjusted by 1.84 percent for cost-of-living except Item 6110-158-0001 which shall be adjusted by the statutory rate of 1.96 percent.

#### 4. 6110-601-0001, School District Revenue Limit Equalization (Issue 050)

It is requested that Item 6110-601-0001 be reduced by \$27,770,000 to reflect a decline in funding for revenue limit equalization from \$109,914,000, to \$82,144,000. The appropriation for this issue will be made in SB 1298.

5. 6110-601-0001 and 6110-608-0001, School District and County Office of Education Deficit Factor (Issue 051)

It is requested that Item 6110-601-0001 be increased by \$264,813,000, and that Item 6110-608-0001 be increased by \$5,276,000, to reduce the deficit factor applied to school district and county office of education revenue limits. It is estimated that these adjustments will reduce the 2003-04 base deficit factor from approximately 1.2 percent, to approximately 0.3 percent. This change will be made through budget trailer legislation. No change is proposed to the 1.8 percent deficit factor related to the 2003-04 COLA adjustment.

### VII. April Finance Letters – Other Issues

The following revisions to the Governor's January 10 Budget are proposed by the April 1, 2004 budget letters from the Department of Finance. These items are itemized for separate vote because they require special action or contain increases in state agency positions. No issues have been raised with regard to any of these items.

#### **Staff recommends approval of each of the following items.**

##### 1. 6110-001-0890, State Operations (Issue 150)

- **Issue 150: Staff for Adequate Yearly Progress and Program Improvement**—It is requested that this item be increased by \$93,000 and that one Education Research and Evaluation Consultant position be approved to process and monitor statewide assessment data for determining Adequate Yearly Progress and identifying Program Improvement schools. **Motion to adopt failed. No Action.**

**2. 6110-125-0890, Language Acquisition and Migrant Education (Issues 006 and 009)**  
**Adopted April DOF letter. Vote: Yes – Scott, Margett, Vasconcellos (3-0)**

It is requested that Schedule (1) of this item be increased by \$9,601,000 to reflect one-time carryover funds that is available for grants to the 22 Migrant Education regions. The proposed adjustment includes a one-time increase of \$10,200,000 from carryover, and a decrease in the federal grant of \$599,000. The carryover funds are available due to a one-time technical State and federal budget alignment and the liquidation of prior year encumbrances. The SDE would distribute \$6.2 million according to the current state funding formula that designates 75 percent for all eligible students, and targets 25 percent to students most at-risk of failing to meet academic achievement standards. The SDE would allocate the remaining \$4.0 million as grants to the 22 Migrant Education regions to promote parental involvement and leadership, a key focus under federal Migrant Education program guidelines.

The \$4.0 million for grants includes \$2.0 million previously proposed by the Administration in a letter to the Joint Legislative Budget Committee dated February 23, 2004, for use in 2003-04 for the same purpose. However, SDE subsequently reported that local agencies could not reasonably spend the requested funds effectively by the end of the current fiscal year. Accordingly, we are hereby rescinding our previously proposed use of the \$2.0 million in 2003-04. The Administration's revised proposal would give local agencies the ability to determine which local agencies would provide parental involvement services, and allow more time to plan and spend the entire \$4.0 million most effectively in 2004-05.

It is requested that Schedule (3) of this item be increased by \$22,916,000 to reflect federal grant increases (\$22,638,000) and one-time carryover (\$278,000) for educating limited English proficient and immigrant students. SDE will allocate these funds on a formula basis.

It is requested that Schedules (1) and (3) of this item be amended as follows to conform to these actions:

“(1) 10.30.010-Title I, Migrant Education . . . ~~126,077,000~~ 135,678,000”  
“(3) 20.10.004-Title III, Language Acquisition . . . ~~132,793,000~~ 155,709,000”

It is further requested that the following provisional language be added to Item 6110-125-0890:

X. Of the funds appropriated in Schedule (1), \$10,200,000 in carryover funding for Migrant Education is provided on a one-time basis and shall be used for grants to the 22 Migrant Education regions. SDE shall allocate \$6,200,000 under the current state funding formula to promote academic achievement, and \$4,000,000 equitably to all 22 regions to promote parent involvement and leadership activities. Local education agencies shall decide which local entities can most effectively perform parental involvement services.

X. Of the funds appropriated in Schedule (3), \$278,000 in carryover funding for Title III, Language Acquisition, is provided on a one-time basis.

**3. 6110-203-0001, Reimbursement Authority Child Nutrition For Nutritional Grants To School Districts and Child Care Agencies (Issue 706)****Adopted April DOF letter. Vote: Yes – Scott, Margett, Vasconcellos (3-0)**

It is requested that reimbursement authority for this item be increased by \$150,000. SDE has submitted an application to the Attorney General's Office to obtain funding from the Salton Company Fund. These funds are the result of a settlement with a grill manufacturer for price fixing. These funds will be used to provide nutritional grants to school districts and childcare agencies, and will be contingent on the receipt of an award.

It is also requested that provisional language be added to this item to conform with this action:

3. Of the funds appropriated in Schedule (1), \$150,000 shall be made available to improve the health and nutrition of children through nutritional grants to school districts and childcare agencies. Funding for these grants shall be contingent on an award from the Salton Company Fund for this purpose. Funding for these grants shall not exceed the amount of the award.

**4. Control Section 12.40, Technically Revise Reporting Date (Issue 008)****Adopted April DOF letter. Vote: Yes – Scott, Margett, Vasconcellos (3-0)**

Section 12.40 requires local educational agencies to submit data to SDE by October 8, 2005, on how funds are being shifted between programs at the local level, as allowed. The SDE proposes changing the reporting date to October 15, 2005, which conforms to the date that the enabling year-end fiscal data is due from local education agencies.

It is requested that subdivision (c) of Control Section 12.40 be amended as follows to conform to this action:

“(c) As a condition of receiving the funds provided for the programs identified in subdivision (b), local education agencies shall report to the State Department of Education by ~~October 8, 2005~~ October 15, 2005, on any amounts shifted between these programs pursuant to the flexibility provided in subdivision (a). The Department of Education shall collect and provide this information to the Joint Legislative Budget Committee, chairs and vice chairs of the fiscal committees for education of the Legislature and the Department of Finance, by February 1, 2006.”

### VIII. Consent Items –April Finance Letters

**Adopted Consent List. Vote: Yes – Scott, Margett, Vasconcellos (3-0)**

***Staff recommends approval of the following revisions to the Governor’s January 10 Budget, as proposed by the April 1, 2004 budget letters from the Department of Finance. No issues have been raised with regard to any of these items.***

#### **Federal Funds Adjustments**

##### **1. 6110-001-0890, State Operations (Issues 002 and 178)**

- **Issue 002: Provisional Language to Reflect Authorized Retirement Rates**—It is requested that provisional language in federal Item 6110-001-0890 be amended to conform with authorized retirement rates. These technical changes reflect approved Public Employment Retirement System (PERS) increases and would not result in expenditure or service changes.

It is requested that Provisions 3, 6, 7, 8, 10, 15, 16, 17, and 19 of this item be amended as follows to conform to these actions:

- “3. Of the funds appropriated in this item, ~~\$384,000~~ \$401,000 is available for programs for homeless youth and adults pursuant to the federal McKinney-Vento Homeless Assistance Act. The department shall consult with the State Departments of Economic Opportunity, Mental Health, Housing and Community Development, and Economic Development in operating this program.”
- “6. Of the amount appropriated in this item, ~~\$1,200,000~~ \$1,265,000 shall be used for the administration of the federal charter schools program. These activities include monitoring of grant recipients, and increased review and technical assistance support for federal charter school grant applicants and recipients. For the 2004-05 fiscal year, one Education Program Consultant position shall support fiscal issues pertaining to charter schools, including implementation of the funding model pursuant to Chapter 34 of the Statutes of 1998.”
- “7. Of the funds appropriated in this item, ~~\$11,268,000~~ \$11,368,000 is from the Child Care and Development Block Grant Fund and is available for support of Child Care Services. Of this amount, \$2,000,000 is one-time federal funds for administrative start-up costs associated with a child care anti-fraud proposal to be developed in collaboration between the Administration and Superintendent and implemented through enabling legislation for the 2004-05 fiscal year. These funds shall be available to the involved state entities, as determined in conjunction with the Department of Finance.”
- “8. Of the funds appropriated in this item, ~~\$2,101,000~~ \$2,159,000 shall be used for administration of the Enhancing Education Through Technology Grant Program. Of

this amount: (a) \$580,000 is available only for contracted technical support and evaluation services.”

- “10. Of the amount provided in this item, ~~\$843,000~~ \$881,000 is provided for staff for the Special Education Focused Monitoring Pilot Program to be established by the State Department of Education for the purpose of monitoring local educational agency compliance with state and federal laws and regulations governing special education.”
- “15. Of the funds appropriated in this item, ~~\$752,000~~ \$798,000 shall be available for costs associated with the administration of the High Priority Schools Grant Program pursuant to Article 3.5 (commencing with Section 52055.600) of Chapter 6.1 of Part 28 of the Education Code and the Immediate Intervention/Underperforming Schools Program pursuant to Article 3 (commencing with Section 52053) of Chapter 6.1 of Part 28 of the Education Code.”
- “16. Of the funds appropriated in this item, ~~\$413,000~~ \$419,000 shall be available pursuant to Chapter 1020, Statutes of 2002 for the development and implementation of corrective action plans and sanctions pursuant to federal law.”
- “17. Of the funds appropriated in this item, ~~\$1,373,000~~ \$1,414,000 is for administration of the Reading First Program. Of this amount, \$873,000 is to redirect 6.0 staff to assist in program administration, and \$500,000 is for the department to contract for annual evaluations of program effectiveness.”
- “19. Of the appropriated funds in this item, ~~\$637,000~~ \$668,000 is for the department to continue developing a comprehensive strategy to address data reporting requirements associated with the No Child Left Behind Act (P.L. 107-110), and to establish 5.0 positions to assist with this task.”

- **Issue 178: Federal Mathematics and Science Partnership Grant Program**—It is requested that Schedule (2) of this item be increased by \$10,000 to provide additional state operations support for the federal Mathematics and Science Partnership Grant Program. This amount will allow additional participants to attend a collaboration meeting. The need for additional capacity at the collaboration meeting is the result of an anticipated grant increase of approximately \$6.2 million that will result in new program participants. (See Item 6110-193-0890, Issue 188 for local assistance).

## 2. 6110-102-0890, Federal Learn and Serve America Program (Issue 182)

It is requested that this item be reduced by \$277,000. This adjustment includes a reduction of \$560,000 in order to align appropriation authority with the anticipated federal grant award amount and an increase of \$283,000 to provide carryover authority for unspent prior year funds. These funds will provide one-time grant augmentations for projects such as lesson plan development and youth-led mini-grants, which provide opportunities for students to organize service programs for pupil and staff participation at their school and other partnering schools.

**3. 6110-136-0890, Augment Even Start, McKinney-Vento Homeless Children Education, Title I Basic, and Title I School Support (Issues 001, 004, 005, and 010)**

It is requested that Schedule (1) be increased by a total of \$132,733,000 as follows:

- \$10,730,000 to reflect \$10,700,000 of carryover (one-time) and \$30,000 from a federal grant increase to Even Start. SDE will use the funds to expand existing literacy service projects.
- \$52,082,000 to reflect \$8,980,000 of carryover (one-time) and \$43,102,000 from a federal grant increase to Title I Basic.
- \$69,921,000 to reflect \$31,381,000 of carryover (one-time) and \$38,540,000 from a federal grant increase to Title I School Support.

It is requested that Schedule (2) of this item be increased by \$1,996,000, to reflect \$1,229,000 in one-time carryover funds and \$767,000 from a federal grant increase to McKinney-Vento Homeless Children Education. The SDE will use the funds on a competitive basis to provide grants for homeless child education. The program allows students who become homeless to continue attending the same school by providing a district liaison or transportation when necessary.

Title I consists of various programs which provide funds to Local Education Agencies (LEAs) for the academic improvement of disadvantaged students. According to the SDE, these carryover funds are available because local education agencies did not fully spend their original allocations. The federal government allows up to 15 percent of the grant to be carried into the next fiscal year. The SDE is requesting 3 percent to be carried over. The funds primarily go out as formula apportionments.

It is requested that Schedules (1) and (2) of this item be amended as follows to conform to these actions:

“(1) 10.30.060-Title I-ESEA . . . ~~1,695,361,000~~ 1,828,094,000  
 (2) 10.30.065-McKinney-Vento Homeless Children Education . . . ~~7,330,000~~ 9,326,000”

It is further requested that the following provisional language be added to the item:

X. Of the funds appropriated in Schedule (1), \$10,700,000 for Even Start, \$31,381,000 for Title I School Support, and \$8,980,000 for Title I Basic, are carryover funds provided on a one-time basis.

X. Of the funds appropriated in Schedule (2), \$1,229,000 in carryover funding for McKinney-Vento Homeless Children Education is provided on a one-time basis.

**4. 6110-156-0890, One-time Carryover for the Federal Adult Education Program (Issue 184)**

It is requested that Schedule (1) of this item be increased by \$5,521,000. This adjustment includes an increase of \$1,355,000 in order to align appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide funding to local programs that provide adult education courses. Further, this adjustment includes an increase of \$4,166,000 to provide carryover authority of unspent prior year funds to provide one-time augmentations for professional development in areas such as federal data collection requirements and on how to develop collaborations with local One-stop agencies.

**5. 6110-166-0890, One-time Carryover for Federal Vocational Education Program (Issue 186)**

It is requested that this item be increased by \$1,597,000. This adjustment includes a reduction of \$4.7 million in order to align appropriation authority with the anticipated federal grant award amount and an increase of \$6,297,000 to provide carryover authority of unspent prior year funds to provide one-time augmentations to existing program participants for Leadership and Tech-Prep priorities, including standards-aligned curriculum development and staff development activities.

**6. 6110-180-0890, Education Technology (Issue 652)**

It is requested that this item be increased by \$3,338,000 to reflect an increase in federal funding for the Enhancing Education Through Technology Grant Program.

It is requested that Provisions 1 and 2 of this item be amended as follows:

- “1. Of the funds appropriated in this item, ~~\$42,704,000~~ \$45,571,000 is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program.
2. Of the funds appropriated in this item, ~~\$42,703,000~~ \$45,570,000 is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of Division 3 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program—including the eligibility criteria established in federal law to target local education 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. Under no circumstances shall the legislation designate specific local education agencies as subgrant recipients.”

**7. 6110-183-0890, Drug Free Schools and Communities Program (Issue 708)**

It is requested that this item be decreased by \$177,000. Specifically, the proposed budget adjustment is the result of: (1) a base \$4,616,000 increase in the federal grant for Drug Free Schools, (2) a one-time carryover of \$1,526,000 from unused funds, and (3) the federal elimination of \$6,319,000 for community service grants. SDE will use the funds to provide

grants to local education agencies for providing drug and violence prevention and intervention services.

It is also requested that Provision 2 of this item be deleted and provisional language be added as follows:

3. Of the funds appropriated in this item, \$1,526,000 is available for one-time grants for drug and violence prevention and intervention services.

#### **8. 6110-193-0890, Federal Mathematics and Science Partnership (Issue 188)**

It is requested that this item be increased by \$6,238,000 in order to align the appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide additional competitive grant awards to institutes of higher education and low-performing schools to partner to provide staff development and curriculum support for mathematics and science teachers.

#### **9. 6110-195-0890, Federal Improving Teacher Quality Grant (Issue 189)**

It is requested that Schedule (1) of this item be reduced by \$11,291,000 in order to align appropriation authority with the anticipated federal grant award amount. This adjustment includes a technical correction of approximately \$8.6 million in federal Title II-Improving Teacher Quality funding that is provided by the US Department of Education directly to the California Postsecondary Education Commission, but was inadvertently reflected in SDE's appropriation.

#### **Other Adjustments**

#### **10. 6110-001-0687, Donated Food Revolving Fund (Issue 704)**

It is requested that this item be increased by \$400,000 to purchase additional equipment to handle the higher volumes and to replace aging equipment. Voluntary fees paid by local agencies (per unit of food) reimburse SDE for the costs of receiving, storing, handling, and distributing food items donated by the federal government to the local agencies. Higher volumes of food distribution and the collection of previously delinquent fees are available to support the proposed expenditures without increasing fees.

#### **11. 6110-113-0001, California High School Proficiency Exam Spending Authority (Issue 154)**

It is requested that this item be amended by increasing reimbursement authority by \$143,000 for an additional 1,676 pupils to take the California High School Proficiency Exam.

#### **12. 6110-301-0660, Department of Education, State Special Schools and Services Division**

It is requested that Item 6110-301-0660 be increased by \$3,312,000 to reauthorize the construction of the Pupil, Personnel Services building at the California School for the Deaf in

Fremont. This phase was previously approved for \$2,144,000 Lease Revenue Bond funding in 2002. However, all of the bids received in December 2003 exceed the appropriation by an amount that surpasses the Public Works Board augmentation authority. The project has been cancelled pending the Legislature's approval of the increased funding. The funds requested are based on revised estimates that reflect current market conditions.

**13. 6110-485 and 6110-605-0001, 2000-01 Certificated Staff Performance Awards (Issue 190)**

It is requested that \$32,672,000 be reappropriated from the Proposition 98 Reversion Account for payments to teachers in schools who qualify for Certificated Performance Awards by virtue of the courts' findings in the Boyd and Acevedo cases. It is therefore requested that Schedule (6) be added as follows:

(6) \$32,672,000 to the State Department of Education for the purpose of funding the 2000-01 Certificated Staff Incentive Awards.

**14. 6110-495, Proposition 98 Reversion Language, (Issue 007)**

It is requested that language in Schedule (2) of this item be amended to allow the unexpended balance, rather than the specific amount (\$569,000), to be reverted. The State Controller's Office indicates that it is unable to revert amounts that differ from the estimated year ending balances projected in the budget. This technical change would allow the Controller to revert whatever amount is remaining at the end of the fiscal year from designated funds, as intended. Every other schedule in the item already has the requested language.

It is requested that Item 6110-495- be amended as follows to conform to these actions:

“(2) \$569,000, or whatever greater or lesser amount reflects unexpended funds, from Schedule (3) of Item 6110-104-0001, Budget Act of 2002 (Ch. 379, Stats. 2002)”

**15. 6330-001-0890, California Occupational Information Coordinating Committee (Issue 190)**

It is requested that Item 6330-001-0890 be reduced by \$30,000 to remove excess authority provided due to an error in the billing amount used to calculate the 2004-05 Statewide Cost Allocation Plan (SWCAP) recovery total for the California Occupational Information Coordinating Committee (COICC). It was inadvertently reported that the COICC had used 90 hours of centralized legal services during the 2002-03 fiscal year. This incorrect reporting resulted in an increase in the SWCAP cost recovery estimate for 2004-05 of \$30,000. This misreporting has been corrected and the SWCAP recovery estimate reduced by \$30,000.

**16. Control Section 24.60, Lottery Expenditure Reports (Issue 321)**

Beginning in 2003-04, all school districts, county offices of education and joint powers agencies are reporting in the SACS format. Therefore, SDE is able to report statewide lottery expenditures, except for charter schools, without sampling expenditures from a few local educational agencies. It is therefore requested that Control Section 24.60 be amended as follows:

~~“SEC. 24.60. (a) From the funds appropriated in Items 4300-003-0814, 4440-011-0814, 5460-001-0831, 6110-006-0814, 6110-101-0814, 6440-001-0814, 6600-001-0814, and 6870-101-0814 of this act, the State Department of Developmental Services, the State Department of Mental Health, the Department of the Youth Authority, the State Special Schools, the Regents of the University of California, the Board of Directors of Hastings College of the Law, the Board of Trustees of the California State University, and community college districts through the Chancellor of the California Community Colleges~~ Each entity receiving lottery funds shall annually report to the Governor and the Legislature ~~no later than January 15, 2006~~ on or before May 15, the amount of lottery funds that each entity received and the purposes for which those funds were expended in the ~~2004-05~~ prior fiscal year, including administrative costs, ~~and proposed expenditures and purposes for expenditure for the 2005-06 fiscal year.~~ If applicable, the amount of lottery funds received on the basis of adult education average daily attendance (ADA) and the amount of lottery funds expended for adult education also shall be reported.

~~(b) The State Department of Education shall determine the patterns of use of lottery funds in all local educational agencies having more than 200,000 ADA and representative local educational agencies randomly selected by size, range, type, and geographical dispersion. On or before May 15, 2005, the State Department of Education shall report this information to the Legislature and the Governor for the 2003-04 fiscal year.”~~

**IX. Consent Items -- Special Funds**

**Adopted Consent List. Vote: Yes – Scott, Margett, Vasconcellos (3-0)**

**Staff recommends that the following Special Fund Items be approved as budgeted.**  
**No issues have been raised with regard to any of these Items:**

1. 6110-001-0178, Support, Schoolbus Driver Instructor Training, payable from the Driver Training Penalty Assessment Fund, \$1,055,000.
2. 6110-001-0231, Support, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, \$916,000.
3. 6110-001-0687, Support, California State Agency for Donated Food Distribution, payable from the Donated Food Revolving Fund, \$5,298,000.
4. 6110-001-0975, Support, Library and Learning Services, payable from the California Public School Library Protection Fund, \$16,000.
5. 6110-001-6036, Support, Administrative Services to local educational agencies, payable from the 2002 State Schools Facilities Fund, \$2,290,000.
6. 6110-006-0814, Support, State Special Schools, payable from the California State Lottery Education Fund, \$133,000.
7. 6110-101-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, \$3,106,000.
8. 6110-101-0814, Local Assistance, School Apportionment, payable from the California State Lottery Education Fund, \$793,296,000.
9. 6110-101-0975, Local Assistance, Library and Learning Resources, payable California Public School Library Protection Fund, \$4,574,000.
10. 6110-102-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, \$18,998,000.
11. 6110-301-0660, Capital Outlay, payable from the Public Buildings Construction Fund, \$69,948,000. California School for the Deaf in Riverside, Dormitory Replacement and Chiller – Preliminary working plans, working drawings, construction, and equipment.

**Appendix A**  
**Federal Formula Grants to California from the**  
**U.S. Department of Education, FFY 2004 (2004-05)**

	2003 Actual	2004 Estimate	Change Fiscal Year 2003 to 2004 Amount
<b>Funds for State Formula-Allocated and Selected Student Aid Programs</b>			
ESEA Title I Grants to Local Educational Agencies	1,649,697,459	1,764,483,256	114,785,797
Reading First State Grants	142,801,723	146,071,447	3,269,724
Even Start	31,342,083	31,439,116	97,033
State Agency Program—Migrant	127,545,988	126,745,395	-800,593
State Agency Program--Neglected and Delinquent	3,350,153	3,349,803	-350
Comprehensive School Reform (Title I)	31,096,447	31,344,563	248,116
Capital Expenses for Private School Children	0	0	0
<b>Subtotal, Education for the Disadvantaged</b>	1,985,833,853	2,103,433,580	117,599,727
Impact Aid Basic Support Payments	57,206,080	68,163,325	10,957,245
Impact Aid Payments for Children with Disabilities	3,774,822	4,186,127	411,305
Impact Aid Construction	1,052,300	1,087,001	34,701
<b>Subtotal, Impact Aid</b>	62,033,202	73,436,453	11,403,251
Improving Teacher Quality State Grants	341,185,718	341,106,053	-79,665
Mathematics and Science Partnerships	13,901,945	20,513,767	6,611,822
Educational Technology State Grants	89,959,919	93,300,634	3,340,715
21st Century Community Learning Centers	76,288,342	136,981,161	60,692,819
State Grants for Innovative Programs	46,410,526	36,578,183	-9,832,343
State Assessments	30,621,018	32,388,547	1,767,529
Rural and Low-income Schools Program	2,573,030	2,575,759	2,729
Small, Rural School Achievement Program	7,489,667	7,493,659	3,992
State Grants for Community Service for Expelled or Suspended Students	6,652,068	0	-6,652,068
Indian Education--Grants to Local Educational Agencies	6,706,324	6,771,285	64,961
Fund for the Improvement of Education—Comprehensive School Reform	9,159,623	9,271,493	111,870
Safe and Drug-Free Schools and Communities State Grants	60,756,063	53,363,516	-7,392,547
Eisenhower Professional Development State Grants	0	0	0
Class Size Reduction	0	0	0
Language Acquisition State Grants	140,308,451	160,319,511	20,011,060
Immigrant Education	0	0	0
<b>Subtotal, All of the Above Programs, which constitute the No Child Left Behind Act of 2001</b>	2,879,879,749	3,077,533,601	197,653,852
Education for Homeless Children and Youth	7,713,390	8,497,997	784,607
State Grants for Incarcerated Youth Offenders	1,940,308	2,098,897	158,589
School Renovation Grants	0	0	0
Special Education--Grants to States	933,124,077	1,072,636,899	139,512,822
Special Education--Preschool Grants	39,529,222	39,550,707	21,485
Grants for infants and Families	52,016,926	54,325,050	2,308,124
<b>Subtotal, Special Education</b>	1,024,670,225	1,166,512,656	141,842,431
Secondary and Technical Education State Grants	0	0	0
Vocational Education State Grants	127,491,358	128,464,270	972,912
Tech-Prep Education State Grants	11,688,655	11,563,216	-125,439
Adult Basic and Literacy Education State Grants	63,213,469	64,223,365	1,009,896
English Literacy and Civics Education State Grants	18,324,637	18,019,237	-305,400
<b>Subtotal, Vocational and Adult Education</b>	220,718,119	222,270,088	1,551,969
<b>Subtotal, All Elementary/Secondary Level Programs</b>	4,134,921,791	4,476,913,239	341,991,448

Source: U.S. Dept. of Education, Budget Service, March 31, 2004

Appendix B**Special Education Enrollment by Disability,  
Statewide Report, 2002-03**

<b>Disability</b>	<b>Students Enrolled</b>	<b>Percentage</b>
Specific Learning Disability	344,571	51.0%
Speech or Language Impairment	172,417	25.5%
Mental Retardation	43,302	6.4%
Emotional Disturbance	26,144	3.9%
Other Health Impairment	28,161	4.2%
Autism	21,066	3.1%
Orthopedic Impairment	15,131	2.2%
Hard of Hearing	6,934	1.0%
Multiple Disability	6,670	1.0%
Deaf	4,540	.7%
Visual Impairment	4,624	.7%
Traumatic Brain Injury	1,565	.2%
Deaf-Blindness	207	.03%
<b>TOTAL</b>	<b>675,332</b>	<b>100%</b>

Source: California Department of Education, Special Education Division

**Appendix C**  
**State-Mandated Local Programs Proposed by the Governor in 2004-05**

Mandate
Annual Parent Notification
Caregiver Affidavits
Pupil Suspension – district employee reports
Intra-District Attendance
Inter-District Attendance
Inter-District Transfer – Parent's employment
Mandate Reimbursement process
Graduation Requirements
Notification Truancy
Pupil Expulsions/Expulsion Appeals
Open Meetings Acts
Pupil Exclusions
Charter Schools
Investment Reports
PERS Death Benefits
AIDS Prevention Instruction
Collective Bargaining
Pupil Classroom Suspension: counseling
Physical Performance Tests
Pupil Health Screenings
Juvenile Court Notices II
Removal of Chemicals
Law Enforcement Agency Notifications
Immunization Records
Habitual Truants
Collective Bargaining Agreement Disclosures
Expulsion Transcripts
Pupil Suspensions: Parents Classroom Visits
Notification to Teachers of Public Expulsion
Scoliosis Screening
Unused Sick Leave Credit
School Accountability Report Cards
Emergency Procedures
American Course Govt. Document
Pupil Residency Verification and Appeals
Criminal Background Checks
Peace Officer Procedural Bill of Rights*
Financial and Compliance Audits*
Physical Education Reports*
Health Benefits for Survivors of Peace Officers and Firefighters*
County Office of Education Fiscal Accountability Reporting*
Employee Benefits Disclosure*
School District Fiscal Accountability*
Photographic Record of Evidence*
<b>TOTAL</b>

\* New mandates approved by the Commission on State Mandates and included in the Governor's 2004-05 Budget.

**Appendix D**  
**Recommendations of the Assembly Special Committee on Mandates**

**Appendix A: Recommendations from the Assembly Special Committee on Mandates**

Ch/Yr	Title	Description	2004-05 Gov Budget	Estimated Annual Costs	Com. Action
<b>ADMINISTRATIVE</b>					
Ch. 98/94	Caregiver Affidavits	This mandate requires LEAs to (a) enroll a pupil living in the home of a caregiving adult living within the district, and (b) annually monitor a specified caregiver affidavit form. The highest reimbursable costs are for administrative tasks related to receiving and approving submitted affidavits and processing enrollment paperwork.	Defer	912	Make optional the annual renewal of affidavits
Ch.650/94 et al.	Employee Benefits Disclosure	Requires that districts (1) receive an actuarial estimate of the accrued, but unfunded portion of the health and welfare benefits of retired employees, (2) calculate and present at a public meeting the amount of accrued health and welfare benefits, (3) demonstrate that the budget contains sufficient funding to meet the current value, and (4) annually certify to the SPI the amount of reserve for the health and welfare benefits of current and retired employees. The largest cost component results from annually calculating the amount of accrued health and welfare benefits and determining than the budget contains sufficient funding to meet the liability. Secondary costs result from presenting that information at a public hearing and providing annual conformation to the SPI.	Defer	452	Make law inoperative. LAO to report back if GASB amendment does not take place in July.

Ch. 100/81 et al.	School District Fiscal Accountability Reporting	This mandate requires school districts to (a) provide specified financial information and certifications to the county superintendent; (b) adopt a revised budget one week earlier than was previously required; (c) to make available for public review an updated district budget after adoption of the State budget; (d) for districts with a negative or qualified budget certification, provide specified information to the SPI, SCO, and county superintendent. The mandate also requires county offices of education to review, verify, and forward to the SPI specified information related to district budgets. The greatest reimbursable costs are likely related to updating district budgets and providing specified information to the SPI, SCO, and county schools superintendent.	Defer	2,525	DOF was asked to ask CSM to review its statement of decision to clarify the extent to which costs can be offset by Budget Act appropriations.
Ch. 1463/89	School Accountability Report Cards	Section 8.5 of Article XVI of the State Constitution requires school districts maintaining an elementary or secondary school, to develop a SARC for each school. Ch. 1463/89 established the School Accountability Report Card (SARC), which requires schools to provide a report card including various non-constitutionally required information such as the average salary of principals in the district and the school's expulsion rate. Major activities include compiling, analyzing and reporting the required data and annually posting the SARC on the Internet.	Defer	4,598	DOF was asked to ask CSM to review prior Decision in light of federal law and recent SARC II & III decisions.
Ch. 828/97	Standardized Testing and Reporting (STAR)	Ch. 828/97 established the Standardized Testing and Reporting Program, which requires schools to test pupils in grades 2 through 11 using a nationally normed exam and a series of tests aligned with State-adopted content standards. Major activities include acquiring test materials, supplies and equipment, training staff on State policies, developing internal policies, and coordinating pretest and posttest activities. Most costs should be recovered from budget appropriations.	Not in budget	Unknown	DOF was asked to ask CSM to review prior Decision in light of federal law.
Ch. 309/95	Pupil Residency Verification and Appeals	This mandate requires LEAs adjacent to the international border to make reasonable efforts to determine a pupil's residency if a district employee has reason to believe false or unreliable documentation of residency has been provided and also requires district to establish an appeals process. The greatest reimbursable costs are related to residency verification efforts and complying with the established appeals process.	Defer	190	Do not change

Ch. 36/77 et al.	Financial and Compliance Audits	This mandate requires county offices of education to undertake additional activities related to financial and compliance audits of school districts, including (a) adding specified boilerplate language to audit contracts, (b) paying auditors with multiple instead of lump-sum payments, (c) upon request from SDE or SCO, consulting with State agencies and assisting districts to resolve audit exceptions, and (d) publicly reviewing annual audits. The greatest reimbursable costs will likely result from assisting districts to resolve audit exceptions and publicly reviewing annual audits.	Defer	1,133	Pending additional information, after review, make permissive: 1) respond to inquiries, 2) corrective action plans, and 3) report to the governing board
<b>Pupil Discipline, Suspension, and Expulsion</b>					
Ch. 965/77 & 498/83	Pupil Classroom Suspension : Counseling	Requires that school counselors or school psychologists attend post-classroom suspension parent-teacher conferences whenever practicable. Of the reimbursable activities associated with this mandate, the highest costs result from providing counseling services at parent-teacher conferences.	Defer	2,627	Repeal, make permissive
Ch. 1284/88 & 213/89	Pupil Suspension : Parent Classroom Visits	Requires (a) school district governing boards to adopt a policy authorizing teachers to require the parent or guardian of a pupil who has been classroom-suspended by a teacher, to attend a portion of a school day in his or her child's or ward's classroom on the day in which the pupil is scheduled to return to class, or within a reasonable period of time thereafter; (b) parents or guardians be notified of this policy prior to its implementation; (c) the principal to send a written notice to the parent or guardian stating that attendance is pursuant to law; (d) school staff to contact parents or guardians who do not respond to the request; and (e) the school administrator to meet with the parent after the classroom visitation and before leaving the school site. This applies only to a parent or guardian who is actually living with the pupil. Of the reimbursable activities associated with this mandate, the highest costs result from parental notices, follow up contacts, and meetings.	Defer	800	Repeal, make permissive

Ch. 498/83	Notification of Truancy	Requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by 1st class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Art. 6 (commencing with §48290) of Ch 2 of Part 27. Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district; and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy. Of the reimbursable activities associated with this mandate, the highest costs result from notification of parent or guardian and recordkeeping.	Defer	10,616	Repeal, make permissive
Ch. 1184/75	Habitual Truants	Defines habitual truant and states that no pupil shall be deemed a habitual truant, unless school districts make a "conscientious effort" to hold at least one conference with the pupil's parent or guardian and the pupil. Ch 1023/94 requires school districts to classify a pupil as a habitual truant as defined in EC §48262 upon the pupil's fourth truancy within the same school year. Of the reimbursable activities associated with this mandate, the highest costs result from reviewing school records and scheduling and holding parent conferences.	Defer	8,871	Repeal, make permissive
Ch. 1253/75	Expulsion Transcripts	Provides that school districts must not charge the parents or guardians of pupils for the cost of the transcript of the initial expulsion hearing when the parents or guardians have limited income, and to refund the cost of the transcript to the parents or guardians when the county board reverses the local board's decision to expel the pupil pursuant to EC §48921, as renumbered by Ch 498/83. Of the reimbursable components associated with this mandate, the highest costs result from salaries and benefits of employees who perform the duties associated with providing a written transcript.	Defer	14	No Action

Ch. 1306/89 & 1257/93	Notification to Teachers of Pupil Expulsion	Requires that school districts report to each teacher the name of any student who has caused, or attempted to cause, serious bodily injury or injury to another person. The notification is based on written records the district maintains or receives from a law enforcement agency. Districts are not liable for failure to comply as long as a good faith effort is made to notify teachers. School personnel are immune from civil or criminal liability unless the information they provide is knowingly false. Of the reimbursable activities associated with this mandate, the highest costs result from information maintenance and notifying teachers.	Defer	6,154 <b>Leg Counsel suggests we do not try to combine.</b>	Accept LAO Recco: Ask SCO to 1) review claims and ID high cost components and, 2) recommend unit cost. <b>Unit cost difficult at this time, ask SCO to prioritize this mandate for audits</b>
Ch. 498/83 et al.	Pupil Suspensions, Expulsions, and Expulsion Appeals	This consolidated mandate covers activities relating to mandatory pupil suspensions and expulsions, required expulsion appeals procedures, pre-suspension conferences, etc. Of the reimbursable activities associated with this mandate, the highest costs result from salaries and wages of employees required to prepare reports and attend hearings for suspended and expelled students (due process activities). (Consolidated with Pupil Suspensions: District Employee Reports mandate per COSM amended parameters and guidelines.)	Defer	4,380	Leave alone for now, but may be part of the "federal" discussion
<b>SAFETY</b>					
Ch. 1107/84	Removal of Chemicals	Requires districts to comply with guidelines for the removal and disposal and chemicals whose shelf life has elapsed. Eligible claimants are reimbursed for ongoing costs of maintaining a program for the regular removal and disposal of identified chemicals. Eligible costs include school district staff costs associated with the removal or inventorying of chemicals, and consultant and contractor fees or charges. Potential high costs include: initial inventory development, maintaining the inventory, and removal and disposal of chemicals. We note that there has been relatively low funding claimed by all districts for this mandate.	Defer	2,091	DOF was asked to ask CSM to review P&Gs to reflect changes in this mandate

**Budget and Fiscal Review Subcommittee No. 1**

**Education**

Ch. 736/97 et al.	Comprehensive School Safety (pending claim)	Requires school sites to write, develop, and adopt comprehensive school safety plans and submit them to the school district or COE for approval. Reimbursable activities associated with this mandate include consulting with law enforcement in the development of the plan; assessing the current status of school crime committed on school campuses and school related functions; annual review and update of the plan.	Not in Budget	No Estimate Available (Pending Claim)	Look into consolidating this with "Emergency Procedures". The "other funding source will be part of the April discussion. Repeal annual update requirement
Ch. 1659/84	Emergency Procedures; Earthquake and Disasters	Requires LEAs to have earthquake emergency procedures for all school buildings. Eligible claimants are reimbursed for increased costs incurred to prepare an emergency procedure system and providing specified mass care and welfare shelters. Of the reimbursable activities associated with this mandate, the highest costs result from the ensuring that students and staff are aware of and properly trained in the emergency plans and performance of a quarterly drop procedure practiced by every student and staff member.	Defer	19,799	Leave earthquake plan alone. Make implementation permissive. Combine with "Comprehensive" above.
Ch. 1423/84 et al.	Juvenile Court Notices II	Requires school district superintendents to distribute to relevant school-site personnel written notices provided by the juvenile court system regarding pupils enrolled in their districts who have been convicted of certain felonies or misdemeanors, and to maintain these files until the student graduates from high school, is released from juvenile court jurisdiction, or reaches the age of 18, whichever comes first. Of the reimbursable activities associated with this mandate, the highest costs result from record retention and destruction.	Defer	811	Ask Leg Counsel to look into combining with "Notification of Teachers..." Pick least costly methodology <b>Leg Counsel suggests we do not try to combine.</b>
Ch. 1117/89	Law Enforcement Agency Notifications	Requires that school authorities notify the appropriate law enforcement agency of any acts of a pupil that may involve the possession or sale of a controlled substance or a violation of PC §626.9 and 626.10. Of the reimbursable activities associated with this mandate, the highest costs result from preparation and filing of reports and record maintenance.	Defer	2,082	No Action

HEALTH					
Ch. 668/78	Pupil Health Exclusions	Requires school districts to: (a) send a notice to a pupil's parent/guardian, (b) grant the parent/guardian the right to meet with the governing board, (c) conduct the meeting in accordance with certain procedural rules, and (d) provide periodic review of the exclusion. HSC§120230 specifies that no pupil who resides where any contagious, infectious, or communicable disease exists/existed, and that is subject to strict isolation/quarantine, shall be permitted to attend school except by written permission of a county health officer. EC§49451 states that when a pupil's parent/guardian has refused to consent to a physical examination of his or her child, and there is good reason to believe that he pupil is suffering from a recognized contagious or infectious disease, the pupil shall be excluded from school until school authorities are satisfied that no contagious or infectious disease exists. Of the reimbursable activities associated with this mandate, the highest costs result from producing written reports and	Defer	1,469	Repeal, but keep "due process" part of the mandate
Ch.120 8/76 et al.	Pupil Health Screenings	Requires (a) the governing body of every school district which has kindergarten children enrolled to provide Child Health & Disability Prevention (CHDP) information to parents; (b) districts to report to the county and DHS the number of pupils enrolled in first grade and number of health screening certificates (and waivers) received; (c) counties to reimburse districts for the information collection process; (d) districts to exclude pupils who do not have a health screening (or waiver) from school under specified circumstances; and (e) districts to make specified family contacts before excluding a pupil from attendance. Of the reimbursable activities associated with this mandate, the highest costs result from parental notification, obtaining parental compliance, exclusion of pupils, and statistical reporting.	Defer	4,884	Eliminate reporting requirement to DHS, unless DOF finds out this information is used by DHS
Ch.640/97	Physical Education Compliance Reports	Adds a new reporting and compliance requirement to determine whether districts are actually providing their students with the statutory minimum minutes of physical education. Of the reimbursable activities associated with this mandate, the highest costs will result from staff training and record keeping.	Defer	14	Repeal, pending DOF report as to whether or not CCR is sufficient

Ch. 1176/77	Immunization Records - Including Hepatitis B	Provides uniform requirements for immunization of students prior to entering private or public elementary, secondary school or other specific institutions. In addition, the governing authority of the school or specified institution is required to maintain immunization records on each student and file a written report on the immunization status of new entrants to the school or institution with the State Department of Health Services at times and on forms prescribed by the department. Of the reimbursable activities associated with this mandate, the highest costs result from record maintenance and periodic reporting. <b>Hepatitis B:</b> Ch 291/95 required documentation of Hepatitis B immunization for all children entering the Kindergarten level or below. Ch. 882/97 further required Hep B immunization for all students entering 7th grade.	Defer	3,650	Leave alone
<b>CURRICULUM</b>					
Ch. 778/96	American Government Course Document	Requires school districts to teach students to read the Declaration of Independence, U.S. Constitution, Federalist Papers, Emancipation Proclamation, Gettysburg Address, and George Washington's Farewell Address, as part of American Government and Civics courses required for graduation. The highest cost resulting from this mandate is the cost of training teachers how to teach American Government or Civics courses to the students. This cost may include the salary/fee of the trainer and related travel expenses. Other costs may include travel expenses to and from seminars for teachers. Other high costs include the adoption of new textbooks or instructional materials.	Defer	194	Repeal mandate statute; mandate subject matter in state assessments and content sdts.- LAO suggestion
Ch. 498/83	Graduation Requirements	Requires districts to provide two science classes to pupils before their graduation from Grade 12. Previously, only one science class was required for graduation. This mandate is for the incremental cost associated with requiring one additional science course as a prerequisite for graduation. Costs include staffing, facilities, and equipment that are unique to science courses.	Defer	11,349	Defer action - Add language to require that State or Local bond money must be used to offset reimbursable state mandate. DOF to report back
<b>Conforming to other Non Proposition 98 issues</b>					

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**Education**

Ch. 783/95 et al.	Investment Reports	This mandate requires LEAs to submit an annual statement of investment policy as well as quarterly report of investments. The greatest reimbursable costs are related to compiling data to prepare quarterly investment reports for submission to the district CEO, internal auditor, and governing board and preparing annual investment policy for submission to the district governing board and county board of supervisors.	Suspend to conform to 2003 Budget Act suspension of non-98 mandate	318	<b>Conforming</b>
Ch. 784/95 & 156/96	County Treasury Oversight Committees	This mandate requires the establishment of a county treasury oversight committee for any county that is investing surplus funds and allows for reimbursement of costs incurred by committee members, including county superintendents of schools or designees, to prepare for and attend committee meetings. Education-related costs result if a county superintendent of schools is reimbursed for time served on the oversight committee.	Suspend to conform to 2003 Budget Act suspension of non-98 mandate	57	<b>Conforming</b>
Ch. 126/93	Law Enforcement: Sexual Harassment Training	Requires peace officers who are victims of sexual harassment in the workplace to follow complaint guidelines developed by the Commission on Peace Officer Standards and Training, and requires peace officers who completed basic training before January 1, 1995 to attend supplementary training on sexual harassment in the workplace. Of the reimbursable activities associated with this mandate, the highest costs will result from salaries and benefits of the trainees required to take the training class.	Repeal	20	<b>Conforming</b>

Appendix E.**Revisions to the Governor's Agreement for K-14 Education \***

<i>Dollars In Millions</i>	<b>Governor's Jan 10 Budget Agreement</b>	<b>Governor's Jan 21 Budget Agreement</b>	<b>Change</b>
K-12 Equalization	110,000	82,230	-27,770
CCC Equalization	80,000	59,804	-20,196
Deferred Maintenance	173,300	0	-173,300
Instructional Materials	188,000	0	-188,000
Discretionary Growth & COLAs**	0	139,177	139,177
Deficit Reduction (Revenue Limit Funds)	0	270,089	270,089
<b>Total</b>	<b>\$551,300</b>	<b>\$551,300</b>	<b>0</b>

\* Beyond the Governor's \$1.2 billion agreement for statutory growth and COLAs for revenue limits and categorical programs in 2004-05.

\*\*Includes approximately \$86 million in growth and COLAs for community colleges apportionments and categorical programs, and \$53.1 million in growth and COLAs for K-12 categorical programs that traditionally receive growth and COLAS.

Senate Budget and Fiscal Review  
SUBCOMMITTEE NO. 1

EDUCATION  
Jack Scott, Chair  
John Vasconcellos  
Bob Margett

Monday, May 3, 2004  
1:30 p.m.  
Room 113

Page

I. Dr. Kevin Starr, California State Librarian Emeritus

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## II. University of California & California State University

**A. SUPPORT BUDGET REDUCTIONS.** In addition to the General Fund reductions associated with the redirection of students to community colleges, failing to fund enrollment growth, and increasing student fees (all of which were discussed at prior subcommittee hearings), the Governor's Budget proposes a set of reductions which impact the core academic, support, and research functions of the University of California (UC) and California State University (CSU). Following are the "highlights" of the Governor's proposal:

- *7.5 percent reduction in funding for Academic and Institutional Support. This reduction equates to a General Fund loss of \$45.4 million at UC and \$52.6 million at CSU;*
- *5 percent increase in the student-to-faculty ratio. This reduction is a general "hit" on the core academic functions of the universities and is proposed to save \$35.3 million at UC and \$53.5 million at CSU;*
- *5 percent reduction in state-funded research at the UC for an \$11.6 million General Fund savings;*
- *\$14.3 million reduction to Digital California Project – which provides Internet2 services to K-12 school districts (already discussed by the committee under the topic of K-12 Education Technology on March 15, 2004);*
- *Additional \$2 million reduction (\$4 million over two years) which eliminates the multi-campus Labor Studies Research Institute.*

**LEGISLATIVE ANALYST OFFICE (LAO).** While the LAO makes note of the above reductions in its Analysis of the 2004-05 Budget Bill, it does not raise any specific issues with the proposals and recommends that they be Approved as Budgeted.

**STAFF NOTES.** Staff notes particular concern with the Administration's proposal to eliminate the Labor Studies Institute. This Institute is only one of many organized research units within the UC. Based on the Governor's Budget, other state-supported research activities would be reduced by 5 percent (25 percent total reduction over two year period). As such, it is unclear why the Labor Studies Institute has been singled out for elimination while the others are proposed – equally and without regard to the subject of their research – for a 5 percent reduction.

1) Staff recommends that the committee hold this issue open pending additional information from the University of California regarding possible options for "folding" the work of the Labor Studies Institute into another UC research institute.

2) Further, staff recommends that the remainder of UC and CSU's Support Budgets be held open pending the May Revision.

**BACKGROUND: STUDENT ACADEMIC PREPARATION (OUTREACH) PROGRAMS**

“Outreach” generally refers to a variety of activities aimed at helping students from disadvantaged backgrounds prepare for and enroll in college. A term which better captures the nature of the programs would be “Student Academic Preparation”.

In 1995, the UC Regents approved SP-1, a policy that prohibited campuses from using race, religion, sex, color, ethnicity, or national origin as criteria in granting admission. The policy became effective January 1, 1997. In 1996-97, largely in response to the new environment created by SP-1, UC began a major initiative to improve and expand student centered efforts to increase the population of educationally-disadvantaged K-12 students that are eligible for admission to the UC.

The UC received substantial augmentations to its K-12 “outreach” budget to implement this post SP-1 strategy. Prior to the implementation of this comprehensive strategy, the state and UC spent approximately \$17 million on outreach efforts (in 1997-98). Funding for UC’s outreach programs reached a high of \$82 million (in the 2000-01 Budget Act). These augmentations allowed UC to expand student academic programs and implement a number of new initiatives which broaden the scope of K-12 academic preparation. Since then, funding levels have declined, to \$30 million at the beginning of this fiscal year (2003-04) to **\$0** in the Governor’s proposed Budget.

At the CSU, Student Academic Preparation programs, including the Educational Opportunity Program (EOP) have existed for many years; however, the Legislature has tended to focus less on CSU’s efforts in this arena than on UC.

**B. STUDENT ACADEMIC PREPARATION PROGRAMS.** The Governor’s Budget proposes to delete the remaining \$33 million at UC and \$52 million at CSU which support student academic preparation “outreach” programs, thereby eliminating *all* state funding for these programs.

On March 31, 2004 this committee, combined with the Senate Education Committee, held a special two-hour hearing to discuss student academic preparation programs, specifically examining the issues of (1) how programs should look in the future; (2) expectations regarding the achievement levels of students in these programs; and (3) types and configurations of the most effective and efficient programs.

The committee concluded that the fiscal condition of the state warrants a review of student academic preparation programs, especially in light of the proposed higher education budget reductions which threaten the “promises” laid out in the *1960 Master Plan for Higher*

*Education.* The testifiers were united in the need for programs to be truly “intersegmental” (K-18) and implemented on a region-by-region basis. Further, the committee agreed that the UC has a special role to play – as the state’s Research Institution – in collecting and analyzing data related to the effectiveness of student academic preparation programs, and ensuring that these data are then used to further improve the programs.

**LEGISLATIVE ANALYST.** As part of its Analysis of the Budget Bill, the LAO recommended that the cuts proposed by the Governor be sustained and that the Legislature instead transfer \$30 million from funding originally set aside for community college financial aid outreach, to establish a College Preparation Block Grant. This new Block Grant would be targeted at schools with low college participation rates.

**STAFF NOTES.** While the LAO’s proposal may have merit in a “zero-sum” world, staff notes that there is nearly universal support for restoring at least some level of funding for “outreach” programs, and the Administration has expressed its interest in working with the Legislature and the University systems to help resolve this issue. As such, staff recommends that the committee hold this issue open pending the May Revision.

**C. UC MERCED.** The Governor’s Budget proposes to augment both support and capital outlay expenditures for the developing UC Merced campus. Support funds are slated for a net increase of \$2.7 million (\$10 million increase is offset by the deletion of \$7.3 million in one-time funds). The additional \$2.7 million will be spent on faculty salaries and recruitment; staff to process enrollment and financial aid applications; and library start-up costs. With this increase, annual expenditures for the Merced campus will be \$20 million.

In addition, the Governor’s Budget proposes Capital Outlay expenditures of \$9.3 million for the construction and equipment purchases related to the Logistical Support/Service Facility. Including the amount proposed in the Governor’s 2004-05 Budget (as noted above), to date, the state will have expended over \$104 million of General Fund and \$215 million in bond funds to develop the campus (\$319.3 million total).

**LEGISLATIVE ANALYST RECOMMENDATION.** Given both the Legislature and Governor’s desire to open the Merced campus in the Fall of 2005, the LAO recommends that the Legislature approve the proposed \$10 million augmentation, because the expenditure of funds is justified in meeting this goal. The LAO’s recommendation to approve the augmentation does not constitute an endorsement of the project, but rather indicates that an additional \$10 million appears necessary if the campus intends to open in Fall 2005. The LAO did not raise any issues related to the \$9.3 million capital outlay proposal.

**STAFF NOTES.** Since its inception, the opening date for the Merced campus has been changed several times. Originally, the campus was intended to open in the Fall of 2005,

with 1,000 full-time equivalent (or 1,036 “headcount”) students (FTES), and was on-track to meet this opening date. As part of the 2000-01 Governor’s Budget, the Davis Administration requested that the opening date be expedited to the Fall of 2004. While rushed, the UC struggled to meet the deadline. As part of last years’ budget negotiations, the opening date for the campus was delayed, back to its original 2005 date.

According to UC Merced officials, they will be ready to open the campus to 1,000 FTES in the Fall of 2005; a residence hall is currently being constructed to house 602 individuals. When the campus opens, it will offer six to eight undergraduate majors and five areas of graduate-level study. At present, the campus has a core staff of approximately 150 employees, including academicians, librarians, maintenance staff, and post-doctoral and graduate students.

Staff recommends that both support and capital outlay funding for UC Merced be held open pending the May Revision.

### **III. COMMUNITY COLLEGES CAPITAL OUTLAY**

**A. METHODOLOGY FOR PROJECTING ENROLLMENTS IN INDIVIDUAL DISTRICTS.** There are no proposals in the Governor’s Budget related to this issue.

**LEGISLATIVE ANALYST RECOMMENDATION.** The LAO contends that the enrollment projections prepared by the Community Colleges Chancellor’s Office overstate future enrollments – which may be overestimating the need for additional facilities.

**STAFF NOTES.** In order to respond to the LAO’s concerns, the Community Colleges has drafted Supplemental Report Language as follows:

*“The California Community Colleges (CCC) shall review the methods it uses to prepare enrollment projections for districts, and changes that might be made in its methods in order to increase the accuracy of their projections. The CCC shall report to the Legislature by November 1, 2004 on the progress of its review, and submit a final report including recommended changes by July 1, 2005.”*

Staff recommends that the proposed Supplemental Report Language be adopted.

**B. APRIL FINANCE LETTER.** As part of the April revision to the Governor’s Budget, the Department of Finance proposes to add \$233,000 and 2.0 positions in the California Community Colleges Chancellor’s Office to review capital outlay projects and administer

and allocate bond funds for the projects. There has been an increase in workload associated with the capital outlay unit since the passage of Proposition 47 in 2002 and Proposition 55 in 2003. Funding for the positions and related expenses will come from the Educational Facilities 1998 Bond Fund.

**STAFF NOTES.** Staff recommends that this issue be approved as proposed by the Department of Finance.

#### IV. CONSENT

Staff recommends that the following items be Approved as Budgeted.

- 6120-011-0001. Support, California State Library. \$9,824,000
- 6120-011-0020. Support, California State Library, Law Library. Payable from the California State Law Library Special Account. \$589,000
- 6120-011-0890. Support, California State Library. Payable from the Federal Trust Fund. \$6,153,000.
- 6120-011-6000. Support, California State Library, Office of Library Construction. Payable from the California Public Library Construction and Renovation Fund. \$2,589,000.
- 6120-011-6029. Support, California State Library, Administration of California Cultural and Historical Endowment. Payable from the California Clean Water, Clean Air and Safe Neighborhood Parks, and Coastal Protection Fund. \$1,557,000.
- 6120-012-0001. Support, California State Library, Rental Payments on Lease-Revenue Bonds. \$2,457,000.
- 6120-013-0001. Support, California State Library, Sutro Library Special Repairs. \$17,000.
- 6120-150-0001. Local Assistance, California State Library, California Civil Liberties Public Education Program. \$500,000.
- 6120-160-0001. Local Assistance, California State Library, California Newspaper Project. \$240,000.
- 6120-211-0001. Local Assistance, California State Library, Library Development Services. \$15,170,000.
- 6120-211-0890. Local Assistance, California State Library, Library Development Services. Payable from the Federal Trust Fund. \$12,518,000.
- 6120-213-0001. Local Assistance, California State Library, California English Acquisition and Literacy Programs. \$5,340,000.
- 6120-221-0001. Local Assistance, California State Library, Public Library Foundation. \$15,766,000.
- 6120-490. Add item, Reappropriation, Local Assistance, California State Library. Per April 2004 Finance Letter.
- 6420-001-0001. Support, California Postsecondary Education Commission. \$1,999,000.
- 6420-001-0890. Support, California Postsecondary Education Commission. Payable from the Federal Trust Fund. \$411,000.

- 6420-101-0890. Local Assistance, California Postsecondary Education Commission. Payable from the Federal Trust Fund. \$8,579,000.
- 6440-005-0001. Support, University of California. Institutes for Science and Innovation. \$4,750,000
- 6440-401 Capital Outlay, University of California. Savings from Capital Outlay Bond Funded Projects. Language as amended by April 2004 Finance Letter.
- 6440-490 Reappropriation, University of California.
- 6610-002-0001 Support, California State University. Direct costs and Administration of Legislative, Executive and Judicial Fellows programs. \$2,725,000.
- 6610-401 Capital Outlay, California State University. Savings from Capital Outlay Bond Funded Projects. Language as amended by April 2004 Finance Letter.
- 6610-490 Reappropriation, California State University.
- 6610-493 Add Item, California State University, per April 2004 Finance Letter to reappropriate funds for Library projects at CSU Monterey Bay and CSU Pomona.
- 6610-494 Add Item, California State University, per April 2004 Finance Letter to extend liquidation period for construction funds for (1) Engineering/Architecture Building at CSU San Luis Obispo; and (2) Peterson Hall project at CSU Long Beach.
- 6610-495 Add Item, California State University, per April 2004 Finance Letter. To revert \$6,600,000 million for Chico Telecommunications Infrastructure Project.
- 6610-301-0574 Capital Outlay, California State University, add \$7,959,000 million per April 2004 Finance Letter for Chico Telecommunications Infrastructure Project.
- 6870-001-0574 Support, California Community Colleges for facilities planning. \$1,117,000
- 6870-001-0925 Support, California Community Colleges. Payable from California Business Resources and Assistance Innovation Network Fund. \$10,000.
- 6870-301-6028 Capital Outlay, California Community Colleges. Decrease Item per April 2004 Finance Letter to delete Skyline College Facility Maintenance Center Project. \$2,885,000.
- 6870-301-6041 Capital Outlay, California Community Colleges. Increase Item per April 2004 Finance Letter for College of San Mateo Student Services Consolidation Project. \$3,678,000.
- 6870-301-6041 Capital Outlay, California Community Colleges. Increase Item per April 2004 Finance Letter for Canada College Library, Learning Resource Center and Student Services Project. \$4,027,000.

6870-301-6041 Capital Outlay, California Community Colleges. Increase Item per April 2004 Finance Letter for Copper Mountain College Multi-Use Sports Complex. \$927,000.

6870-497 Add Item, California Community Colleges, per April 2004 Finance Letter to revert funding from College of San Mateo Seismic Retrofit of Student Services Building. \$3,745,000.

Additional Higher Education Capital Outlay Projects – per Attached.

## Higher Ed Capital Outlay projects

Org Code	Campus	Project	Phase	Amount (000s)
<b>UNIVERSITY OF CALIFORNIA</b>				
6440-301-6041	Davis	Robert Mondavi Institute for Wine and Food Service	C	32,135
6440-301-6041	Davis	Seismic Corrections, Phase 4	C	6,714
6440-302-6041	Davis	Life Sciences Alterations, Phase 2	PWC	3,506
6440-302-6041	Davis	Physical Sciences Expansion	P	2,235
6440-302-6041	Davis	Campus Wastewater Treatment Plan Expansion, Phase 1	PWC	3,543
6440-302-6041	Irvine	Biological Sciences Unit 3	C	50,120
6440-302-6041	Irvine	Engineering Unit 3	PW	3,440
6440-301-6041	Los Angeles	Geology Seismic Correction	C	9,489
6440-301-6041	Los Angeles	Life Sciences Replacement Building	P	2,200
6440-301-6041	Los Angeles	South Tower Seismic Renovation, Phase A	W	2,500
6440-302-6041	Los Angeles	Campbell Hall Seismic Correction	C	5,084
6440-302-6041	Los Angeles	GSEIS Seismic Correction	PWC	2,680
6440-301-6041	Merced	Logistical Support/Service Facilities	CE	9,290
6440-301-0660	Riverside	Genomes Building	PWCE	55,000
6440-301-6041	Riverside	Psychology Building	C	30,192
6440-302-6041	Riverside	Geology and physics Building Renovation	PWC	17,777
6440-302-6041	Riverside	Materials Science and Engineering Building	PW	3,749
6440-301-6041	San Diego	Pharmaceutical Sciences Building	E	2,049
6440-301-6041	San Diego	Student Academic Services Facility	C	19,461
6440-301-6041	San Diego	Satellite Utilities Plant, Phase 1	C	8,200
6440-301-6041	San Diego	Mayer Hall Addition and Renovation	C	25,096
6440-301-6041	San Diego	Applied Physics and Mathematics Renovation	C	8,809
6440-301-6041	San Diego	Music Building	PW	3,802
6440-302-6041	San Diego	SIO Research Support Facilities	PWC	3,426
6440-301-6041	San Francisco	Medical Sciences Building Improvements, Phase 2	W	1,632

Org Code	Campus	Project	Phase	Amount (000s)
6440-301-6041	Santa Barbara	Psychology Building Addition and Renovation	E	410
6440-301-6041	Santa Barbara	Biological Sciences Buildings Renovation	C	9,691
6440-301-6041	Santa Barbara	Education and Social Sciences Building	C	49,706
6440-302-6041	Santa Barbara	Electrical Infrastructure Renewal Phase 2	WC	7,305
6440-301-6041	Santa Cruz	Seismic Corrections, Phase 3	WC	7,514
6440-301-6041	Santa Cruz	Alterations for Engineering, Phase 2	C	4,002
6440-301-6041	Santa Cruz	McHenry Project	W	1,461
6440-301-6041	Santa Cruz	Alterations for Engineering, Phase 3	PW	389
6440-301-6041	Santa Cruz	Digital Arts Facility	P	1,330
6440-301-6041	Universitywide	Northern Regional Library Facility--Phase 3	E	499
<b>CALIFORNIA STATE UNIVERSITY</b>				
6610-302-6041	Bakersfield	Math and Computer Science Building	PWC	18,975
6610-302-6041	Dominguez Hills	Educational Resource Center Addition	PWC	34,057
6610-302-6041	Fresno	Library Addition and Renovation	P	1,677
6610-302-6041	Fullerton	Auditorium/Fine Arts Instructional Facility	E	3,625
6610-302-6041	Fullerton	College of Business and Economics Building	PWC	47,417
6610-301-6041	Hayward	Hayward Seismic Upgrade, Warren Hall	P	675
6610-302-6041	Humboldt	Forbes PE Complex Renovation	P	1,313
6610-302-6041	Long Beach	Peterson Hall 3 Replacement Building	P	1,284
6610-302-6041	Los Angeles	Science Replacement Building, Wing B	PWC	31,082
6610-302-6041	Maritime Academy	Simulation Center	PWC	8,306
6610-301-6041	Monterey Bay	Infrastructure Improvements	PWC	18,515
6610-302-6041	Northridge	Engineering Renovation, Phase II	E	3,429
6610-302-6041	Northridge	Science I Replacement	PWC	46,193
6610-302-6041	Pomona	Science Renovation, Seismic	PWC	20,298
6610-302-6041	San Bernardino	Science Building Renovation/Addition, Phase I Annex	E	2,556
6610-302-6041	San Bernardino	College of Education Building	PWC	48,697
6610-302-6041	San Bernardino	Palm Desert Campus, Phase II	E	1,382

Org Code	Campus	Project	Phase	Amount (000s)
6610-302-6041	San Luis Obispo	Engineering/Architecture Renovation and Replacement, Phase	WC	28,589
6610-302-6041	San Marcos	Craven Hall Renovation	PWC	6,366
6610-302-6041	San Marcos	Academic Hall II, Building 13	E	3,425
6610-301-6041	Systemwide	Minor Capital Outlay	PWC	17,139
<b>CALIFORNIA COMMUNITY COLLEGES</b>				
6870-301-6028	Allan Hancock JCCD - Allan Hancock College	Skills Center Replacement	CE	5,500
6870-301-6041	Allan Hancock JCCD - Allan Hancock College	Science Health Occupations Complex	CE	15,541
6870-301-6041	Barstow CCD Barstow College	Remodel for Efficiency	C	2,927
6870-301-6041	Cabrillo CCD Cabrillo College	Visual/Performing Arts Complex	CE	21,493
6870-301-6028	Cerritos CCD Cerritos College	Seismic Retrofit, Metal Trades	C	1,171
6870-301-6028	Cerritos CCD Cerritos College	Seismic Retrofit, Electronics	C	1,276
6870-301-6041	Chabot-Las Positas CCD Las Positas College	Multi-Disciplinary Education Building	CE	11,163
6870-301-6041	Chaffey CCD Chaffey College	Health/Physical Science Building Renovation	PW	757
6870-301-6028	Coast CCD Golden West College	Structural Repair Campuswide	C	2,497
6870-301-6041	Coast CCD Orange Coast College	Learning Resource Center	CE	21,192
6870-301-6041	Compton CCD Compton College	Performing Arts and Recreation Complex	CE	12,362

<b>Org Code</b>	<b>Campus</b>	<b>Project</b>	<b>Phase</b>	<b>Amount (000s)</b>
6870-301-6041	Contra Costa CCD Los Medanos College	Math, Science, Technology Building	CE	20,547
6870-301-6041	Copper Mountain CCD Cooper Mountain College	Multi-use Sports Complex	CE	12,068
6870-301-6041	El Camino CCD El Camino College	Learning Resource Center	PW	464
6870-301-6041	Foothill-DeAnza CCD DeAnza College	Chemistry Building Conversion to Math Lab	E	836
6870-301-6041	Foothill-DeAnza CCD DeAnza College	Student and Community Services	E	531
6870-301-6041	Foothill-DeAnza CCD DeAnza College	Kirsch Center for Environmental Studies	E	410
6870-301-6041	Foothill-DeAnza CCD DeAnza College	Bookstore Conversion to Art Building	E	307
6870-301-6041	Foothill-DeAnza CCD DeAnza College	Science Center	E	1,769
6870-301-6028	Foothill-DeAnza CCD Foothill College	Seismic Replacement-Student services	E	658
6870-301-6028	Foothill-DeAnza CCD Foothill College	Seismic Replacement-Field Locker Rooms	C	1,621
6870-301-6028	Foothill-DeAnza CCD Foothill College	Seismic Replacement-Maintenance Building	C	955
6870-301-6041	Foothill-DeAnza CCD Foothill College	Life Sciences	CE	9,645
6870-301-6041	Grossmont-Cuyamaca CCD Cuyamaca College	Communication Arts Building	CE	14,719
6870-301-6028	Grossmont-Cuyamaca CCD Grossmont College	Infrastructure Correction	PWC	1,569

<b>Org Code</b>	<b>Campus</b>	<b>Project</b>	<b>Phase</b>	<b>Amount (000s)</b>
6870-301-6041	Grossmont-Cuyamaca CCD Grossmont College	New Digital Arts Labs	CE	4,869
6870-301-6041	Hartnell CCD Hartnell College	Center for Assessment and Lifelong Learning	PW	658
6870-301-6041	Kern CCD Porterville College	Library Expansion	CE	7,960
6870-301-6041	Long Beach CCD Long Beach City College LAC	Library/LRC Renovation/Addition	PW	898
6870-301-6041	Long Beach CCD Long Beach City College PCC	Library/Learning Resource Center	PW	331
6870-301-6041	Long Beach CCD Long Beach City College PCC	Industrial Technology Center-Manufacturing	CE	10,124
6870-301-6041	Los Angeles CCD Los Angeles City College	Child Development Center	CE	4,855
6870-301-6041	Los Angeles CCD Los Angeles City College	Learning Resource Center	C	16,333
6870-301-6041	Los Angeles CCD Los Angeles Harbor College	Applied Technology Building	CE	8,345
6870-301-6041	Los Angeles CCD Los Angeles Harbor College	Adaptive PE and Physical Education Bldg. Renovation	PW	428
6870-301-6028	Los Angeles CCD Los Angeles Pierce College	Infrastructure Correction	C	615
6870-301-6041	Los Angeles CCD Los Angeles Pierce College	Child Development Center	CE	2,451
6870-301-6041	Los Angeles CCD West Los Angeles College	Science Complex	CE	8,307
6870-301-6041	Los Rios CCD American River College	Fine Arts Modernization	C	3,546
6870-301-6041	Los Rios CCD Cosumnes River College	Science Building Modernization	C	2,516

<b>Org Code</b>	<b>Campus</b>	<b>Project</b>	<b>Phase</b>	<b>Amount (000s)</b>
6870-301-6041	Los Rios CCD Sacramento City College	Cosmetology & Graphics Buildings Modernization	C	1,101
6870-301-6041	Merced CCD Los Banos Center	Site Development and Permanent Facilities	CE	10,167
6870-301-6041	Merced CCD Merced College	Science Building Remodel	CE	11,910
6870-301-6041	Merced CCD Merced College	Learning Resource Center	C	9,542
6870-301-6028	Mira Costa CCD Mira Costa College	Creative Arts Building Replacement	C	9,770
6870-301-6041	Monterey Peninsula CCD Monterey Peninsula College	Child Development Center	PW	267
6870-301-6041	Mt. San Antonio CCD Mt. San Antonio College	Agriculture Sciences Complex	PWCE	9,284
6870-301-6041	Mt. San Jacinto CCD Menifee Valley Center	Technology Building	PW	669
6870-301-6028	North Orange County CCD Cypress College	Piazza Infrastructure Repair	C	7,595
6870-301-6041	Palo Verde CCD Palo Verde College	Physical Education Complex	C	11,768
6870-301-6041	Rancho Santiago CCD Santiago Canyon College	Science Building	C	10,972
6870-301-6041	Rio Hondo CCD Rio Hondo College	Learning Resource/High Tech Center	PW	1,874
6870-301-6041	Riverside CCD Riverside College	Quadrangle Building Modernization	CE	12,554
6870-301-0574	San Bernardino CCD - Valley College	Child Development Center	C	2,978

<b>Org Code</b>	<b>Campus</b>	<b>Project</b>	<b>Phase</b>	<b>Amount (000s)</b>
6870-301-6028	San Bernardino CCD San Bernardino Valley College	Child Development Center	E	125
6870-301-6041	San Francisco CCD Chinatown Center	Campus Building	CE	33,785
6870-301-6041	San Francisco CCD City College of San Francisco	Joint Use Instructional Facility	P	1,038
6870-301-6041	San Francisco CCD John Adams Center	John Adams Modernization	PW	1,932
6870-301-6041	San Jose-Evergreen CCD Evergreen Valley College	Arts Complex	CE	9,624
6870-301-6041	San Jose-Evergreen CCD San Jose City College	Applied Sciences Center	CE	4,166
6870-301-6041	San Luis Obispo County CCD Cuesta College	Reconstruct and add Laboratories	PW	560
6870-301-6041	San Luis Obispo County CCD North County College	Learning Resource Center	CE	10,981
6870-301-6041	San Luis Obispo County CCD North County College	Technology and Trades Complex	PW	520
6870-301-6041	San Mateo County CCD Canada College	Library/Learning Resource/Student Services Center	C	14,893
6870-301-6041	San Mateo County CCD College of San Mateo	Student Services Consolidation	C	6,112
6870-301-6028	San Mateo County CCD Skyline College	Facility Maintenance Building Replacement	CE	2,885

<b>Org Code</b>	<b>Campus</b>	<b>Project</b>	<b>Phase</b>	<b>Amount (000s)</b>
6870-301-6028	Santa Barbara CCD Santa Barbara City College	Physical Science Renovation	C	1,721
6870-301-6041	Santa Barbara CCD Santa Barbara City College	High Technology Center	PW	1,400
6870-301-6041	Santa Clarita CCD College of the Canyons	Laboratory Expansion	CE	7,721
6870-301-6041	Sequoias CCD College of the Sequoias	Physical Education and Disabled Program Center	CE	6,576
6870-301-6041	Sequoias CCD College of the Sequoias	Old Library Reconstruction, Second Floor	CE	2,534
6870-301-6041	Sierra JCCD Sierra College	New Classroom/Labs	C	14,933
6870-301-6041	Sonoma County CCD Petaluma Center	Petaluma Center Phase 2	CE	26,121
6870-301-6041	Sonoma County CCD Santa Rosa Jr. College	Plover Library Conversion	PW	270
6870-301-6041	South Orange County CCD Irvine Valley College	Business Technology and Innovation Center	PWCE	12,475
6870-301-6041	Southwestern CCD Otay Mesa Center	Phase I Buildings	E	3,033
6870-301-6041	Southwestern CCD Southwestern College	Student Services Center	E	1,064
6870-301-6041	State Center CCD Fresno City College	Applied Technology Modernization	CE	11,617
6870-301-6041	State Center CCD Fresno City College	Student Services Building Remodel	PW	321

<b>Org Code</b>	<b>Campus</b>	<b>Project</b>	<b>Phase</b>	<b>Amount (000s)</b>
6870-301-6041	State Center CCD Willow International Center	Academic Facilities and Site Development Phase 1	C	34,684
6870-301-6041	Ventura County CCD Moorpark College	Reconstruction of Library Building	CE	2,956
6870-301-6028	Ventura County CCD Oxnard College	Warehouse Replacement	PW	125
6870-301-6041	Ventura County CCD Ventura College	Communication Building Modernization	PW	117
6870-301-6041	Victor Valley CCD Victor Valley College	Seismic Replacement Auxiliary Gym	PW	244
6870-301-6041	Victor Valley CCD Victor Valley College	Speech/Drama Studio Addition	CE	8,884
6870-301-6041	West Kern CCD Taft College	Child Development Center	CE	2,501
6870-301-6041	West Kern CCD Taft College	Remodel for Efficiency	CE	7,350
6870-301-6041	West Valley-Mission CCD West Valley College	Campus Technology Center	C	8,115
6870-301-6028	West Valley-Mission CCD West Valley College	Math and Science Replacement	PW	386
6870-301-6041	Yosemite CCD Modesto Junior College	Auditorium Renovation/Expansion	CE	12,450
6870-301-6041	Yuba CCD Woodland Center	Learning Resource/Technology Center	CE	21,057
6870-301-6041	Yuba CCD Yuba College	Engineering, Math and Science Remodel	CE	7,651

Senate Budget and Fiscal Review  
SUBCOMMITTEE NO. 1

EDUCATION  
Jack Scott, Chair  
John Vasconcellos  
Bob Margett

Monday, May 3, 2004  
1:30 p.m.  
Room 113

**OUTCOMES**

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## II. University of California & California State University

**A. SUPPORT BUDGET REDUCTIONS.** In addition to the General Fund reductions associated with the redirection of students to community colleges, failing to fund enrollment growth, and increasing student fees (all of which were discussed at prior subcommittee hearings), the Governor's Budget proposes a set of reductions which impact the core academic, support, and research functions of the University of California (UC) and California State University (CSU). Following are the "highlights" of the Governor's proposal:

- *7.5 percent reduction in funding for Academic and Institutional Support. This reduction equates to a General Fund loss of \$45.4 million at UC and \$52.6 million at CSU;*
- *5 percent increase in the student-to-faculty ratio. This reduction is a general "hit" on the core academic functions of the universities and is proposed to save \$35.3 million at UC and \$53.5 million at CSU;*
- *5 percent reduction in state-funded research at the UC for an \$11.6 million General Fund savings;*
- *\$14.3 million reduction to Digital California Project – which provides Internet2 services to K-12 school districts (already discussed by the committee under the topic of K-12 Education Technology on March 15, 2004);*
- *Additional \$2 million reduction (\$4 million over two years) which eliminates the multi-campus Labor Studies Research Institute.*

**LEGISLATIVE ANALYST OFFICE (LAO).** While the LAO makes note of the above reductions in its Analysis of the 2004-05 Budget Bill, it does not raise any specific issues with the proposals and recommends that they be Approved as Budgeted.

**STAFF NOTES.** Staff notes particular concern with the Administration's proposal to eliminate the Labor Studies Institute. This Institute is only one of many organized research units within the UC. Based on the Governor's Budget, other state-supported research activities would be reduced by 5 percent (25 percent total reduction over two year period). As such, it is unclear why the Labor Studies Institute has been singled out for elimination while the others are proposed – equally and without regard to the subject of their research – for a 5 percent reduction.

1) Staff recommends that the committee hold this issue open pending additional information from the University of California regarding possible options for "folding" the work of the Labor Studies Institute into another UC research institute.

**HELD OPEN**

2) Further, staff recommends that the remainder of UC and CSU's Support Budgets be held open pending the May Revision. HELD OPEN

**B. STUDENT ACADEMIC PREPARATION PROGRAMS.** The Governor's Budget proposes to delete the remaining \$33 million at UC and \$52 million at CSU which support student academic preparation "outreach" programs, thereby eliminating *all* state funding for these programs.

On March 31, 2004 this committee, combined with the Senate Education Committee, held a special two-hour hearing to discuss student academic preparation programs, specifically examining the issues of (1) how programs should look in the future; (2) expectations regarding the achievement levels of students in these programs; and (3) types and configurations of the most effective and efficient programs.

The committee concluded that the fiscal condition of the state warrants a review of student academic preparation programs, especially in light of the proposed higher education budget reductions which threaten the "promises" laid out in the *1960 Master Plan for Higher Education*. The testifiers were united in the need for programs to be truly "intersegmental" (K-18) and implemented on a region-by-region basis. Further, the committee agreed that the UC has a special role to play – as the state's Research Institution – in collecting and analyzing data related to the effectiveness of student academic preparation programs, and ensuring that these data are then used to further improve the programs.

**LEGISLATIVE ANALYST.** As part of its Analysis of the Budget Bill, the LAO recommended that the cuts proposed by the Governor be sustained and that the Legislature instead transfer \$30 million from funding originally set aside for community college financial aid outreach, to establish a College Preparation Block Grant. This new Block Grant would be targeted at schools with low college participation rates.

**STAFF NOTES.** While the LAO's proposal may have merit in a "zero-sum" world, staff notes that there is nearly universal support for restoring at least some level of funding for "outreach" programs, and the Administration has expressed its interest in working with the Legislature and the University systems to help resolve this issue. As such, staff recommends that the committee hold this issue open pending the May Revision.

HELD OPEN

**C. UC MERCED.** The Governor's Budget proposes to augment both support and capital outlay expenditures for the developing UC Merced campus. Support funds are slated for a net increase of \$2.7 million (\$10 million increase is offset by the deletion of \$7.3 million in one-time funds). The additional \$2.7 million will be spent on faculty salaries and

recruitment; staff to process enrollment and financial aid applications; and library start-up costs. With this increase, annual expenditures for the Merced campus will be \$20 million.

In addition, the Governor's Budget proposes Capital Outlay expenditures of \$9.3 million for the construction and equipment purchases related to the Logistical Support/Service Facility. Including the amount proposed in the Governor's 2004-05 Budget (as noted above), to date, the state will have expended over \$104 million of General Fund and \$215 million in bond funds to develop the campus (\$319.3 million total).

**LEGISLATIVE ANALYST RECOMMENDATION.** Given both the Legislature and Governor's desire to open the Merced campus in the Fall of 2005, the LAO recommends that the Legislature approve the proposed \$10 million augmentation, because the expenditure of funds is justified in meeting this goal. The LAO's recommendation to approve the augmentation does not constitute an endorsement of the project, but rather indicates that an additional \$10 million appears necessary if the campus intends to open in Fall 2005. The LAO did not raise any issues related to the \$9.3 million capital outlay proposal.

**STAFF NOTES.** Since its inception, the opening date for the Merced campus has been changed several times. Originally, the campus was intended to open in the Fall of 2005, with 1,000 full-time equivalent (or 1,036 "headcount") students (FTES), and was on-track to meet this opening date. As part of the 2000-01 Governor's Budget, the Davis Administration requested that the opening date be expedited to the Fall of 2004. While rushed, the UC struggled to meet the deadline. As part of last years' budget negotiations, the opening date for the campus was delayed, back to its original 2005 date.

According to UC Merced officials, they will be ready to open the campus to 1,000 FTES in the Fall of 2005; a residence hall is currently being constructed to house 602 individuals. When the campus opens, it will offer six to eight undergraduate majors and five areas of graduate-level study. At present, the campus has a core staff of approximately 150 employees, including academicians, librarians, maintenance staff, and post-doctoral and graduate students.

Staff recommends that both support and capital outlay funding for UC Merced be held open pending the May Revision. HELD OPEN

### **III. COMMUNITY COLLEGES CAPITAL OUTLAY**

**A. METHODOLOGY FOR PROJECTING ENROLLMENTS IN INDIVIDUAL DISTRICTS.** There are no proposals in the Governor's Budget related to this issue.

**LEGISLATIVE ANALYST RECOMMENDATION.** The LAO contends that the enrollment projections prepared by the Community Colleges Chancellor's Office overstate future enrollments – which may be overestimating the need for additional facilities.

**STAFF NOTES.** In order to respond to the LAO's concerns, the Community Colleges has drafted Supplemental Report Language as follows:

*“The California Community Colleges (CCC) shall review the methods it uses to prepare enrollment projections for districts, and changes that might be made in its methods in order to increase the accuracy of their projections. The CCC shall report to the Legislature by November 1, 2004 on the progress of its review, and submit a final report including recommended changes by July 1, 2005.”*

Staff recommends that the proposed Supplemental Report Language be adopted.

#### **SUPPLEMENTAL REPORT LANGUAGE APPROVED (3-0)**

**B. APRIL FINANCE LETTER.** As part of the April revision to the Governor's Budget, the Department of Finance proposes to add \$233,000 and 2.0 positions in the California Community Colleges Chancellor's Office to review capital outlay projects and administer and allocate bond funds for the projects. There has been an increase in workload associated with the capital outlay unit since the passage of Proposition 47 in 2002 and Proposition 55 in 2003. Funding for the positions and related expenses will come from the Educational Facilities 1998 Bond Fund.

**STAFF NOTES.** Staff recommends that this issue be approved as proposed by the Department of Finance. **APPROVED (2-0)**

#### IV. CONSENT

Staff recommends that the following items be Approved as Budgeted. APPROVED (3-0)

- 6120-011-0001. Support, California State Library. \$9,824,000
- 6120-011-0020. Support, California State Library, Law Library. Payable from the California State Law Library Special Account. \$589,000
- 6120-011-0890. Support, California State Library. Payable from the Federal Trust Fund. \$6,153,000.
- 6120-011-6000. Support, California State Library, Office of Library Construction. Payable from the California Public Library Construction and Renovation Fund. \$2,589,000.
- 6120-011-6029. Support, California State Library, Administration of California Cultural and Historical Endowment. Payable from the California Clean Water, Clean Air and Safe Neighborhood Parks, and Coastal Protection Fund. \$1,557,000.
- 6120-012-0001. Support, California State Library, Rental Payments on Lease-Revenue Bonds. \$2,457,000.
- 6120-013-0001. Support, California State Library, Sutro Library Special Repairs. \$17,000.
- 6120-150-0001. Local Assistance, California State Library, California Civil Liberties Public Education Program. \$500,000.
- 6120-160-0001. Local Assistance, California State Library, California Newspaper Project. \$240,000.
- 6120-211-0001. Local Assistance, California State Library, Library Development Services. \$15,170,000.
- 6120-211-0890. Local Assistance, California State Library, Library Development Services. Payable from the Federal Trust Fund. \$12,518,000.
- 6120-213-0001. Local Assistance, California State Library, California English Acquisition and Literacy Programs. \$5,340,000.
- 6120-221-0001. Local Assistance, California State Library, Public Library Foundation. \$15,766,000.
- 6120-490. Add item, Reappropriation, Local Assistance, California State Library. Per April 2004 Finance Letter.
- 6420-001-0001. Support, California Postsecondary Education Commission. \$1,999,000.
- 6420-001-0890. Support, California Postsecondary Education Commission. Payable from the Federal Trust Fund. \$411,000.

- 6420-101-0890. Local Assistance, California Postsecondary Education Commission. Payable from the Federal Trust Fund. \$8,579,000.
- 6440-005-0001. Support, University of California. Institutes for Science and Innovation. \$4,750,000
- 6440-401 Capital Outlay, University of California. Savings from Capital Outlay Bond Funded Projects. Language as amended by April 2004 Finance Letter.
- 6440-490 Reappropriation, University of California.
- 6610-002-0001 Support, California State University. Direct costs and Administration of Legislative, Executive and Judicial Fellows programs. \$2,725,000.
- 6610-401 Capital Outlay, California State University. Savings from Capital Outlay Bond Funded Projects. Language as amended by April 2004 Finance Letter.
- 6610-490 Reappropriation, California State University.
- 6610-493 Add Item, California State University, per April 2004 Finance Letter to reappropriate funds for Library projects at CSU Monterey Bay and CSU Pomona.
- 6610-494 Add Item, California State University, per April 2004 Finance Letter to extend liquidation period for construction funds for (1) Engineering/Architecture Building at CSU San Luis Obispo; and (2) Peterson Hall project at CSU Long Beach.
- 6610-495 Add Item, California State University, per April 2004 Finance Letter. To revert \$6,600,000 million for Chico Telecommunications Infrastructure Project.
- 6610-301-0574 Capital Outlay, California State University, add \$7,959,000 million per April 2004 Finance Letter for Chico Telecommunications Infrastructure Project.
- 6870-001-0574 Support, California Community Colleges for facilities planning. \$1,117,000
- 6870-001-0925 Support, California Community Colleges. Payable from California Business Resources and Assistance Innovation Network Fund. \$10,000.
- 6870-301-6028 Capital Outlay, California Community Colleges. Decrease Item per April 2004 Finance Letter to delete Skyline College Facility Maintenance Center Project. \$2,885,000.
- 6870-301-6041 Capital Outlay, California Community Colleges. Increase Item per April 2004 Finance Letter for College of San Mateo Student Services Consolidation Project. \$3,678,000.
- 6870-301-6041 Capital Outlay, California Community Colleges. Increase Item per April 2004 Finance Letter for Canada College Library, Learning Resource Center and Student Services Project. \$4,027,000.

6870-301-6041 Capital Outlay, California Community Colleges. Increase Item per April 2004 Finance Letter for Copper Mountain College Multi-Use Sports Complex. \$927,000.

6870-497 Add Item, California Community Colleges, per April 2004 Finance Letter to revert funding from College of San Mateo Seismic Retrofit of Student Services Building. \$3,745,000.

Additional Higher Education Capital Outlay Projects – per Attached. **APPROVED (3-0).** Please contact Amy Supinger, Senate Budget if you need a complete listing of the approved capital outlay projects.



**Jack Scott, Chair**  
**Bob Margett**  
**John Vasconcellos**

**May 10, 2004**  
**1:30 p.m. – Room 113**

**Part I**

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## I. Commission on Teacher Credentialing (6360)

**Background:** The Commission on Teacher Credentialing (CTC) was created in 1970 to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC issues several different types of professional documents, authorizing the service of teachers, administrators and other school personnel in California's public schools. These documents include various credentials, emergency permits, credential waivers, and certificates.

The CTC currently receives more than 258,000 applications for credentials, emergency permits and credential waivers. As indicated below, the number of applications has grown in recent years. However, due to the economy and budget hardships facing schools, the CTC is experiencing a drop in the current year. In 2003-04, the CTC received 17,691 fewer applications overall than in 2002-03 – a 6.9 percent decline.

	2000-01	2001-02	2002-03	2003-04	One Year Change	2004-05 Estimated
<b>Credential Applications Received<sup>a</sup></b>	215,954	239,501	250,701	235,327	15,374 (6.1 %)	235,000
<b>Waiver Applications Received</b>	7,865	7,918	5,144	2,827	2,317 (45%)	2,000
<b>Total</b>	223,819	247,419	255,845	238,154	17,691 (6.9%)	237,000

<sup>a</sup>Includes emergency permits.

The Governor's Budget proposes \$55.7 million for the CTC's budget in 2004-05, which is \$11.2 million (16.7 percent) below its 2003-04 budget.

Of this total, \$31.8 million (57 percent) is funded from the General Fund (Proposition 98) in the budget year. This funding is tied to the administration of three local assistance education programs – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program. The Administration proposes to eliminate funding for a fourth General Fund, local assistance program – the Pre-Intern Program -- in 2004-05 (see item below).

Another \$23.6 million (42.4 percent) of the CTC budget is funded by two special funds that support the CTC's state operations budget. In the budget year, the Governor's Budget appropriates \$13.9 million from the Teacher Credentials Fund and \$9.7 million from the Test Development and Administration Account.

The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. For example, the CTC currently charges \$55 for a new or renewed teaching credential. The Test Development and Administration Account is generated by various fees for exams administered by the CTC such as the California Basic Educational Skills Test (CBEST) and the Reading Instruction Competence Assessment (RICA).

In recent years, there has been a great deal of fluctuation in revenues from these two funds, however fund balances and programs have been maintained through loans between the two funds.

Currently revenues are down in the Teacher Credentials Fund due to fewer applications for credentials, emergency permits and waivers, and as a result this fund is experiencing a shortfall.<sup>1</sup> Consequently, the Governor's Budget provides a \$2.8 million loan from the Test Development and Administration Account to cover an estimated 4 percent shortfall in the Teacher Credentials Fund in 2003-04. This amount may grow to \$3.0 million by the end of the year as revenues have continued to decline beyond the 4 percent initially estimated. Since 1998-99, the CTC has been operating within a revenue structure whereby expenditures exceed revenues. This result has been that the remaining Teacher Credentials Fund balance has been completely drawn down and current revenue levels are insufficient to support the ongoing costs of the CTC.

### **Budget Issues/Actions:**

#### **A. Reduction of Certification Staff**

The Governor proposes to reduce the budget for the CTC's Certification, Assignments and Waivers (CAW) Division by \$600,000 in 2004-05. This proposed reduction would avoid over appropriating the Teacher Credentials Fund, and includes a \$300,000 savings from the elimination of six certification positions and another \$300,000 in operating expenses and equipment.

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<sup>1</sup> In 2000-01 the Legislature reduced the credential fee from \$60 to \$55 effective July 2000. At that time, the Teacher Credentials Fund had a fund balance of \$5.7 million.

According to the Administration, this proposal is tied to an anticipated reduction in workload in 2004-05 resulting from (1) a reduction in the number of emergency permit applications and (2) additional processing efficiencies from implementation of a new information technology system.

Pursuant to Control Section 4.10 of the 2003 Budget Act, the CTC permanently lost 24.3 positions in 2003-04. Of these positions, 14.1 positions were from the CAW Division. In addition, the CTC lost 10.5 positions in 2002-03 as required by Control Section 31.60 of the 2002 Budget Act. Of these positions, 2.5 were from the CAW Division. Overall, the CAW Division has taken a 24.6 percent reduction in staffing over the last two years.

The primary responsibilities of the CAW Division are to process various credential applications and to provide customer service to credential holders and applicants. As a result of these staff reductions, CTC has reprioritized the workload in the CAW division to focus primarily on trying to process credential applications within the 75-day timeframe established in regulation. This has been achieved by limiting other functions such as staff training and customer services activities. For example, CTC has reduced phone hours for credential applicants in half – offering telephone assistance from noon to 5 p.m. daily, instead of 8 a.m. to 5 p.m. daily, as previously provided.

As processing time in the CAW Division increases, there are resulting delays in the review and processing of applications through the Division of Professional Practices (DPP), which is responsible for character fitness review and the discipline of credential holders. As a consequence, further reductions in staffing in the CAW Division affect the CTC's capacity to review allegations of misconduct against a credential holder or applicant. Given the role of the DPP Division to ensure the "fitness" of classroom teachers, the timeliness of DPP review is important to assure the safety and security of classrooms.

Currently, the CAW Division is processing teacher credential applications within the 75-day regulatory timeframe. However, the application backlog at the end of the 2002-03 fiscal year was 54,579 applications. The current average backlog for 2003-04 is 56,100. This is really a point-in-time measure and changes based upon monthly workload

The CTC is currently in the process of implementing a new information technology system – the Teacher Credentialing Service Improvement Project

(TCSIP). Once fully implemented, this new system is expected to yield some small workload efficiencies, potentially as soon as mid-way through the budget year. The target date for implementation of Phase 3 of the TCSIP (final) is August 2004, but some components of the new system – such as the Virtual Credentialing Officer – won't be implemented until October 2004. The CTC estimates that it may take from three to six months after implementation to realize any additional efficiencies from the project.

The LAO does not have a specific recommendation on the Governor's proposal to reduce staff and expenses in the CAW Division in 2004-05. According to an analysis prepared by the LAO, the Governor's Budget assumes a 35 percent increase in processing time efficiencies (credentials per hour) and training time within the CAW Division in 2004-05.

***Staff Notes:** Staff recommends that the Subcommittee reject the Governor's proposal to eliminate \$600,000 in the CAW Division in 2004-05. Instead, staff recommends that the Subcommittee re-evaluate staffing levels as a part of the 2005-06 budget process to reflect actual changes in credentialing workload once the CTC's information technology system is fully implemented and once it can be assured that the CTC is able to meet regulatory timeframes for processing credentials and other documents and maintain reasonable levels of customer service.*

*Staff recommends that the restoration of these positions be funded through an additional loan of \$600,000 from the Test Development and Administration Account in 2004-05. In addition, it is estimated that increasing the loan by an additional \$900,000 would address any further decline in 2004-05 revenues. Overall, restoration of budget year funding would bring the total loan to approximately \$1.5 million in the budget year.*

*Staff notes that there is more than adequate funding available in the Test Development and Administration Account. The Governor's Budget estimates an ending balance for the account of \$5 million in 2003-04; the balance is estimated to grow to \$9.3 million by the end of 2004-05.*

*As justification for the recommendation above, staff notes that it is unlikely that the CTC will be able to achieve significant additional processing efficiencies – estimated at 35 percent by LAO -- as a result of a lower volume of credential and other applications or from the new information technology systems in 2004-05.*

*As a result, it is also unlikely that under the Governor's proposal the CTC will be able to meet its regulatory obligations for approving credentials, permits, waivers and other documents in the specified timeframe. In addition, it is unlikely that the CTC will be able to maintain current standards of customer service, which have already been significantly reduced in the current year due to the loss of 14.3 positions related to Control Section 4.10 of the Budget Act of 2003.*

*While some additional savings may be realized from fewer credential, permit, and waiver applicants, the CTC is currently just meeting its regulatory obligations for approving credentials within 75 days and approving permits and waivers within 30 days. These current workload statistics reflect the most current month, which reflects a lower volume month in the annual cycle. It is unlikely that CTC will be able to maintain its regulatory obligations in the higher volume months this summer, assuming current staffing levels.*

*Additionally, efficiencies from CTC's new information technology system will not be fully realized in the budget year. Specifically, the system will not be fully implemented until October 2004, and it may take several months for the efficiencies to take full effect. More likely, implementation of the project will delay processing for at least 5 to 6 months as CTC staff are trained on the new system.*

**Suggested Questions:**

- *What is the current timeframe to process credentials? Can the CTC assure that it can meet regulatory processing timelines in the budget year if it loses six positions in the budget year?*
- *What is the current backlog of applications and how does it compare to the level of the backlog in previous years?*
- *How have recent cutbacks in customer service affected candidates?*
- *Was the Teacher Credentialing Service Improvement Project (TCSIP) intended to improve services or to reduce staff?*
- *Will the CTC be able to make position reductions proposed by the Governor through vacancies?*

## B. Proposed Elimination of Pre-Intern Program

The Governor's Budget proposes to eliminate the Pre-Intern Program, as administered by the CTC, for a savings of \$10.4 million in 2004-05. The Governor's Budget also proposes elimination of the program since pre-intern teachers do not meet the definition of highly qualified teachers under the federal No Child Left Behind Act (NCLB), which takes effect at the end of 2005-06. As a part of the proposal, the Governor proposes budget trailer bill language to repeal the Pre-Intern Program.

In a related proposal, the Governor also proposes to increase funding for the Intern Program by \$ 2.4 million in order to absorb an additional 955 teachers who are ready to move to the Pre-Intern Program in 2004-05.

The Pre-Intern Program is intended to reduce the number of teachers with emergency permits in the state by providing formal assistance and support to non-credentialed "teachers of record" in meeting the subject matter competency requirements for credentialing. Once these requirements are met, these teachers can enter the Intern Program, which provides training and support for non-credentialed teachers who have completed subject matter requirements, but have not completed a traditional teacher preparation program.

Under the NCLB, all teachers in California must meet the definition of "highly qualified teacher" by the end of the 2005-06. Teacher interns will meet the new definition because they will have attained subject matter competency; however, pre-intern teachers, as well as teachers working under emergency permits and credential waivers, will not meet the federal definition.

As indicated by the table below, the Pre-Intern program has grown significantly since it began in 1998, but participation has started to drop in the last two years. The Intern Program, which began in 1994, continues to grow steadily.

Participants	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
Pre-Interns	955	5,800	7,694	9,871	8,843	4,895
Interns	4,340	4,827	5,649	7,103	7,505	8,972

Most pre-interns complete their subject matter requirements in one year, but some teachers require two or more years in the program. Of the 4,895 pre-intern

teachers in 2003-04, a total of 3,326 teachers (68.0 percent) are in their first year of the program; 1,358 teachers (27.8 percent) are in their second year; and 211 teachers (4.3 percent) are in their third year.

The LAO recommends including the Pre-Intern program as a part of their Teacher Quality Block Grant proposal without specifically restoring funding in the budget year. If the program is retained as a separate categorical program, the LAO would suggest phasing it out and sunseting it at the end of the 2005-06 fiscal year.

***Staff Notes:** Staff recommends that the Subcommittee consider restoration of \$6.652 million in funding for the Pre-Intern program in 2004-05 to allow CTC to continue to fund 3,326 pre-interns who will be in the second year of the program and who would otherwise not be able to finish the program and meet the requirements of the Intern Program. This recommendation would reduce the program by \$3.7 million below the level budgeted in 2003-04.*

*Staff does not recommend funding a new cohort of teacher pre-interns, and therefore would begin phase-out of the program in 2004-05. Since the NCLB requirements will not take effect for another two years, it seems premature to drop participants before they have achieved subject matter competency and can transition to the Intern Program. Under the Governor's proposal, participants dropped from the program in the budget year would presumably revert to emergency permit status.*

## II. Secretary for Education (0558)

The Secretary of Education, a member of the Governor's Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation.

The Office of the Secretary for Education (OSE) no longer administers any local assistance programs. The 2003-04 Budget Act eliminated funding for the Academic Volunteer and Mentor Service Program (\$5.8 million) and shifted both support funding (\$1.3 million) and administration of the School-to-Career Program to the California Department of Education.

For the budget year, the operational costs of the OSE are funded through the Governor's Office of Planning and Research (0650), pending legislation to establish the Secretary statutorily.

The Governor proposes an increase of \$80,000 for OSE in 2003-04 to reflect baseline adjustments for retirement costs per Control Section 3.60 of the Budget Act of 2003. OSE reverted \$2.6 million in funds appropriated in 2001-02 for the School Readiness Initiative in order to make reductions per Control Section 4.10 of the Budget Act of 2003.

The Governor proposes a net reduction of \$138,000 for baseline adjustments, which reflects adjustments per Control Section 3.60 and ongoing savings of \$216,000 associated with the elimination of three positions per Control Section 4.10 of the Budget Act of 2003.

### **Budget Issues/Actions:**

#### **A. Budget Trailer Bill Language – Eliminate Kindergarten Readiness Pilot Program**

The Governor's Budget proposes budget trailer bill language to repeal the Kindergarten Readiness Pilot Program, as established by Chapter 1022; Statutes of 2000 (AB 25/Mazzoni). The purpose of the pilot program was to test the effectiveness of increasing the kindergarten entrance age to five years. Currently, students must turn 5 years on or before December 2<sup>nd</sup> of the year they enter Kindergarten.

The pilot program was authorized to begin in 2001 as a ten-year, voluntary pilot program for school districts; however, because the program has never been funded, it has never been implemented. Given other budget priorities, the Administration proposes to eliminate this pilot program.

The LAO supports the Governor's proposal.

### **III. Department of Education (6110) – Various Items**

#### **A. Program Deficiencies**

According to the LAO there are likely to be funding deficiencies for several categorical programs in 2003-04. There is currently evidence that three categorical-type programs may end the current fiscal year with funding deficiencies. These deficiencies involve funding for (1) charter schools; (2) supplemental instruction; and (3) community day schools.

The LAO will provide the Subcommittee with an update on programs that are likely to face deficiencies in the current year and options for resolving them.

**Background:** Given the size and scope of education categorical programs, program deficiencies are not unusual, and the Legislature has several options for addressing these deficiencies in the budget. For example, Budget Control Section 12.60 allows CDE to shift funds among a specific list of categorical programs to address either funding shortfalls or funding excesses that have accumulated for programs.

Deficiencies can also be offset by savings from other programs in the current year (see next item). For example, the K-3 Class Size Reduction program is predicted to have surplus funds that could be used for this purpose.

#### **B. Proposition 98 Program Reversions**

As discussed at the Subcommittee's March 15<sup>th</sup> hearing, the Governor's 2004-05 budget also proposes using \$144.4 million in one-time Proposition 98 Reversion Account funds to restore funding for some programs subject to deferred appropriations schedules. Of this amount, \$98.1 million fully restores funding for the Targeted Instructional Improvement Grant program, which was deferred from 2003-04 to 2004-05, and \$46.3 million partially restores appropriations from the School Safety Program that were deferred from 2004-05 to 2005-06.

Although total Proposition 98 reversions will not be completely known until the end of the current fiscal year, the Department of Finance will provide an update of Proposition 98 reversions recently identified by the Department of Education.

Additional reversions will probably be included in the Governor's May Revision. The LAO will provide further comment on these reversions, including possible options for appropriating these funds.

### **C. Alternative Apportionment Deferrals -- Follow-Up**

In 2004-05, the Governor proposes to continue the deferral of most P2 apportionments (revenue limits and categorical programs) that were first deferred in the 2003-04 budget. The LAO supports this proposal, given current budget pressures.

However, there is strong agreement among CDE, DOF and LAO that there are problems with the P2 apportionment deferral process that need to be corrected. These problems stem from the difficulty in utilizing revenue limit apportionments to meet a specific budget target.

In 2002-03, P2 revenue limit apportionments were higher than anticipated resulting in higher deferrals to 2003-04 than required. This led to an underfunding of Proposition 98 in 2003-04, which the Governor proposes to address through settle-up payments in 2006-07.

A group of representatives from DOF, LAO, and CDE are working on changes to the P2 apportionment deferral process that would allow a specified level of apportionment funding to be deferred each year. Representatives from these agencies will discuss options for fixing these problems.

Solutions to the P2 apportionment deferrals in 2004-05 will require budget trailer bill language.

On a separate, but related issue, the Governor proposes budget trailer bill language in 2004-05 to prevent a reversion of funding for specific education programs from prior years before the P2 deferral in July of each year. (See Attachments). This language is needed as long as the budget contains deferrals of P2 apportionments. This language is considered technical, conforming language. There is no opposition to this language.

### **D. Revenue Limit Equalization – Follow-Up**

At its March 15<sup>th</sup> hearing, the Subcommittee requested that the LAO develop an alternative method of allocating equalization funding that would be more equitable among districts of different size and type than the method proposed by the Governor in 2004-05. In calculating revenue limit equalization, adjustments are applied to school districts according to six categories: type (elementary, high school, and unified) and enrollment size (small and large).

The LAO does not support the Governor's equalization proposal until after the Legislature pays off other education expenses on the credit card – deficit factor, mandates, and deferrals. In addition, the LAO identified a number of problems with the method of allocating equalization funding under the Governor's proposal. Under the Governor's allocation proposal, the LAO noted several problems with the Governor's proposed allocation method as contained in trailer bill language.

However, the LAO advised the Subcommittee that if it chooses to approve equalization funding in 2004-05, they might want to consider an alternative allocation method to the one proposed by the Governor. The LAO will present this alternative at the hearing today.

**Background:** The Administration is sponsoring legislation – SB 1298 (Brulte) – to implement its equalization proposal. This bill is being held in the Senate Education Committee. In addition, AB 2178 (Simitian & Daucher) contains similar language to the Governor's bill. AB 1298 is currently in the Assembly Appropriations Committee.

Both SB 1298 and AB 2178 implement the Governor's budget proposal for what's referred to as "post-SB 727" school district revenue limit equalization. The Governor's January 10 budget bill appropriates \$110 million for this purpose, but the Governor has proposed, through an April Finance Letter, to lower the appropriation for K-12 school district revenue limit equalization to \$82.2 million.

There are two methods of calculating revenue limit equalization funding for school districts in current law. Each method calculates average daily attendance (ADA) differently. The first method counts ADA based on calculations used prior to passage of SB 727 (Chapter 855; Statutes of 1997) – a bill that discontinued the practice of counting excused absences as ADA. The second method relies on current per pupil revenue limits, without any adjustment for excused absences. Both of these methods were enacted through AB 2781, the budget trailer bill for

2002-03, but because they are subject to an appropriation, have not been implemented.

### **E. Special Education – State Level Activities -- Follow-Up**

At the April 26<sup>th</sup> hearing, the Subcommittee requested specific budget and staffing information that is needed in order to assess the proposals to increase CDE staff to improve state certification and monitoring of Non-Public Schools (NPS) serving students eligible for special education. The Subcommittee requested the following two reports that will be provided at the hearing today:

- ***From the Department of Education:*** *The number of department staff currently assigned to NPS certification and the number of additional staff necessary to assure that the department visit NPSs at least once every two years.*
- ***From the LAO:*** *Data on the level of federal IDEA funds appropriated for state level activities in the Governor’s Budget in 2004-05, and the specific programs and positions funded with these dollars.*

### **F. Charter Schools Block Grant -- Follow-Up**

The LAO recommends that the Legislature address ongoing confusion and controversy regarding the identification of categorical excluded from the Charter Schools Block Grant. According to this law, there is no common understanding in statute of what programs are included or excluded from the block grant.

In their analysis, the LAO suggests that the Legislature amend Education Code section 47634(b) to list excluded programs. In addition, the LAO recommends that the Legislature adopt new statutory provisions requiring that all newly established categorical programs that are intended to be excluded from the charter school block grant be listed in this section.

There is general agreement among LAO, DOF and CDE that this issue is a problem, but the best “fix” has not yet been identified by the parties. The LAO will provide the Subcommittee with an update on their work in resolving this issue.

**G. Budget Trailer Bill Language – PERS Offset – Joint Powers Authorities**

The Governor is proposing budget trailer bill language that would clarify existing law to assure that the PERS offset covers joint powers authorities. Joint powers authorities are usually established to reflect special programs among schools, districts, and county offices of education. Regional occupational centers and programs (ROC/Ps) are an example of joint powers authorities.

According to the Department of Finance, Education Code Section 42238.23 already specifies a PERS offset for joint powers authorities. The proposed budget trailer bill language would fix an incorrect section reference in that section.

As further evidence that joint powers authorities are covered by the PERS offset, the Department of Finance points out that Education Code Section 14550 already makes it clear that LEAs cannot avoid financial and other obligations through the participation in joint powers authorities.

The Department of Finance believes that this proposed budget trailer bill language would simply eliminate any technical loophole in the law that LEAs might use for purposes of avoiding the PERS offset.

The LAO recommends eliminating the PERS offset entirely.

[See Attachments for a copy of the specific budget trailer bill language proposed by the Administration.]

**H. Budget Trailer Bill Language – Layoff Notices**

The Administration is also proposing budget trailer bill language to allow a second employee layoff notice period for local education agencies after enactment of the budget if revenue limits do not increase by more than 2 percent.

The LAO estimates that the K-12 statutory COLA rate will be 2.41 percent in 2004-05 instead of 1.84 percent, as estimated in the Governor's January 10 Budget. Under this scenario, the Administration will increase COLAs for revenue limits to 2.41 percent at May Revise, and this language would no longer be needed in 2004-05.

[See Attachments for a copy of the specific budget trailer bill language proposed by the Administration.]

#### **IV. Department of Education (6110) – State Operations**

##### **A. Child Nutrition Programs**

###### **Budget Issues/Actions:**

###### **1. Federal Child Nutrition Funds – New Expenditure Authority**

The Department of Education has requested authority to spend \$1.942 million in new and existing federal funds in 2004-05 to expand state administrative activities for its federal nutrition programs. As a part of this request, CDE is requesting approval of 15 additional positions in the Nutrition Services Division to improve state-level monitoring and technical assistance to local agencies participating in federal child nutrition programs in 2004-05.

California is responsible for administering a number of federally-funded child nutrition programs funded through the U.S. Department of Agriculture (USDA). These programs include:

- School Nutrition Programs (Breakfast, Lunch & After-School Snacks);
- Community Nutrition Programs (Child & Adult Care Food); and
- Summer Food Service Programs.

California currently receives approximately \$1.4 billion in federal funding from USDA for these child nutrition programs. This amount will increase to \$1.6 billion in 2004-05, an increase of \$171.9 million. These funds include both local assistance and state operations funding. California spends less than 2 percent of these funds for state administration.

As a part of this funding, CDE receives federal child nutrition funds that can be used exclusively for state administration of federal child nutrition programs. State administrative activities include allocation of federal nutrition entitlements and monitoring, oversight and assistance to local agencies participating in the federal nutrition programs.

The \$1.942 million in federal funds that CDE is requesting for state administration in 2004-05 cannot be used for local assistance, and can only be used for state administration. If the state does not use federal funding available to them, the funds must be returned to the federal government.

CDE cites several factors as justification for their request:

**1. Longstanding federal non-compliance that threatens loss of federal funds.**

In recent years, the USDA has expressed concerns about the lack or shortage of staff in the Nutrition Services Division available to conduct reviews and provide technical assistance to participating agencies. In September 2002, a management review conducted by USDA resulted in corrective actions for CDE related to these staffing deficiencies. At that time, USDA warned CDE it would withhold all or some of the state's federal funds if it determined CDE was seriously deficient in its state administrative agency functions.

More recently, USDA has found the Nutrition Services Division to be out-of-compliance with federal requirements and has threatened to cut the state's administrative funds by one-third if federal monitoring, training and oversight requirements are not met. USDA has identified federal funds available to CDE for these purposes, however, without an appropriation in the budget, CDE is not authorized to spend these funds.

The Bureau of State Audits has also found CDE to be out of compliance with federal monitoring, outreach, oversight, and training requirements.

**2. New program requirement resulting from major increase in federal regulations.** In response to concerns about fraud in child care nutrition programs in states, USDA has promulgated numerous additional regulations for child care food programs.

These new regulations have been confusing and have resulted in some agencies dropping out of the program because of what was perceived as overwhelming regulatory burdens. Technical assistance and training could have prevented these problems.

*Staff Notes: Staff recommends that the Subcommittee approve \$1.942 million in federal child nutrition funds including authorization of 15 additional positions in the Nutrition Services Division to address longstanding non-compliance issues and implementation of new regulatory provisions relating to the administration and oversight of federal child nutrition programs in California. Staff notes that additional federal funds are available for this purpose without reducing funding available for local assistance.*



Jack Scott, Chair  
 Bob Margett  
 John Vasconcellos

May 10, 2004  
 1:30 p.m. – Room 113

**Part I**  
**Outcomes – See Vote – Page 6**

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## I. Commission on Teacher Credentialing (6360)

**Background:** The Commission on Teacher Credentialing (CTC) was created in 1970 to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC issues several different types of professional documents, authorizing the service of teachers, administrators and other school personnel in California's public schools. These documents include various credentials, emergency permits, credential waivers, and certificates.

The CTC currently receives more than 258,000 applications for credentials, emergency permits and credential waivers. As indicated below, the number of applications has grown in recent years. However, due to the economy and budget hardships facing schools, the CTC is experiencing a drop in the current year. In 2003-04, the CTC received 17,691 fewer applications overall than in 2002-03 – a 6.9 percent decline.

	2000-01	2001-02	2002-03	2003-04	One Year Change	2004-05 Estimated
<b>Credential Applications Received<sup>a</sup></b>	215,954	239,501	250,701	235,327	15,374 (6.1 %)	235,000
<b>Waiver Applications Received</b>	7,865	7,918	5,144	2,827	2,317 (45%)	2,000
<b>Total</b>	223,819	247,419	255,845	238,154	17,691 (6.9%)	237,000

<sup>a</sup>Includes emergency permits.

The Governor's Budget proposes \$55.7 million for the CTC's budget in 2004-05, which is \$11.2 million (16.7 percent) below its 2003-04 budget.

Of this total, \$31.8 million (57 percent) is funded from the General Fund (Proposition 98) in the budget year. This funding is tied to the administration of three local assistance education programs – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program. The Administration proposes to eliminate funding for a fourth General Fund, local assistance program – the Pre-Intern Program -- in 2004-05 (see item below).

Another \$23.6 million (42.4 percent) of the CTC budget is funded by two special funds that support the CTC's state operations budget. In the budget year, the Governor's Budget appropriates \$13.9 million from the Teacher Credentials Fund and \$9.7 million from the Test Development and Administration Account.

The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. For example, the CTC currently charges \$55 for a new or renewed teaching credential. The Test Development and Administration Account is generated by various fees for exams administered by the CTC such as the California Basic Educational Skills Test (CBEST) and the Reading Instruction Competence Assessment (RICA).

In recent years, there has been a great deal of fluctuation in revenues from these two funds, however fund balances and programs have been maintained through loans between the two funds.

Currently revenues are down in the Teacher Credentials Fund due to fewer applications for credentials, emergency permits and waivers, and as a result this fund is experiencing a shortfall.<sup>1</sup> Consequently, the Governor's Budget provides a \$2.8 million loan from the Test Development and Administration Account to cover an estimated 4 percent shortfall in the Teacher Credentials Fund in 2003-04. This amount may grow to \$3.0 million by the end of the year as revenues have continued to decline beyond the 4 percent initially estimated. Since 1998-99, the CTC has been operating within a revenue structure whereby expenditures exceed revenues. This result has been that the remaining Teacher Credentials Fund balance has been completely drawn down and current revenue levels are insufficient to support the ongoing costs of the CTC.

### **Budget Issues/Actions:**

#### **A. Reduction of Certification Staff**

The Governor proposes to reduce the budget for the CTC's Certification, Assignments and Waivers (CAW) Division by \$600,000 in 2004-05. This proposed reduction would avoid over appropriating the Teacher Credentials Fund, and includes a \$300,000 savings from the elimination of six certification positions and another \$300,000 in operating expenses and equipment.

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<sup>1</sup> In 2000-01 the Legislature reduced the credential fee from \$60 to \$55 effective July 2000. At that time, the Teacher Credentials Fund had a fund balance of \$5.7 million.

According to the Administration, this proposal is tied to an anticipated reduction in workload in 2004-05 resulting from (1) a reduction in the number of emergency permit applications and (2) additional processing efficiencies from implementation of a new information technology system.

Pursuant to Control Section 4.10 of the 2003 Budget Act, the CTC permanently lost 24.3 positions in 2003-04. Of these positions, 14.1 positions were from the CAW Division. In addition, the CTC lost 10.5 positions in 2002-03 as required by Control Section 31.60 of the 2002 Budget Act. Of these positions, 2.5 were from the CAW Division. Overall, the CAW Division has taken a 24.6 percent reduction in staffing over the last two years.

The primary responsibilities of the CAW Division are to process various credential applications and to provide customer service to credential holders and applicants. As a result of these staff reductions, CTC has reprioritized the workload in the CAW division to focus primarily on trying to process credential applications within the 75-day timeframe established in regulation. This has been achieved by limiting other functions such as staff training and customer services activities. For example, CTC has reduced phone hours for credential applicants in half – offering telephone assistance from noon to 5 p.m. daily, instead of 8 a.m. to 5 p.m. daily, as previously provided.

As processing time in the CAW Division increases, there are resulting delays in the review and processing of applications through the Division of Professional Practices (DPP), which is responsible for character fitness review and the discipline of credential holders. As a consequence, further reductions in staffing in the CAW Division affect the CTC's capacity to review allegations of misconduct against a credential holder or applicant. Given the role of the DPP Division to ensure the "fitness" of classroom teachers, the timeliness of DPP review is important to assure the safety and security of classrooms.

Currently, the CAW Division is processing teacher credential applications within the 75-day regulatory timeframe. However, the application backlog at the end of the 2002-03 fiscal year was 54,579 applications. The current average backlog for 2003-04 is 56,100. This is really a point-in-time measure and changes based upon monthly workload

The CTC is currently in the process of implementing a new information technology system – the Teacher Credentialing Service Improvement Project

(TCSIP). Once fully implemented, this new system is expected to yield some small workload efficiencies, potentially as soon as mid-way through the budget year. The target date for implementation of Phase 3 of the TCSIP (final) is August 2004, but some components of the new system – such as the Virtual Credentialing Officer – won't be implemented until October 2004. The CTC estimates that it may take from three to six months after implementation to realize any additional efficiencies from the project.

The LAO does not have a specific recommendation on the Governor's proposal to reduce staff and expenses in the CAW Division in 2004-05. According to an analysis prepared by the LAO, the Governor's Budget assumes a 35 percent increase in processing time efficiencies (credentials per hour) and training time within the CAW Division in 2004-05.

***Staff Notes:** Staff recommends that the Subcommittee reject the Governor's proposal to eliminate \$600,000 in the CAW Division in 2004-05. Instead, staff recommends that the Subcommittee re-evaluate staffing levels as a part of the 2005-06 budget process to reflect actual changes in credentialing workload once the CTC's information technology system is fully implemented and once it can be assured that the CTC is able to meet regulatory timeframes for processing credentials and other documents and maintain reasonable levels of customer service.*

*Staff recommends that the restoration of these positions be funded through an additional loan of \$600,000 from the Test Development and Administration Account in 2004-05. In addition, it is estimated that increasing the loan by an additional \$900,000 would address any further decline in 2004-05 revenues. Overall, restoration of budget year funding would bring the total loan to approximately \$1.5 million in the budget year.*

*Staff notes that there is more than adequate funding available in the Test Development and Administration Account. The Governor's Budget estimates an ending balance for the account of \$5 million in 2003-04; the balance is estimated to grow to \$9.3 million by the end of 2004-05.*

*As justification for the recommendation above, staff notes that it is unlikely that the CTC will be able to achieve significant additional processing efficiencies – estimated at 35 percent by LAO -- as a result of a lower volume of credential and other applications or from the new information technology systems in 2004-05.*

*As a result, it is also unlikely that under the Governor's proposal the CTC will be able to meet its regulatory obligations for approving credentials, permits, waivers and other documents in the specified timeframe. In addition, it is unlikely that the CTC will be able to maintain current standards of customer service, which have already been significantly reduced in the current year due to the loss of 14.3 positions related to Control Section 4.10 of the Budget Act of 2003.*

*While some additional savings may be realized from fewer credential, permit, and waiver applicants, the CTC is currently just meeting its regulatory obligations for approving credentials within 75 days and approving permits and waivers within 30 days. These current workload statistics reflect the most current month, which reflects a lower volume month in the annual cycle. It is unlikely that CTC will be able to maintain its regulatory obligations in the higher volume months this summer, assuming current staffing levels.*

*Additionally, efficiencies from CTC's new information technology system will not be fully realized in the budget year. Specifically, the system will not be fully implemented until October 2004, and it may take several months for the efficiencies to take full effect. More likely, implementation of the project will delay processing for at least 5 to 6 months as CTC staff are trained on the new system.*

**Action: Adopted Staff Recommendation to reject Governor's Budget to eliminate \$600,000 in the CAW Division. Approved restoration of funding and 6 positions in the CAW Division in 2004-05 with an additional loan from the Test Development and Administration Account.**

**Vote: Yes: Scott, Vasconcellos (2-0). Abstained : Margett**

**Suggested Questions:**

- *What is the current timeframe to process credentials? Can the CTC assure that it can meet regulatory processing timelines in the budget year if it loses six positions in the budget year?*
- *What is the current backlog of applications and how does it compare to the level of the backlog in previous years?*
- *How have recent cutbacks in customer service affected candidates?*
- *Was the Teacher Credentialing Service Improvement Project (TCSIP) intended to improve services or to reduce staff?*

- *Will the CTC be able to make position reductions proposed by the Governor through vacancies?*

## **B. Proposed Elimination of Pre-Intern Program**

The Governor's Budget proposes to eliminate the Pre-Intern Program, as administered by the CTC, for a savings of \$10.4 million in 2004-05. The Governor's Budget also proposes elimination of the program since pre-intern teachers do not meet the definition of highly qualified teachers under the federal No Child Left Behind Act (NCLB), which takes effect at the end of 2005-06. As a part of the proposal, the Governor proposes budget trailer bill language to repeal the Pre-Intern Program.

In a related proposal, the Governor also proposes to increase funding for the Intern Program by \$ 2.4 million in order to absorb an additional 955 teachers who are ready to move to the Pre-Intern Program in 2004-05.

The Pre-Intern Program is intended to reduce the number of teachers with emergency permits in the state by providing formal assistance and support to non-credentialed "teachers of record" in meeting the subject matter competency requirements for credentialing. Once these requirements are met, these teachers can enter the Intern Program, which provides training and support for non-credentialed teachers who have completed subject matter requirements, but have not completed a traditional teacher preparation program.

Under the NCLB, all teachers in California must meet the definition of "highly qualified teacher" by the end of the 2005-06. Teacher interns will meet the new definition because they will have attained subject matter competency; however, pre-intern teachers, as well as teachers working under emergency permits and credential waivers, will not meet the federal definition.

As indicated by the table below, the Pre-Intern program has grown significantly since it began in 1998, but participation has started to drop in the last two years. The Intern Program, which began in 1994, continues to grow steadily.

<b>Participants</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
Pre-Interns	955	5,800	7,694	9,871	8,843	4,895
Interns	4,340	4,827	5,649	7,103	7,505	8,972

Most pre-interns complete their subject matter requirements in one year, but some teachers require two or more years in the program. Of the 4,895 pre-intern teachers in 2003-04, a total of 3,326 teachers (68.0 percent) are in their first year of the program; 1,358 teachers (27.8 percent) are in their second year; and 211 teachers (4.3 percent) are in their third year.

The LAO recommends including the Pre-Intern program as a part of their Teacher Quality Block Grant proposal without specifically restoring funding in the budget year. If the program is retained as a separate categorical program, the LAO would suggest phasing it out and sunseting it at the end of the 2005-06 fiscal year.

***Staff Notes:** Staff recommends that the Subcommittee consider restoration of \$6.652 million in funding for the Pre-Intern program in 2004-05 to allow CTC to continue to fund 3,326 pre-interns who will be in the second year of the program and who would otherwise not be able to finish the program and meet the requirements of the Intern Program. This recommendation would reduce the program by \$3.7 million below the level budgeted in 2003-04.*

*Staff does not recommend funding a new cohort of teacher pre-interns, and therefore would begin phase-out of the program in 2004-05. Since the NCLB requirements will not take effect for another two years, it seems premature to drop participants before they have achieved subject matter competency and can transition to the Intern Program. Under the Governor's proposal, participants dropped from the program in the budget year would presumably revert to emergency permit status.*

## II. Secretary for Education (0558)

The Secretary of Education, a member of the Governor's Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation.

The Office of the Secretary for Education (OSE) no longer administers any local assistance programs. The 2003-04 Budget Act eliminated funding for the Academic Volunteer and Mentor Service Program (\$5.8 million) and shifted both support funding (\$1.3 million) and administration of the School-to-Career Program to the California Department of Education.

For the budget year, the operational costs of the OSE are funded through the Governor's Office of Planning and Research (0650), pending legislation to establish the Secretary statutorily.

The Governor proposes an increase of \$80,000 for OSE in 2003-04 to reflect baseline adjustments for retirement costs per Control Section 3.60 of the Budget Act of 2003. OSE reverted \$2.6 million in funds appropriated in 2001-02 for the School Readiness Initiative in order to make reductions per Control Section 4.10 of the Budget Act of 2003.

The Governor proposes a net reduction of \$138,000 for baseline adjustments, which reflects adjustments per Control Section 3.60 and ongoing savings of \$216,000 associated with the elimination of three positions per Control Section 4.10 of the Budget Act of 2003.

### **Budget Issues/Actions:**

#### **A. Budget Trailer Bill Language – Eliminate Kindergarten Readiness Pilot Program**

The Governor's Budget proposes budget trailer bill language to repeal the Kindergarten Readiness Pilot Program, as established by Chapter 1022; Statutes of 2000 (AB 25/Mazzoni). The purpose of the pilot program was to test the effectiveness of increasing the kindergarten entrance age to five years. Currently, students must turn 5 years on or before December 2<sup>nd</sup> of the year they enter Kindergarten.

The pilot program was authorized to begin in 2001 as a ten-year, voluntary pilot program for school districts; however, because the program has never been funded, it has never been implemented. Given other budget priorities, the Administration proposes to eliminate this pilot program.

The LAO supports the Governor's proposal.

### **III. Department of Education (6110) – Various Items**

#### **A. Program Deficiencies**

According to the LAO there are likely to be funding deficiencies for several categorical programs in 2003-04. There is currently evidence that three categorical-type programs may end the current fiscal year with funding deficiencies. These deficiencies involve funding for (1) charter schools; (2) supplemental instruction; and (3) community day schools.

The LAO will provide the Subcommittee with an update on programs that are likely to face deficiencies in the current year and options for resolving them.

**Background:** Given the size and scope of education categorical programs, program deficiencies are not unusual, and the Legislature has several options for addressing these deficiencies in the budget. For example, Budget Control Section 12.60 allows CDE to shift funds among a specific list of categorical programs to address either funding shortfalls or funding excesses that have accumulated for programs.

Deficiencies can also be offset by savings from other programs in the current year (see next item). For example, the K-3 Class Size Reduction program is predicted to have surplus funds that could be used for this purpose.

#### **B. Proposition 98 Program Reversions**

As discussed at the Subcommittee's March 15<sup>th</sup> hearing, the Governor's 2004-05 budget also proposes using \$144.4 million in one-time Proposition 98 Reversion Account funds to restore funding for some programs subject to deferred appropriations schedules. Of this amount, \$98.1 million fully restores funding for the Targeted Instructional Improvement Grant program, which was deferred from 2003-04 to 2004-05, and \$46.3 million partially restores appropriations from the School Safety Program that were deferred from 2004-05 to 2005-06.

Although total Proposition 98 reversions will not be completely known until the end of the current fiscal year, the Department of Finance will provide an update of Proposition 98 reversions recently identified by the Department of Education.

Additional reversions will probably be included in the Governor's May Revision. The LAO will provide further comment on these reversions, including possible options for appropriating these funds.

### **C. Alternative Apportionment Deferrals -- Follow-Up**

In 2004-05, the Governor proposes to continue the deferral of most P2 apportionments (revenue limits and categorical programs) that were first deferred in the 2003-04 budget. The LAO supports this proposal, given current budget pressures.

However, there is strong agreement among CDE, DOF and LAO that there are problems with the P2 apportionment deferral process that need to be corrected. These problems stem from the difficulty in utilizing revenue limit apportionments to meet a specific budget target.

In 2002-03, P2 revenue limit apportionments were higher than anticipated resulting in higher deferrals to 2003-04 than required. This led to an underfunding of Proposition 98 in 2003-04, which the Governor proposes to address through settle-up payments in 2006-07.

A group of representatives from DOF, LAO, and CDE are working on changes to the P2 apportionment deferral process that would allow a specified level of apportionment funding to be deferred each year. Representatives from these agencies will discuss options for fixing these problems.

Solutions to the P2 apportionment deferrals in 2004-05 will require budget trailer bill language.

On a separate, but related issue, the Governor proposes budget trailer bill language in 2004-05 to prevent a reversion of funding for specific education programs from prior years before the P2 deferral in July of each year. (See Attachments). This language is needed as long as the budget contains deferrals of P2 apportionments. This language is considered technical, conforming language. There is no opposition to this language.

### **D. Revenue Limit Equalization – Follow-Up**

At its March 15<sup>th</sup> hearing, the Subcommittee requested that the LAO develop an alternative method of allocating equalization funding that would be more equitable among districts of different size and type than the method proposed by the Governor in 2004-05. In calculating revenue limit equalization, adjustments are applied to school districts according to six categories: type (elementary, high school, and unified) and enrollment size (small and large).

The LAO does not support the Governor's equalization proposal until after the Legislature pays off other education expenses on the credit card – deficit factor, mandates, and deferrals. In addition, the LAO identified a number of problems with the method of allocating equalization funding under the Governor's proposal. Under the Governor's allocation proposal, the LAO noted several problems with the Governor's proposed allocation method as contained in trailer bill language.

However, the LAO advised the Subcommittee that if it chooses to approve equalization funding in 2004-05, they might want to consider an alternative allocation method to the one proposed by the Governor. The LAO will present this alternative at the hearing today.

**Background:** The Administration is sponsoring legislation – SB 1298 (Brulte) – to implement its equalization proposal. This bill is being held in the Senate Education Committee. In addition, AB 2178 (Simitian & Daucher) contains similar language to the Governor's bill. AB 1298 is currently in the Assembly Appropriations Committee.

Both SB 1298 and AB 2178 implement the Governor's budget proposal for what's referred to as "post-SB 727" school district revenue limit equalization. The Governor's January 10 budget bill appropriates \$110 million for this purpose, but the Governor has proposed, through an April Finance Letter, to lower the appropriation for K-12 school district revenue limit equalization to \$82.2 million.

There are two methods of calculating revenue limit equalization funding for school districts in current law. Each method calculates average daily attendance (ADA) differently. The first method counts ADA based on calculations used prior to passage of SB 727 (Chapter 855; Statutes of 1997) – a bill that discontinued the practice of counting excused absences as ADA. The second method relies on current per pupil revenue limits, without any adjustment for excused absences. Both of these methods were enacted through AB 2781, the budget trailer bill for

2002-03, but because they are subject to an appropriation, have not been implemented.

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#### **IV. Department of Education (6110) – State Operations**

##### **A. Child Nutrition Programs**

###### **Budget Issues/Actions:**

###### **1. Federal Child Nutrition Funds – New Expenditure Authority**

The Department of Education has requested authority to spend \$1.942 million in new and existing federal funds in 2004-05 to expand state administrative activities for its federal nutrition programs. As a part of this request, CDE is requesting approval of 15 additional positions in the Nutrition Services Division to improve state-level monitoring and technical assistance to local agencies participating in federal child nutrition programs in 2004-05.

California is responsible for administering a number of federally-funded child nutrition programs funded through the U.S. Department of Agriculture (USDA). These programs include:

- School Nutrition Programs (Breakfast, Lunch & After-School Snacks);
- Community Nutrition Programs (Child & Adult Care Food); and
- Summer Food Service Programs.

California currently receives approximately \$1.4 billion in federal funding from USDA for these child nutrition programs. This amount will increase to \$1.6 billion in 2004-05, an increase of \$171.9 million. These funds include both local assistance and state operations funding. California spends less than 2 percent of these funds for state administration.

As a part of this funding, CDE receives federal child nutrition funds that can be used exclusively for state administration of federal child nutrition programs. State administrative activities include allocation of federal nutrition entitlements and monitoring, oversight and assistance to local agencies participating in the federal nutrition programs.

The \$1.942 million in federal funds that CDE is requesting for state administration in 2004-05 cannot be used for local assistance, and can only be used for state administration. If the state does not use federal funding available to them, the funds must be returned to the federal government.

CDE cites several factors as justification for their request:

**1. Longstanding federal non-compliance that threatens loss of federal funds.**

In recent years, the USDA has expressed concerns about the lack or shortage of staff in the Nutrition Services Division available to conduct reviews and provide technical assistance to participating agencies. In September 2002, a management review conducted by USDA resulted in corrective actions for CDE related to these staffing deficiencies. At that time, USDA warned CDE it would withhold all or some of the state's federal funds if it determined CDE was seriously deficient in its state administrative agency functions.

More recently, USDA has found the Nutrition Services Division to be out-of-compliance with federal requirements and has threatened to cut the state's administrative funds by one-third if federal monitoring, training and oversight requirements are not met. USDA has identified federal funds available to CDE for these purposes, however, without an appropriation in the budget, CDE is not authorized to spend these funds.

The Bureau of State Audits has also found CDE to be out of compliance with federal monitoring, outreach, oversight, and training requirements.

**2. New program requirement resulting from major increase in federal regulations.** In response to concerns about fraud in child care nutrition programs in states, USDA has promulgated numerous additional regulations for child care food programs.

These new regulations have been confusing and have resulted in some agencies dropping out of the program because of what was perceived as overwhelming regulatory burdens. Technical assistance and training could have prevented these problems.

*Staff Notes: Staff recommends that the Subcommittee approve \$1.942 million in federal child nutrition funds including authorization of 15 additional positions in the Nutrition Services Division to address longstanding non-compliance issues and implementation of new regulatory provisions relating to the administration and oversight of federal child nutrition programs in California. Staff notes that additional federal funds are available for this purpose without reducing funding available for local assistance.*

Monday, May 10, 2004  
1:30 p.m.  
Room 113

Part II

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## I. CHILD CARE

**BACKGROUND.** Under current law, the state makes subsidized child care services available to: (1) families on public assistance and participating in work or job readiness; (2) families transitioning off public assistance programs; and (3) other families with exceptional financial need.

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

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

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 entitlement or are deemed to have exceptional financial need (the “working poor”). Child care services for Stage 3 are divided into two categories: (1) General Child Care – which is available on a limited basis for families with exceptional financial need; and (2) the Stage 3 Set-Aside – which makes child care slots available specifically for former CalWORKs recipients. The availability of Stage 3 care is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate, with priority being granted to the former CalWORKs recipients.

Child Care is provided through either licensed child care centers or the Alternative Payment Program.

- *Child Care Centers* receive funding from the state which pays for a fixed number of child care “slots”. Centers provide an educational program component that is developmentally, culturally, and linguistically appropriate for the children serviced. Centers also provide nutrition education, parent education, staff development, and referrals for health and social services programs. In many areas in the State, there are no available “slots” in licensed Child Care Centers or Family Day Care Centers and families are forced to use licensed-exempt care.

- *Alternative Payment Program* provides child care through means-tested vouchers, which provide funding for a specific child to obtain care in either licensed child care centers, licensed family day care, or licensed-exempt care. With a voucher, the family has the choice of which type of care to utilize.

**HISTORY OF ADMINISTRATION REFORM PROPOSALS.** Since 2000, the Administration has made various proposals to reform the state's subsidized child care system. Since then, the Administration has commissioned studies and proposed the reduction and/or elimination of child care services for various populations of children and families. As part of the 2003-04 Governor's Budget, the Administration proposed "realigning" child care services, thereby shifting responsibility for the programs from the State to local governments. That proposal was later rescinded by the Administration. The Legislature and the Administration have not yet been able to reach an agreement on how to reform child care.

**IMPLEMENTATION OF CURRENT-YEAR CHILD CARE REFORMS.** As part of the 2003-04 Budget Act, the Legislature and the Governor approved a variety of changes to the child care system for both CalWORKS and non-CalWORKS families. Specifically, the 2003-04 Budget Bill included the following programmatic changes, *which the Administration proposes be made permanent via trailer bill language:*

- *Elimination of subsidized child care services for 13-year old children;*
- *Elimination of subsidized child care services for families whose income exceeded 75 percent of the State Median Income (maximum income level under law) because they were "grandfathered" into the program in statute;*
- *Reduction in the maximum amount rate to Alternative Payment providers for administration and support services from 20 to 19 percent. Alternative Payment providers administer local child care voucher programs.*
- *Reduction in the reimbursement rate for providers from 93 percent of the Regional Market Rate to 85 percent.*

## **A. CHILD CARE REFORM**

**GOVERNOR'S PROPOSED BUDGET.** The Governor's Budget proposes approximately \$3 billion (\$1.8 billion General Fund) to support about 684,000 children in the state's subsidized child care system. The proposed amount represents a decrease of about \$60 million from current-level expenditures. Of the amount proposed, approximately one-half of the funding will be spent on current and former CalWORKS recipients. Also included in the Governor's Budget is \$15.6 million to fund 1.35 percent in caseload growth and \$22.01 million to

provide a 1.84 percent Cost of Living Adjustment (COLA). Staff notes that the amount of the statutory COLA is expected to grow to 2.41 percent – an adjustment that will likely be reflected in the Governor’s May Revision.

In its quest to reform child care and achieve fiscal savings, the Administration proposes a variety of programmatic reforms, via the state Budget, aimed at limiting child care services and hence reducing state costs associated with the programs. The Administration states that these proposals were guided not only by the need to cut costs but to promote (1) personal responsibility; (2) work responsibility; (3) program effectiveness; (4) enhanced quality; and (5) program equity. *In most cases, the Administration is proposing both Budget Bill and Trailer Bill Language to implement the programmatic changes.*

The following pages contain a summary of the proposed programmatic changes:

<b>Administration's Child Care Proposals Compared to Current Law/Current Practice</b>				
	<b><u>Current Law</u></b>	<b><u>Governor's Proposal</u></b>	<b><u>Impact</u></b>	<b><u>Comments</u></b>
<b>Income Eligibility</b>	Family income up to 75 percent of the State Median Income (SMI) for a family of four	<p>Implements a <i>three-tiered</i> eligibility structure. Establishes "high-, mid- and low-cost counties. Maximum income eligibility would remain the same for "high-cost" counties; income thresholds for all other counties would decrease. Annual adjustments would be based on the "California Necessities Index" (CNI).</p> <p>Base income eligibility would be established using 2003-04 child care program income levels.</p>	\$9.3 million in savings; 1,900 children would lose eligibility.	<p>Proposal acknowledges that child care costs vary throughout the state, with the Bay Area (Marin, San Francisco and Santa Clara) being the highest. Income eligibility levels in those counties remain the same, but would be reduced in all other counties of the state.</p> <p>State uses SMI data from 2000, which has the effect of making the Governor's proposed income levels artificially low.</p> <p>Unclear if CNI is an appropriate index to adjust by. CNI increased an average of 2.7 percent annually over last 8 years, versus 4 percent for SMI.</p>

	<u><i>Current Law</i></u>	<u><i>Governor's Proposal</i></u>	<u><i>Impact</i></u>	<u><i>Comments</i></u>
<b>Age Eligibility</b>	Children up to age 13 are eligible for subsidized child care services.	<p>Eliminates eligibility for 11- and 12-year olds from child care and transfers them to state/federal sponsored after-school programs, (pending the availability of slots in those programs) where they would receive priority placement.</p> <p>11- and 12-year old children would be able to stay in subsidized child care if they have "exceptional needs" or when an After School program is not available.</p>	\$75.5 million in savings; 18,000 children would lose child care eligibility under the assumption that they transfer to after-school programs.	<p>Proposal would "free up" child care slots. Assuming newly vacated slots are filled by eligible children on waiting lists, it is unclear why any savings are associated with this proposal.</p> <p>Proposal assumes children would enroll in after-school programs, but includes no additional state funding to expand programs. (Note: DOF has a pending Finance Letter which increases amount of federal funding available for 21<sup>st</sup> Century After School program).</p> <p>After School programs may offer more age-appropriate activities (home work assistance) than other care options.</p> <p>Hours of care available through after-school programs do not necessarily match child care needs of families.</p>

	<u><i>Current Law</i></u>	<u><i>Governor's Proposal</i></u>	<u><i>Impact</i></u>	<u><i>Comments</i></u>
<b>Limitations on Stage 3 Services</b>	Former CalWORKS recipients are eligible for subsidized child care services as long as they continue to meet age and income requirements. LAO notes that current practice prevents families from applying for non-CalWORKS child care while receiving aid.	Limits Stage 3 child care services to <i>one year</i> (in addition to a CalWORKS recipient's two years in Stage 2). Families currently in Stage 3 would receive one additional year. CalWORKS recipients would be allowed (and encouraged) to sign up for care as soon as they have an earned income.	No savings or impact in the Budget Year.	Administration and LAO find that program addresses the "differential" treatment between CalWORKS and non-CalWORKS families in child care. Staff notes, proposal fails to take into account that state has substantial investment in CalWORKS recipients that may warrant "differential treatment".  Proposal puts current CalWORKS recipients at risk of losing child care because they haven't yet had a chance to get on general child care wait lists.

	<u><i>Current Law</i></u>	<u><i>Governor's Proposal</i></u>	<u><i>Impact</i></u>	<u><i>Comments</i></u>
<b>Eligibility for Non-working Parents</b>	No time limit on child care services as long as family remains eligible and is engaged in employment training and/or educational activities.	Would limit eligibility for parents in education/vocational programs to two years. Families would be given an additional two-years worth of education/training upon implementation of the proposal.	No savings or caseload impact in Budget Year, because proposal would not have an effect until 2005-06. Impact after that date is unclear.	Two years of education/training eligibility is not sufficient for parents seeking a four-year degree or longer-term vocational program.

	<u><i>Current Law</i></u>	<u><i>Governor's Proposal</i></u>	<u><i>Impact</i></u>	<u><i>Comments</i></u>
<b>Reimbursement Rates</b>	Providers are reimbursed up to the 85 <sup>th</sup> percentile of Regional Market Rate (RMR).	Creates a six-level reimbursement rate structure that reimburses providers between the 40 <sup>th</sup> and 85 <sup>th</sup> percentile of the RMR, depending on the licensure and training of the provider as well as whether or not the provider serves private-pay clients.	\$57.7 million in savings; 95,592 children impacted.	<p>Proposal is major policy change that should be addressed in separate legislation.</p> <p>This proposal is the Administration's attempt to pay more for "quality" child care (as defined by meeting various licensing and training requirements). All rates would be reduced except for the highest (85 percent) reimbursement level, which would be available to providers who also serve private-pay clients and who are "accredited" and licensed.</p> <p>Very few providers (less than 1 percent in LA county alone) are "accredited". Thus 99 percent of providers would be reimbursed at a lower rate (75<sup>th</sup> percentile if they're licensed and have private-pay clients).</p>

	<u><i>Current Law</i></u>	<u><i>Governor’s Proposal</i></u>	<u><i>Impact</i></u>	<u><i>Comments</i></u>
<b>Family Fees</b>	<p>Families with income over <i>50 percent</i> of SMI pay child care fees – up to <i>8 percent</i> of their gross income</p> <p>Fees are generally paid to an Alternative Payment program or county agency – which then distributes funds to the providers.</p> <p>Exempts indefinitely those children who are receiving care due to a Child Protective Services (CPS) referral from paying fees.</p>	<p>Lowers income threshold at which families start paying child care fees (families with income over <i>40 percent</i> of SMI would pay fees) and increases the maximum amount that a family pays (up to <i>10 percent</i> of their gross income.)</p> <p>For CalWORKS families, fees would be charged as soon as they leave cash aid and have an earned income.</p> <p>Fees would be collected directly by the provider.</p> <p>Limits the fee exemption for families receiving care due to a CPS referral to one-year. Children considered “at risk” but referred by a professional other than CPS will be exempted from fees for no more than three months.</p>	<p>\$22.3 million in savings (offset by fee revenue); fees increased for 77,000 children.</p>	<p>For example, a family of three with an annual income of \$25,000 would pay \$56 more for child care each month, putting yet another financial burden on poor families.</p> <p>If providers are unable to collect fees, it would essentially be a “rate reduction”.</p>

## **B. CHILD CARE FRAUD PREVENTION AND RECOVERY**

**GOVERNOR’S PROPOSED BUDGET.** The Governor’s January Budget makes reference to the Administration developing a child care anti-fraud proposal. While statutory language has yet to be submitted to the Legislature, the Administration expressed its interest in exploring such issues as: clarifying and defining fraud; establishing criminal and/or administrative sanctions for fraudulent activities; establishing fines; and providing incentives for counties and Alternative Payment Providers to pursue fraud. Furthermore, as part of the Assembly’s efforts to abolish waste, fraud, and abuse throughout state government, the Assembly Budget Committee may come forward with a proposal to expand anti-fraud activities within the child care realm.

The Governor’s Budget appropriates \$2 million in one-time federal funds for administrative start-up costs associated with this anti-fraud initiative; however, given the lack of details on an anti-fraud proposal, it is unclear how these funds would be expended.

**LEGISLATIVE ANALYST (LAO).** The LAO offers no comment on the proposed expenditure of funds to start-up anti-fraud activities.

**STAFF NOTES.** Staff recommends that this issue be held open pending a more detailed proposal by the Administration.

## **C. REVISION TO AUDIT REQUIREMENTS**

**GOVERNOR’S PROPOSED BUDGET.** As part of the Governor’s January Budget, the Administration proposes Trailer Bill Language which would alter the audit requirements of agencies providing child care services. Specifically, the Department of Finance proposes the following changes to the statutory language:

“8224 of the Education Code is amended to read:

*(a) The annual audits for ~~such~~ the agencies contracting with the Department to provide child care services shall include, but not be limited to, a all of the following:*

*(1) A sampling of the evidence of ~~fees~~ all of the following:*

*(A) Rates charged to, and paid by, families of non-subsidized children served by the same provider, ~~the daily enrollment of subsidized children,~~  
~~the number,~~*

(B) Number of days of service provided to subsidized children, the assessment and collection of parent fees, and the availability.

(C) Availability of support services to subsidized children and their families, as needed pursuant to the terms of the contract.

(2) A verification of the accuracy of determination made by the alternative payment provider for all of the following:

(A) Eligibility, including the birthdate of each child or documentation of special need, list of all adults in the household, and calculation of adjusted family income at initial application, enrollment, and at each redetermination.

(B) Need for child care pursuant to Section 8263 (a)(2) certified by a parent and the resulting dates and hours of child care provided for each child.

(C) Priority for access to subsidies pursuant to Section 8263 (b).

(D) Family fee.

(E) Reimbursements to providers, including, but not limited to, both of the following: (i) authorized hours of care, and (ii) use of authorized adjustment factors, including comparisons to the Regional Market Rate limits provided pursuant to Section 8221.1.

(b) The verification described in paragraph (2) of subdivision (a) may be performed by a random sampling of case files sufficient in number to determine compliance rates and the accuracy of eligibility determinations.

(c) The audit requirements described in this section shall be included in the audit guide adopted by the Education Audit Appeals Panel for local education agencies, and shall also apply to annual audits of non-profit agencies contracting with the Department.”

**STAFF NOTES.** Staff recommends that the committee hold the language open pending the receipt of various anti-fraud related proposals from the Administration and the Assembly.

## **II. BEFORE AND AFTER SCHOOL PROGRAMS**

**GOVERNOR’S PROPOSED BUDGET.** The Governor’s January Budget proposal contains no major programmatic or funding changes to the Before and After School Program. Pursuant to statute, the After School Program is funded at \$5 per day per child and the Before School

program is funded at \$3.33 per day per child. Neither program is slated to receive growth or COLA.

**APRIL FINANCE LETTER.** As part of its April revision to the proposed budget, the Administration is requesting that the total amount appropriated for the Before/After School Program (\$121.6 million) be deleted from the Budget Bill and instead be continuously appropriated. Under the provisions of Proposition 49 (Education Code section 8483.5) – funding for the After School program is to be continuously appropriated beginning in the 2004-05 fiscal year.

**LEGISLATIVE ANALYST.** The LAO agrees with the need to continuously appropriate the funds in the program.

**STAFF NOTES.** Given the statutory requirements to continuously appropriate the Before/After School Program funds, staff recommends that the April Finance Letter be approved.

### **III. FEDERAL 21<sup>ST</sup> CENTURY LEARNING CENTERS**

#### **A. 21<sup>ST</sup> CENTURY LEARNING CENTERS – GRANTS**

**GOVERNOR’S PROPOSED BUDGET.** The Governor’s January Budget contains no funding changes to the federal 21<sup>st</sup> Century Community Learning Centers Program. Funding levels (\$75.5 million) remain the same as appropriated in the 2003-04 Budget Act and the allocation of the dollars is consistent with the State’s expenditure plan for the program.

**APRIL FINANCE LETTER.** As part of its April revision to the proposed budget, the Administration is requesting that the budget be increased by an additional \$61.8 million to reflect an increase in federal funds available for the program. Of this amount, \$1.4 million represents one-time carryover funds; the remainder (\$60.4 million) is due to an increase in the amount available from the federal government. In addition, DOF requests that the funds be allocated using the existing methodology, which establishes varying set-asides for specific program elements. This allocation methodology is the result of a multi-party work group that was called together pursuant to 2003-04 Budget Act provisional language.

The DOF is also requesting that the committee grant authority (via Budget Bill Language) for the Superintendent of Public Instruction to increase the grant amounts for current projects, beyond the funding cap, in order for the programs to provide additional slots for 11- and 12-year olds who otherwise would have been receiving subsidized child care.

**STAFF NOTES.** Staff recommends that the committee hold this issue open, pending the May Revision and also pending the outcome of the Senate's child care reform discussions.

**B. 21<sup>ST</sup> CENTURY LEARNING CENTERS – STATE OPERATIONS**

**GOVERNOR'S PROPOSED BUDGET.** The Governor's January Budget proposal contained no state operations changes related to the federal 21<sup>st</sup> Century Community Learning Centers Program.

**APRIL FINANCE LETTER.** As part the April revision to the proposed budget, the Administration is requesting that the state operations budget of the California Department of Education be increased by an additional \$283,000 (federal funds) and 4.0 positions in order to provide support for the growing 21<sup>st</sup> Century Community Learning Centers Program.

**LEGISLATIVE ANALYST.** The LAO has not expressed any concerns with this proposal.

**STAFF NOTES.** Given the expansion of the 21<sup>st</sup> Century Learning Centers program, staff recommends that April Finance Letter be approved as proposed.

**IV. PROPOSED CONSENT**

Staff recommends that the following items be Approved as Budgeted.

- 6110-196-0001. Local Assistance, California Department of Education, Child Development Program.  
Per April Finance Letter, amend provision 11 of Item to clarify the Administrative Cost Allowance reduction that was approved by the Legislature and Governor last year.

## Outcomes 5-10-04

Sub 1 voted to continuously appropriate all state after school program funds, pursuant to statute enacted by Proposition 49, thereby removing that appropriation from the annual Budget Act. This issue was brought to the committee by the Department of Finance via an April Finance Letter.

Jack Scott, Chair  
Bob Margett  
John Vasconcellos



May 17, 2004  
1:30 p.m. – Room 113

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# California State Library

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6120-221-0001 California State Library	<i>May Revision Finance Letter:</i> Reduce funding for Public Library Foundation (Issue 103)	May Revision proposal reduces amount available for local public libraries by \$1.4 million or 9 percent. Funding is used to maintain local library operations and purchase books and materials.	<b>Approve May Revision.</b> Governor's January proposal did not reduce this program.		
6120-151-0493 6120-151-0483	<i>May Revision Finance Letter:</i> Telephonic Reading Program (Issue 001)	May Revision provides \$441,000 from the Deaf and Disabled Telecommunications Program Administrative Committee Fund to fully fund the Telephonic Reading Program. This program provides reading services (via the telephone) to the blind.	<b>Approve May Revision.</b>	TBL clarifying telephonic reading program as appropriate use of funds (Ed. Code); Public Utilities Code provisions will be concurrently adopted by Senate Budget Subcommittee #2	
6120-011-0020	<i>May Revision Finance Letter:</i> Extend Appellate Court Filing Fee surcharge for State Law Library (Issue 001)	Current law, which is set to expire on January 1, 2005, provides that \$65 of each fee collected in a civil cases filed in appellate court is paid into a special fund to support the California State Law Library. The Administration proposes trailer bill language to extend the sunset date on this fee to January 1, 2010.	<b>Forward Trailer Bill issue</b> to Senate Budget Subcommittee # 4 which handles court fees, with the recommendation that the May Revision request be approved	Trailer Bill Language to be addressed by Sub 4	

## Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-001-0814 University of California	<i>May Revision Finance Letter:</i> Increase Funding from State Lottery (Issue 001)	Increases funding available from the state lottery by \$399,000	<b>Approve May Revision</b>		
6600-001-0814 Hastings College of Law	<i>May Revision Finance Letter:</i> Increase Funding from State Lottery (Issue 001)	Increases funding available from the state lottery by \$2,000	<b>Approve May Revision</b>		
6610-501-0839 California State University	<i>May Revision Finance Letter:</i> Increase Funding from State Lottery (Issue 001)	Increases funding available from the state lottery by \$1.7 million	<b>Approve May Revision</b>		
6610-302-6041 California State University	<i>May Revision Finance Letter:</i> Clarify availability of capital outlay funds and eligible uses for project savings (Issue 001)	Adds provisional language to item	<b>Approve May Revision</b>		
6610-494 California State University	<i>May Revision Finance Letter:</i> Add item to extend the liquidation period of construction funds (Issue 003)	Adds item related to renovation of building at San Francisco State University	<b>Approve May Revision</b>		
6870-101-0814 California Community Colleges	<i>May Revision Finance Letter:</i> Increase Funding from State Lottery (Issue 001)	Increases funding available from the state lottery by \$2.4 million	<b>Approve May Revision</b>		
6870-301-6041 California Community Colleges	<i>May Revision Finance Letter:</i> Technical change related to project at Palo Verde College (Issue 307)	Adds "Equipment" phase to project	<b>Approve May Revision</b>		

## Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6870-301-6028 6870-490 California Community Colleges	<i>May Revision Finance Letter:</i> Add item to reappropriate various projects, as specified (Issue 310 and 311)	Reappropriates funding for projects which have been delayed	<b>Approve May Revision</b>		
6870-491 California Community Colleges	<i>May Revision Finance Letter:</i> Add item to extend the liquidation period of various projects, as specified (Issue 312)	Extends period that funds are available for their original purpose	<b>Approve May Revision</b>		
6870-301-0660 California Community Colleges	<i>May Revision Finance Letter:</i> Add item to increase expenditure authority for specified project (Issue 335)	Increases expenditure authority by \$3.5 million to reflect higher construction bids for the library expansion and reconstruction project at Cuesta College	<b>Approve May Revision</b>		

## K-12 Education Consent Items

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0001 California Department of Education	<i>May Revision Finance Letter: Reduce funding for various education demographic activities. (Issue 001)</i>	May Revision proposal reduces \$31,000 in funding for supplies and travel in the Education Demographics Unit at CDE.	<b>Approve May Revision</b>		
6110-001-0001 California Department of Education	<i>May Revision Finance Letter: Reduce participation in interstate organizations. (Issue 003)</i>	May Revision proposal reduces \$100,000 in funding, largely for membership fees in various interstate organizations.	<b>Approve May Revision</b>		
6110-001-0001 California Department of Education	<i>May Revision Finance Letter: Reduce support services in the Secondary, Postsecondary, and Adult Leadership Division at CDE. (Issue 197)</i>	May Revision proposal reduces \$110,000 in funding to reduce technical support to the Community Day Schools and High Risk Youth and Public Safety programs.	<b>Approve May Revision</b>		
6110-001-0001 California Department of Education	<i>May Revision Finance Letter: Reduce Visual and Performing Arts staff. (Issue 329)</i>	May Revision decreases funding by \$84,000 to eliminate a Visiting Educator position in the Visual and Performing Arts program as a part of CDE's three percent reduction plan.	<b>Approve May Revision</b>		
6110-117-0001 California Department of Education	<i>May Revision Finance Letter: Eliminate contract with California Association of Student Councils for vocational programs. (Issue 198)</i>	May Revision decreases funding by \$50,000 to end CDE's contract with the California Association of Student Councils for providing leadership training for vocational programs.	<b>Approve May Revision</b>		
6110-203-0001 California Department of Education	<i>May Revision Finance Letter: Increase Reimbursement Authority for Child Nutrition Pending Court Settlement -- Vitamin Case (Issue 707)</i>	May Revision requests a \$2.0 million increase in reimbursement authority for child nutrition programs to allow for the expenditure of a grant award from the Vitamin Case Consumer Settlement Fund. Funding would be used for nutritional grants to school districts and child care centers.	<b>Approve May Revision</b>	BBL	

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-203-0001 California Department of Education	<i>April Letter: Increase Reimbursement Authority for Child Nutrition Pending Court Settlement -- Salton Case (Issue 706)</i>	April Letter requests that reimbursement authority for child nutrition programs be increased by \$150,000 for possible reimbursements from a court settlement with the Salton Company -- a grill manufacturer. Funding would be used for nutritional grants to school districts and child care centers. The Subcommittee adopted the April Finance Letter for this issue on April 26th. DOF has informed staff that reimbursements from the Salton Company court case will not materialize in 2004-05.	<b>Rescind Prior Subcommittee Action to Approve</b>		
6110-006-0001	<i>May Revise: Increase Reimbursements for State Operations at State Special Schools (Issue 208)</i>	May Revision increases reimbursements for State Special Schools by \$345,000 to provide authority to reflect increased reimbursement billings to schools and tobacco use prevention grants.	<b>Approve May Revision</b>		
6110-112-0890 California Department of Education	<i>May Revise: Increase Federal Funds for Charter Schools (Issue 072)</i>	May Revision increases federal funding for charter schools by \$6.6 million to reflect carryover funds from unexpended grants.	<b>Approve May Revision</b>		
6110-191-0001 California Department of Education	<i>May Revise: Decrease Funds for Beginning Teacher Support and Assessment Program (Issue 191)</i>	May Revision decreases funding for the Beginning Teacher Support and Assessment (BTSA) program by \$6,886,000 to reflect a decline in teacher participants in 2004-05. The number of eligible new teachers is expected to decline from 24,000 to 22,000.	<b>Approve May Revision</b>		BBL: Provisional language is changed to reflect decline in estimated participants.

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-195-0001 California Department of Education	<i>May Revision Finance Letter: Increase in Funding for National Board Certification Program (Issue 200)</i>	May Revision increases funding for the National Board Certification program by \$235,000 in order to provide multi-year grants to an estimated 47 additional teachers above the current 1,460 participants. In order to be eligible for \$5,000 grants, teachers must be Nationally Board certified and agree to teach in a low-performing schools.	<b>Approve May Revision</b>		
6110-490 California Department of Education	<i>May Revision Finance Letter: Capital Outlay, State Special Schools</i>	May Revision adds Item 6110-490 to reappropriate funding from the 2003 Budget Act for working drawings and construction of the Multipurpose/ Activity Center at the California School for the Deaf, Riverside.	<b>Approve May Revision</b>		
6125-001-0001 Education Audit Appeals Panel	<i>May Revision Finance Letter: General Fund Reduction in Publications Budget</i>	May Revision decreases the agency's budget by \$39,000 to reflect a 3 percent reduction from making publications available on the Internet instead of in hardcopy format.	<b>Approve May Revision</b>		

## K-12 Education Consent Items (Approved 3-0)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0001 California Department of Education	<i>May Revision Finance Letter: Reduce funding for various education demographic activities. (Issue 001)</i>	May Revision proposal reduces \$31,000 in funding for supplies and travel in the Education Demographics Unit at CDE.	<b>Approve May Revision</b>		
6110-001-0001 California Department of Education	<i>May Revision Finance Letter: Reduce participation in interstate organizations. (Issue 003)</i>	May Revision proposal reduces \$100,000 in funding, largely for membership fees in various interstate organizations.	<b>Approve May Revision</b>		
6110-001-0001 California Department of Education	<i>May Revision Finance Letter: Reduce support services in the Secondary, Postsecondary, and Adult Leadership Division at CDE. (Issue 197)</i>	May Revision proposal reduces \$110,000 in funding to reduce technical support to the Community Day Schools and High Risk Youth and Public Safety programs.	<b>Approve May Revision</b>		
6110-001-0001 California Department of Education	<i>May Revision Finance Letter: Reduce Visual and Performing Arts staff. (Issue 329)</i>	May Revision decreases funding by \$84,000 to eliminate a Visiting Educator position in the Visual and Performing Arts program as a part of CDE's three percent reduction plan.	<b>Approve May Revision</b>		
6110-117-0001 California Department of Education	<i>May Revision Finance Letter: Eliminate contract with California Association of Student Councils for vocational programs. (Issue 198)</i>	May Revision decreases funding by \$50,000 to end CDE's contract with the California Association of Student Councils for providing leadership training for vocational programs.	<b>Approve May Revision</b>		

6110-203-0001 California Department of Education	<i>May Revision Finance Letter: Increase Reimbursement Authority for Child Nutrition Pending Court Settlement -- Vitamin Case (Issue 707)</i>	May Revision requests a \$2.0 million increase in reimbursement authority for child nutrition programs to allow for the expenditure of a grant award from the Vitamin Case Consumer Settlement Fund. Funding would be used for nutritional grants to school districts and child care centers.	<b>Approve May Revision</b>	BBL	
6110-203-0001 California Department of Education	<i>April Letter: Increase Reimbursement Authority for Child Nutrition Pending Court Settlement -- Salton Case (Issue 706)</i>	April Letter requests that reimbursement authority for child nutrition programs be increased by \$150,000 for possible reimbursements from a court settlement with the Salton Company - a grill manufacturer. Funding would be used for nutritional grants to school districts and child care centers. The Subcommittee adopted the April Finance Letter for this issue on April 26th. DOF has informed staff that reimbursements from the Salton Company court case will not materialize in 2004-05.	<b>Rescind Prior Subcommittee Action to Approve</b>		
6110-006-0001	<i>May Revise: Increase Reimbursements for State Operations at State Special Schools (Issue 208)</i>	May Revision increases reimbursements for State Special Schools by \$345,000 to provide authority to reflect increased reimbursement billings to schools and tobacco use prevention grants.	<b>Approve May Revision</b>		
6110-112-0890 California Department of Education	<i>May Revise: Increase Federal Funds for Charter Schools (Issue 072)</i>	May Revision increases federal funding for charter schools by \$6.6 million to reflect carryover funds from unexpended grants.	<b>Approve May Revision</b>		

6110-191-0001 California Department of Education	<i>May Revise: Decrease Funds for Beginning Teacher Support and Assessment Program (Issue 191)</i>	May Revision decreases funding for the Beginning Teacher Support and Assessment (BTSA) program by \$6,886,000 to reflect a decline in teacher participants in 2004-05. The number of eligible new teachers is expected to decline from 24,000 to 22,000.	<b>Approve May Revision</b>		BBL: Provisional language is changed to reflect decline in estimated participants.
6110-195-0001 California Department of Education	<i>May Revision Finance Letter: Increase in Funding for National Board Certification Program (Issue 200)</i>	May Revision increases funding for the National Board Certification program by \$235,000 in order to provide multi-year grants to an estimated 47 additional teachers above the current 1,460 participants. In order to be eligible for \$5,000 grants, teachers must be Nationally Board certified and agree to teach in a low-performing schools.	<b>Approve May Revision</b>		
6110-490 California Department of Education	<i>May Revision Finance Letter: Capital Outlay, State Special Schools</i>	May Revision adds Item 6110-490 to reappropriate funding from the 2003 Budget Act for working drawings and construction of the Multipurpose/ Activity Center at the California School for the Deaf, Riverside.	<b>Approve May Revision</b>		
6125-001-0001 Education Audit Appeals Panel	<i>May Revision Finance Letter: General Fund Reduction in Publications Budget</i>	May Revision decreases the agency's budget by \$39,000 to reflect a 3 percent reduction from making publications available on the Internet instead of in hardcopy format.	<b>Approve May Revision</b>		

Jack Scott, Chair  
Bob Margett  
John Vasconcellos



May 19, 2004  
1:30 p.m. – Room 2040

**PART 1 OF 2**

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Item	Issue	Description	Staff Recommendation	BBL/TB	
6870-101-0001 California Community Colleges	<i>May Revision Finance Letter:</i> Provide Funding for Equalization (Issues 106 and 122)	Provides a total of \$80 million for equalization, with the caveat that the funds not be considered Program Improvement Funds	<b>Approve May Revision with additional Budget Bill Language specifying that the allocation of funds is pursuant to legislation</b>	Conforming BBL	
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> General Fee Increase	Proposes to increase fees from \$18 per unit to \$26 per unit	<b>Approve as Budgeted</b>	Trailer Bill Language (Ed. Code 76300) to conform	
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Baccalaureate Degree Surcharge	Proposes to charge students who have already earned a Baccalaureate degree \$50 per unit	<b>Deny Governor's Budget Proposal</b>		
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Enrollment Growth	Proposes \$121 million to provide for a 3 percent growth in student enrollments	<b>Approve as Budgeted</b>		
6870-101-0001 California Community Colleges	<i>New Issue:</i> Enrollment Growth	Provide funding equivalent to 3.67 percent enrollment growth	<b>Approve additional funding necessary to bring enrollment growth funding up to 3.67 percent</b>		

Item	Issue	Description	Staff Recommendation	BBL/TB	
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> NonCredit Instruction	Provides \$4 million to increase student enrollments in noncredit courses	<b>Deny Governor's budget proposal and instead provide \$6 million to increase the funding rate for noncredit instruction</b>		
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Partnership for Excellence	Folds funding for the <i>Partnership for Excellence Program</i> into the general apportionments budget of the community colleges with accompanying budget bill language. Committee already took action (March 22, 2004) to fold Partnership for Excellence funding into the general apportionments line item	<b>Deny provisional language proposed in the Governor's Budget and instead adopt compromise language (per handout)</b>	Conforming BBL	
6870-681-0001 California Community Colleges	<i>May Revision:</i> Current-year augmentation (Issue 121)	Provides an additional \$28.4 million in the current year, on a one-time basis, for scheduled maintenance, special repairs, instructional equipment, and library materials, contingent upon the consolidation of those programs into a single line item. Funds are available in the current year due to an increase in the minimum 2003-04 Prop. 98 guarantee level	<b>Approve May Revision proposal (including the consolidation of the programs into a single line item); adopt accompanying Trailer Bill Language to appropriate the funds in the current year</b>	Trailer Bill language	

Item	Issue	Description	Staff Recommendation	BBL/TB
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Scheduled Maintenance, Special Repairs, Instructional Equipment and Library Materials	Provides a total of \$29.4 million, in the form of a block grant, to fund scheduled maintenance, special repairs, instructional equipment and library materials (\$24.9 million) and \$4.4 million to fund hazardous materials abatement	<b>Reject Governor's proposal and appropriate \$0 from the General Fund in 2004-05 (Note: funds for this program are instead being provided in the current year, pursuant to the above issue)</b>	Retain consolidated schedule in the Budget Act with an appropriation of \$0
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Continuation of June Principal Apportionments Deferral	Continues the current-year deferral of expenditures by deferring \$200 million in June 2005 general apportionment payments to July of 2005	<b>Approve as Budgeted</b>	Trailer Bill Language as proposed by DOF

Item	Issue	Description	Staff Recommendation	BBL/TB	
7980-101-0001 California Student Aid Commission	<i>Governor's Budget:</i> Reduce income ceilings for Cal Grant A and B Programs	Proposes to reduce eligibility for the Cal Grant program by decreasing the maximum amount a family can earn and still receive an award	<b>Reject Governor's Budget and deny accompanying Trailer Bill Language which would shift how Cal Grant eligibility it determined from statute to the annual Budget Act.</b>	BBL to conform	
7980-101-0001 California Student Aid Commission	<i>Governor's Budget:</i> Decrease maximum Cal Grant award for students attending private institutions	Proposes to reduce the maximum award level (from \$9,708 to \$5,482) for students attending private institutions	<b>Reject Governor's Budget and deny accompanying Trailer Bill Language which would shift the determination of the maximum award level from statute to the annual Budget Act.</b>	BBL to conform	

7980-101-0001 California Student Aid Commission	<i>May Revision:</i> Rescind Cal Grant Decoupling Proposal (Issue 004)	Rescinds Governor's original proposal and now provides funding (\$34.2 million) to ensure that Cal Grant awards will cover the proposed 14 percent fee increases at UC and CSU	<b>Approve May Revision and deny Trailer Bill Language which would shift the determination of the public college award level from statute to the annual Budget Act</b>	BBL to conform	
<b>Item</b>	<b>Issue</b>	<b>Description</b>	<b>Staff Recommendation</b>	<b>BBL/TB</b>	
7980-101-0001 California Student Aid Commission	<i>May Revision:</i> Reduce Number of Competitive Cal Grant Awards (Issue 001)	Reduces the number of Competitive Cal Grant awards by 5,625 (25 percent), thus limiting the number of awards available to 16,875 from the original statutory level of 22,500 (\$5.4 million)	<b>Reject May Revision</b>		
7980-101-0001 California Student Aid Commission	<i>Governor's Budget:</i> Reduce number of APLE warrants	Reduces number of Assumption Program of Loans for Education (APLE) warrants from 7,700 to 3,500. This proposal has no savings in the budget year and is estimated to save \$57 million beginning in 2006-07.	<b>Reject Governor's Budget and refer Trailer Bill Language which would revise priorities for awarding APLE program warrants to the appropriate policy committees</b>		

<p>7980-101-0001 7980-101-0784 California Student Aid Commission</p>	<p><i>May Revision:</i> Shifts \$134 million of funding for the Cal grant Program from the General Fund to the Student Loan Operating Fund (Issue 002)</p>	<p>Uses Student Loan Operating Fund reserves maintained by EdFUND (the nonprofit auxiliary organization established by the state to administer the federal guaranteed student loan program) to offset \$134 million in Cal Grant costs that would otherwise be borne by the General Fund</p>	<p><b>Reject May Revision and instead shift funding for select financial aid programs from the General Fund to the Student Loan Operating Fund, as noted below</b></p>		
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Item	Issue	Description	Staff Recommendation	BBL/TB
7980-101-0001 7980-101-0784 California Student Aid Commission	<i>New Issue:</i> Shift \$75.3 million of funding for the Cal grant Program from the General Fund to the Student Loan Operating Fund	Shift a total of \$49.3 million worth of state-funded financial aid expenditures from the state General Fund to the Student Loan Operating Fund (SLOF) to cover the costs associated with restoring the (A) Cal Grant income ceiling (\$11.2 million); (B) maximum award level for private and independent colleges (\$32.7 million); and (C) denying the Governor's May Revision proposal to decrease the number of competitive Cal Grant Awards (\$5.4 million). Further, reimbursement authority in Item 7980-101-0001 needs to be increased to account for use of SLOF.	<b>Adopt proposal and accompanying Budget Bill Language to specify (1) the uses of the SLOF; (2) that funding is one-time in nature; (3) that the Student Aid Commission must maintain a \$30 million reserve in the SLOF; and that (4) the Student Aid Commission may transfer funds, pursuant to legislation, for the purposes of EdFUND business diversification (per handout)</b>	Budget Bill Language

Item	Issue	Description	Staff Recommendation	BBL/TB	
6120-001-0001 California State Library	<i>New Issue:</i> Sutro Library Roof Repair	Would provide \$250,000 to repair the roof of the Sutro Library building, which has been leaking and causing damage this past winter season.	<b>Approve \$250,00 augmentation</b>		
6870-101-0001 6870-601-0986 California Community Colleges	<i>May Revision:</i> Local Revenue Adjustment (Issue 1132)	Offsets a reduced allocation in local property tax revenues going to community colleges pursuant to recent Governor agreement with local governments	<b>Conforming</b>		
6870-101-0001 6870-601-0992 California Community Colleges	<i>May Revision:</i> Student Fee Revenue Adjustment (Issue 115)	Reflects an adjustment in the amount of student fee revenue expected (\$18 million less than originally budgeted) and adds a like amount of General Fund to hold campuses harmless	<b>Approve May Revision.</b>		
6870-101-0001 California Community Colleges	<i>May Revision:</i> Financial Aid (BOG Waiver) Adjustment (Issue 116)	Reflects an increase in the number of BOG fee waiver participants and increases funding for that program by \$492,000	<b>Approve May Revision.</b>		

Item	Issue	Description	Staff Recommendation	BBL/TB
6870-101-0959 6870-102-0959 6870-486 6870-680-0001 California Community Colleges	<i>May Revision Finance Letter:</i> Foster Parent Training Program Fund Shift (Issue 117)	Shifts both current year and budget year funding (totaling \$5.4 million) from the Foster Parent Training Fund to the Proposition 98 Reversion Account	<b>Approve May Revision</b>	Budget Bill Language to add new items with accompanying provisional language. Plus Trailer Bill language to appropriate current-year Proposition 98 funds
6870-111-0001 California Community Colleges	<i>May Revision Finance Letter:</i> Federal Reimbursement Adjustment (Issue 118)	Adjusts downward (by \$1 million) the amount of funding available from the federal government for the Federal Foster Parent Training program	<b>Approve May Revision</b>	
6870-495 California Community Colleges	<i>May Revision Finance Letter:</i> Reversion of various prior-year funds to the General Fund (Issue 119)	Reverts \$9.5 million in unused prior-year funds from various community college categorical programs to the Proposition 98 reversion account for expenditure in other K-14 areas	<b>Approve May Revision</b>	

Item	Issue	Description	Staff Recommendation	BBL/TB	
6870-101-0001 California Community Colleges	<i>May Revision Finance Letter: Cost-of-Living Adjustment (Issues 104 and 107)</i>	Provides a total of \$106.5 million for a 2.41 percent COLA for General Apportionments; Basic Skills; EOPS/CARE; DSPS and Matriculation	<b>Approve May Revision.</b>	Conforming BBL	
6870-101-0001 California Community Colleges	<i>May Revision Finance Letter: Categorical Program Growth (Issues 105 and 108)</i>	Provides a total of \$4.3 million to fund 1.66 percent growth for following programs: Basic Skills; EOPS/CARE; DSPS and Matriculation	<b>Approve May Revision.</b>	Conforming BBL	
7980-101-0001 California Student Aid Commission	<i>May Revision Finance Letter: Cal Grant Baseline Adjustments (Issue 003)</i>	Increases funding in both the current year (\$42.6 million) and the budget year (\$31.9 million) for the continued support of the Cal Grant Entitlement Program; changes are due to revised estimates	<b>Approve May Revision</b>		

## **Shift of EdFUND dollars to support Cal Grants**

### Item 7980-001-0784 Student Aid Commission, Loan Operating Fund

*Add provisions as follows:*

2. It is the intent of the Legislature that funding from the Student Loan Operating Fund be used in accordance with federal statute.
3. It is the intent of the Legislature that the California Student Aid Commission use up to \$30,000,000 of the unencumbered balance of the Student Loan Operating Fund as a reserve to fulfill its obligations under the Federal Family Education Loan Program.
4. Pursuant to Legislation enacted in the 2004 legislative session, the California Student Aid Commission may transfer up to \$70,000,000 of the unencumbered balance of the Student Loan Operating Fund for purposes of diversifying EdFUND's business operations.

### Item 7980-101-0001 Student Aid Commission, Local Assistance

*Add provisions as follows:*

8. The amount listed in Schedule (2) of this Item includes \$49.3 million in one-time funds received from the Student Loan Operating Fund, for expenditure within the Cal Grant program, as follows
  - (a) Retain 2003-04 eligibility levels and income ceilings for new Cal Grant recipients, notwithstanding Education Code Section 69432.7 (k)
  - (b) Retain maximum award level for new Cal Grant recipients attending private colleges and universities; and
  - (c) Maintain the number of new Competitive Cal Grant awards at 22,500, pursuant to statute.

No State General Fund monies shall be used for the above-noted programs until such time as the \$49.3 million in reimbursements received from the Student Loan Operating Fund have been fully expended.

It is the intent of the Legislature that funding provided by the Student Loan Operating Fund for the above-noted programs be short-term in nature until such time as the state's fiscal situation improves to allow these programs to be funded wholly or in part by the state General Fund.

9. It is the intent of the Legislature that funding from the Student Loan Operating Fund be used in accordance with federal statute.

**California Community Colleges—2004-05 Budget  
Draft Budget Bill language in lieu of provision 4 of Item 6870-101-0001**

**Fold-in of Partnership for Excellence Funds into Base**

Provision 4.

The amount appropriated in Schedule (4) shall be made available to districts as part of the general apportionment funds appropriated in Schedule (1), and shall be made available in the same amount provided to each district for the Partnership for Excellence for the 2003-04 fiscal year, notwithstanding the basic aid status of any district. As a condition of receiving these funds districts shall first agree to assure that courses related to student needs for transfer, basic skills, and vocational and workforce training are accorded the highest priority and are provided to the maximum extent possible within budgeted funds. The Board of Governors shall assess and report to the Legislature, on or before April 15<sup>th</sup> annually, district and college data on the same educational outcome measures reported to the Legislature as part of the Partnership for Excellence program under Education Code Section 84754. Acceptance of funds appropriated in Schedule (4) shall constitute concurrence by the district or college to collect and provide to the Chancellor of the California Community Colleges all information necessary to quantify baseline performance and annually report changes in outcome measures to the Chancellor, if in the judgment of the Chancellor, current Management Information System (MIS) data are insufficient for the purpose of any of the approved measures.



Jack Scott, Chair  
Bob Margett  
John Vasconcellos

May 19, 2004  
1:30 p.m. – Room 2040

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Item	Issue	Description	Staff Recommendation
Budget Control Section 12.70	<i>Governor's Budget: Categorical Program Shift to Revenue Limits</i>	The Governor's Budget proposes to eliminate separate funding for 22 categorical education programs (and shift \$2 billion in funding for those programs into revenue limits in 2004-05. Funds shifted into revenue limits would be available to school districts, county offices of education and charter schools for general purposes, but could also be used to continue funding for specific, categorical program purposes if desired. Local education agencies (LEAs) would receive the same level of overall funding in 2004-05 – specifically 2003-04 funding plus growth and COLAs -- as they would have received under separate categorical program allocations.	<b>Deny Governor's Categorical Reform proposal. Eliminate Budget Control Section 12.70. Pursue categorical reform through policy legislation.</b>

Item	Issue	Description	Staff Recommendation
6110-228-0001	<i>Governor's Budget: Consolidates School Safety Programs in Budget</i>	The Governor Budget proposes to consolidate nearly \$100 million for seven separate school safety programs currently contained in three budget act items into three programs within a single budget item in 2004-05. The Governor proposes to (1) maintain separate funding for the School Safety and Violence Prevention Block Grant program (\$82.1 million) and the School Safety Plans for New Schools Program (\$3.0 million), and (2) consolidate funding for five competitive school safety programs into a new School Safety Competitive Grant program (\$14.6 million).	<b>Approve Governor's Budget with a reduction of \$2.0 million for School Safety Plans for New Schools per LAO recommendation.</b>
6110-128-0001 & 6110-601-0001	<i>May Revision Finance Letter: General Funds for Charter Schools - Economic Impact Aid and Apportionments (Issues 074, 076)</i>	May Revision reduces Economic Aid funding for charter schools by \$2.8 million to reflect lower estimates of charter school enrollments. In addition, the May Revision reduces charter school apportionments by \$6.3 million to reflect a revised estimate of the cost of shifting the Charter School Block Grant into revenue limits as a part of the Governor's categorical reform proposal.	<b>Restore \$6.3 million for Charter School Block Grant to conform to denial of Governor's categorical reform proposal.</b>

Item	Issue	Description	Staff Recommendation		
Budget Bill/Trailer Bill Language	<i>LAO Proposal: Budget Bill and/or Trailer Bill Language-- Categorical Programs in Charter School Block Grant</i>	LAO proposes language to clarify the categorical programs that are included in the Charter Schools Block Grant.			
Budget Control Section 12. 40	<i>Governor's Budget: Continues Limited Categorical Program Transfer Authority</i>	The Governor's 2004-05 budget, continues provisions of Control Section 12.40 at the 2003-04 levels – 10 percent “in” and 15 percent “out”. Still referred to as mega-item flexibility, the control section lists only nine different categorical program items -- down from the 20 included in 2003-04. Control Section 12.40 excludes eleven categorical programs that the Governor proposes to consolidate and shift into revenue limits in 2004-05.	<b>Approve Governor's Budget.</b>		

Item	Issue	Description	Staff Recommendation		
6110-177-0001	<i>Governor's Budget: Eliminates Funds for Local Arts Education Partnership Program</i>	Governor's Budget eliminates \$6.0 million in funding for the Local Arts Partnership program. This program provides competitive grants to LEAs to support arts education.	<b>Deny Governor's Budget.</b>		
4400-001-0001	<i>Governor's Budget: Reduces Funds for the Early Mental Health Initiative Program (EMHI)</i>	Governor's Budget reduces funding for the Early Mental Health Initiative program by \$5.0 million -- leaving \$5.0 million in remaining funds for the program in 2004-05. EMHI is administered by the Department of Mental Health.	<b>Deny Governor's Budget.</b>		
6110-200-0001	<i>Governor's Budget: Eliminates Funds for Healthy Start Program.</i>	Governor's Budget eliminates the remaining \$2.0 million for the Healthy Start program.	<b>Deny Governor's Budget.</b>		
6110-163-0001	<i>Governor's Budget: Eliminates Funds for Early Intervention for School Success Program.</i>	Governor's Budget eliminates \$2.2 million in funding for the Early Intervention for School Success. This program provides competitive grants to LEAs, which are part of regional partnerships with IHEs, to provide academic assistance and services to pupils to prepare them for admission to California State University and University of California. [Note: The program is due to sunset July 1, 2005.]	<b>Approve Governor's Budget.</b>		

Item	Issue	Description	Staff Recommendation		
6110-243-0001	<i>Governor's Budget: Eliminate Funding for Academics Improvement and Achievement Program</i>	Governor's Budget eliminates \$5.0 million for the Academic Improvement and Achievement program. This program provides competitive grants to LEAs, which are part of regional partnerships with IHEs, to provide academic assistance and services to pupils to prepare them for admission to California State University and University of California. [Note: The program is due to sunset July 1, 2005.]	<b>Approve Governor's Budget.</b>		
6110-164-0001	<i>Governor's Budget: Eliminates Funds for School -to- Career Partnerships</i>	Provides grants to LEAs to support local school-to-career partnerships. [Note: Administration of this program was shifted from the Office of the Secretary for Education to CDE in 2003-04.]	<b>Deny Governor's Budget.</b>		
6110-130-0001	<i>May Revision Finance Letter: Reduce AVID Teacher Training Program. (Issue 713)</i>	May Revision reduces funding for the AVID program by \$1,265,000 to cut funding for advanced placement teacher training. This is an effective, low-cost college preparatory program for students from disadvantaged families. The teacher training component is considered integral to the effectiveness of the program.	<b>Deny May Revision.</b>		

Item	Issue	Description	Staff Recommendation		
6110-625-0001	<i>May Revision Finance Letter: Reimburse General Fund for Emergency Loan Repayments (Issue 055)</i>	May Revision would reimburse General Fund for loan repayments of \$167,127,000 to reflect a new proposal to issue lease-revenue bonds through the State Infrastructure Bank. These new bonds would repay the General Fund for outlays for school district emergency loans in the Oakland USD, West Contra Costa USD and Vallejo City USD (pending). This proposal will be implemented pursuant to pending legislation.	<b>More information needed.</b>		
6110-615-0001	<i>May Revision Finance Letter: Monterey Peninsula Unified School District Loan Repayment (Issue 052)</i>	May Revision reflects loan repayments in the amount of \$4,376,000 in the 2002-03 fiscal year and increased by \$1,676,000 in both 2002-03 and 2003-04 to reflect early payoff of the loan provided to the Monterey Peninsula Unified School District, pursuant to Chapter 886, Statutes of 1993. This emergency loan addressed the loss of enrollment related to military base closure.	<b>Approve May Revision.</b>		

<p>6110-615-0001 (Issue 052) A158</p>	<p><i>May Revision Finance Letter: Local Assistance, Vallejo City Unified Schools District Emergency Loan Set - Aside (Issue 054)</i></p>	<p>May Revision sets-aside \$60 million in current year funding for the impending emergency loan to the Vallejo City Unified Schools District, pending SB 1190 (Chesbro). The budget year repayment of this emergency loan, given current interest rates, is estimated at \$3,495,000.</p>	<p><b>Approve May Revision.</b></p>		
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Item	Issue	Description	Staff Recommendation		
6110-497	<i>May Revision Finance Letter: General Fund Reversions from Professional Development Institutes program. (Issue 179)</i>	May Revision reverts \$35.0 million in General Funds (Non-Prop 98) from the unexpended balance of funds appropriated by the Budget Act of 2001 for the Professional Development Institutes program. Previously administered by CDE, this program was eliminated in 2003.	<b>Approve May Revision.</b>		
6110-495	<i>May Revision Finance Letter: Proposition 98 Reversions (Issues 0001,010, 011, 012, 013, 014, 028, 029, 159, 165, 177, 178, 179, 300, 350, and 675)</i>	May Revision proposes to revert approximately \$96 million in unexpended funds from a variety of education programs to the Proposition 98 Reversion Account in 2003-04. These amounts will be used for future expenditures for other Proposition 98 purposes. The \$96 million includes \$50 million in funds from the CSR program.	<b>Approve May Revision.</b>		
6110-496	May Revision: Adds Budget Bill Language to Provide Authority for Minimal Fund Reversions (Issue 345)	May Revision adds language to allow for the reversion of funds certified by the Superintendent of Public Instruction from program funding accounts when the amount available for reversion is \$20,000 or less.	<b>Approve May Revision with change in amount for reversion to \$50,000 or less.</b>		

Item	Issue	Description	Staff Recommendation		
6110-101-0814	<i>May Revise Finance Letter: Increase in State Lottery Revenues to the Department of Education for Local Assistance to Public Schools (Issue 001)</i>	May Revision increases local assistance funding to public schools by \$13,459,000 to reflect additional, estimated State Lottery revenues. This additional funding will bring total Lottery revenues to \$806,755,000 for local schools in 2004-05.	<b>Approve May Revision</b>		
006-0001	<i>May Revise Finance Letter: Decrease in State Lottery Revenues to the State Special Schools (Issue 001)</i>	May Revision decreases State Lottery Revenues to State Special Schools by \$6.0 million to reflect new revenue estimates and a lower allocation based upon decline in enrollment.	<b>Approve May Revision</b>		
Budget Trailer Bill Language	<i>May Revise: Budget Trailer Bill to Direct Increased State Lottery Revenues to Purchase of Instructional Materials</i>	Governor proposes trailer bill language that specifies that any increased State Lottery revenues for public schools shall be used for purchase of instructional materials. Under current law, 50 percent of the increased Lottery revenues shall be used for instructional materials.	<b>More information needed.</b>		

Item	Issue	Description	Staff Recommendation		
6110-182-0001	<i>Governor's Budget: Augmentation for New K-12 Technology Categorical Program</i>	Governor's Budget provides \$21 million in Proposition 98 funding to county offices of education to maintain Internet 2 connectivity and network infrastructure for K-12 LEAs. If available, funds could be used to expand the program to other schools and school districts.	<b>Deny Governor's Budget Augmentation.</b>		
6110-182-0001	<i>May Revision Finance Letter: Add Budget Language for Internet 2 Item (Issue 338)</i>	May Revision requests that existing provisional language in Item 6110-182-0001 be replaced entirely with new language that specifies how the program is structured and how funds are allocated. <b>See attached language.</b>	<b>Conform Action to Funding.</b>		

Item	Issue	Description	Staff Recommendation		
6110-123-0890	<i>May Revision Finance Letter: Increased Funding Authority for Federal Comprehensive School Reform program. (Issue 157)</i>	May Revision provides increased federal funding of \$32.7 million for the Comprehensive School Reform program. This increases funding for the program to \$42.7 million, which will be available pursuant to legislation regarding the Comprehensive School Reform Program.	<b>Approve May Revision.</b>		
6110-136-0890	<i>May Revision Finance Letter: Increased Federal Title I School Improvement Funding. (Issues 158 &amp; 165)</i>	May Revision increases funding by \$28.2 million to reflect Title I School Improvement carryover funds. This increases funding for the program to \$100.6 million of which \$67.9 will be appropriated pursuant to legislation regarding district accountability. The May Revision also increases funding for Statewide System of School Support by \$2.5 million.	<b>Approve May Revision.</b>		

Item	Issue	Description	Staff Recommendation		
6110-161-0890	<i>May Revision Finance Letter: Increased Federal Special Education Funding (Issue 201 and 204)</i>	May Revision increases funding authority by \$63,673,000 to reflect an increase in the federal IDEA -Part B grant in 2004-05. Of these funds, \$31.0 million are set-aside to provide additional funding for mental health services subject to legislation.	<b>Approve May Revision.</b>		
6110-001-0001	<i>May Revision Finance Letter: Adjustments to Special Education Local Assistance (Issues 211, 212, 213, 214)</i>	May Revision makes the following changes to General Funds for Special Education program:	<b>Approve May Revision.</b>		
	Issue 211	Decreases funding by \$25.5 million to reflect a decrease in prior year growth.	<b>Approve May Revision.</b>		
	Issue 212	Increases General Funds by \$47.3 million due to a decrease in estimated Property Tax Revenues for Special Education.	<b>Approve May Revision.</b>		
	Issue 213	Decreases General Funds by \$35.4 million due to an increase in federal IDEA funds.	<b>Approve May Revision.</b>		

	Issue 214	Increases General Funds by \$38.4 million for use towards a new funding formula for non-public, non-sectarian school placements for students with exceptional needs who reside in licensed children's institutions. The revised funding formula will be developed pursuant to legislation.	<b>Approve May Revision.</b>		
Item	Issue	Description	Staff Recommendation		
	Issue 215	Adds provisional language to specify pass through of federal IDEA funds to be used to provide \$31.0 million for special education mental health services pursuant to legislation.	<b>Approve May Revision.</b>		
6110-161-0890	April Finance Letter: Adjustments to Federal Special Education Funds (Issues 200, 203)	April Finance Letter increased by a total of \$2,906,000, including \$363,000 to reflect an increase in the Capacity Building Schedule as the result of a technical error and \$2,543,000 for additional local assistance carryover authority for 2002-03 federal IDEA funds.	<b>Approve April Finance Letter.</b>		

Item	Issue	Description	Staff Recommendation		
6110-126-0890	<i>May Revision Finance Letter: Increased Carryover Authority for Federal Reading First Program (Issue 182)</i>	May Revision provides an increase of \$29.0 million, which includes a reduction of \$578,000 to align with estimated grant levels and \$29.6 million in one-time carryover funds. Carryover funds will be used to increase teachers grants to \$8,000 (from \$6,500) for teachers that agree to provide diagnostic reading assessments and remedial reading instruction to lower the number of special education referrals for students who are reading below grade level. Funds will also be used to expand Reading First grants. This Governor's January Budget provides \$145.2 million in ongoing funding for the program.	<b>More information needed.</b>		

Item	Issue	Description	Staff Recommendation		
6110-166-0890	<i>May Revision Finance Letter: (Issue 199)</i>	May Revision increases appropriation authority for Vocational Education programs by \$919,000 in order to reflect additional federal funding.	<b>Approve May Revision.</b>		

Item	Issue	Description	Staff Recommendation		
6110-113-0001	<i>May Revise Letter: Adds Mandates Language for State Assessments -- General Funds ( Issue 165)</i>	May Revision adds language to require LEAs to use General Funds provided for STAR, CAHSEE and CELDT tests in this budget item to be used first to offset any state-mandated reimbursable costs.	<b>Approve May Revision.</b>		
6110-113-0890	<i>May Revise Letter: Adds Mandates Language for State Assessments -- Federal Funds ( Issue 166)</i>	May Revision adds language to require LEAs to use federal funding provided for STAR, CAHSEE, CELDT and CAPA assessments in this budget item to be used first to offset any state-mandated reimbursable costs.	<b>Approve May Revision.</b>		
6110-107-0001	<i>LAO Proposal: Offsetting Revenues Language for K-12 Mandates: County Office of Education Oversight</i>	LAO proposes language to require that funds appropriated for county office fiscal oversight be used first to offset any state-mandated costs for such activities.	<b>Approve May Revision.</b>		
6110-104-001	<i>LAO Proposal: Offsetting Revenues Language for K-12 Mandates: Remedial Instruction</i>	LAO proposes language to require that funds appropriated for supplemental instruction be used first to offset any state-mandated costs for such activities.	<b>Approve May Revision.</b>		

Item	Issue	Description	Staff Recommendation		
6110-001-0001	<i>May Revision Finance Letter: Suspend state Physical Fitness Test report. (Issue 710)</i>	May Revision reduces funding by \$50,000 to eliminate state reporting of local physical fitness assessment results.	<p><b>Approve May Revision with substitute Budget Bill language:</b></p> <p><b>"The report required by Education Code section 60800 is not required to be printed and mailed, but shall be compiled and reported electronically."</b></p>		
6110-001-0890	<i>April Finance Letter: Increase Federal Funding Authority and Staff for School Improvement (Issue 150)</i>	April Finance Letter increases funding by \$93,000 and one Education Research and Evaluation Consultant position to process and monitor statewide assessment data for determining Adequate Yearly Progress and identifying Program Improvement schools pursuant to NCLB.	<b>Discussed on 4/26; no motion.</b>		

## OUTCOMES -- California Community Colleges

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6870-101-0001 California Community Colleges	<i>May Revision Finance Letter:</i> Provide Funding for Equalization (Issues 106 and 122)	Provides a total of \$80 million for equalization, with the caveat that the funds not be considered Program Improvement Funds	Approve May Revision with additional Budget Bill Language specifying that the allocation of funds is pursuant to legislation <b>(Approved 2-1)</b>	Conforming BBL	
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> General Fee Increase	Proposes to increase fees from \$18 per unit to \$26 per unit	Approve as Budgeted <b>(Approved 2-0)</b>	Trailer Bill Language (Ed. Code 76300) to conform	
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Baccalaureate Degree Surcharge	Proposes to charge students who have already earned a Baccalaureate degree \$50 per unit	Deny Governor's Budget Proposal <b>(Approved 2-1)</b>		4,800
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Enrollment Growth	Proposes \$121 million to provide for a 3 percent growth in student enrollments	Approve as Budgeted <b>(Approved 3-0)</b>		
6870-101-0001 California Community Colleges	<i>New Issue:</i> Enrollment Growth	Provide funding equivalent to 3.67 percent enrollment growth	Approve additional funding necessary to bring enrollment growth funding up to 3.67 percent <b>(Approved 2-0)</b>		27,000

## OUTCOMES -- California Community Colleges

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> NonCredit Instruction	Provides \$4 million to increase student enrollments in noncredit courses	Deny Governor's budget proposal and instead provide \$6 million to increase the funding rate for noncredit instruction <b>(Approved 2-1)</b>		2,000
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Partnership for Excellence	Folds funding for the <i>Partnership for Excellence Program</i> into the general apportionments budget of the community colleges with accompanying budget bill language. Committee already took action (March 22, 2004) to fold Partnership for Excellence	Deny provisional language proposed in the Governor's Budget and instead adopt compromise language (per handout) <b>(Approved 2-1)</b>	Conforming BBL	
6870-681-0001 California Community Colleges	<i>May Revision:</i> Current-year augmentation (Issue 121)	Provides an additional \$28.4 million in the current year, on a one-time basis, for scheduled maintenance, special repairs, instructional equipment, and library materials, contingent upon the consolidation of those programs into a single line item. Funds are available in the current year due to an increase in the minimum 2003-04 Prop. 98 guarantee level	Approve May Revision proposal (including the consolidation of the programs into a single line item); adopt accompanying Trailer Bill Language to appropriate the funds in the current year <b>(Approved 3-0)</b>	Trailer Bill language	

## OUTCOMES -- California Community Colleges

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Scheduled Maintenance, Special Repairs, Instructional Equipment and Library Materials	Provides a total of \$29.4 million, in the form of a block grant, to fund scheduled maintenance, special repairs, instructional equipment and library materials (\$24.9 million) and \$4.4 million to fund hazardous materials abatement	Reject Governor's proposal and appropriate \$0 from the General Fund in 2004-05 (Note: funds for this program are instead being provided in the current year, pursuant to the above issue) <b>(Approved 2-0)</b>	Retain consolidated schedule in the Budget Act with an appropriation of \$0	-29,345
6870-101-0001 California Community Colleges	<i>Governor's Budget:</i> Continuation of June Principal Apportionments Deferral	Continues the current-year deferral of expenditures by deferring \$200 million in June 2005 general apportionment payments to July of 2005	Approve as Budgeted <b>(Approved 3-0)</b>	Trailer Bill Language as proposed by DOF	

## OUTCOMES -- California Student Aid Commission

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
7980-101-0001 California Student Aid Commission	<i>Governor's Budget:</i> Reduce income ceilings for Cal Grant A and B Programs	Proposes to reduce eligibility for the Cal Grant program by decreasing the maximum amount a family can earn and still receive an award	Reject Governor's Budget and deny accompanying Trailer Bill Language which would shift how Cal Grant eligibility is determined from statute to the annual Budget Act. <b>(Approved 2-0)</b>	BBL to conform	11,200
7980-101-0001 California Student Aid Commission	<i>Governor's Budget:</i> Decrease maximum Cal Grant award for students attending private institutions	Proposes to reduce the maximum award level (from \$9,708 to \$5,482) for students attending private institutions	Reject Governor's Budget and deny accompanying Trailer Bill Language which would shift the determination of the maximum award level from statute to the annual Budget Act. <b>(Approved 2-1)</b>	BBL to conform	32,700
7980-101-0001 California Student Aid Commission	<i>May Revision:</i> Rescind Cal Grant Decoupling Proposal (Issue 004)	Rescinds Governor's original proposal and now provides funding (\$34.2 million) to ensure that Cal Grant awards will cover the proposed 14 percent fee increases at UC and CSU	Approve May Revision and deny Trailer Bill Language which would shift the determination of the public college award level from statute to the annual Budget Act <b>(Approved 3-0)</b>	BBL to conform	

## OUTCOMES -- California Student Aid Commission

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
7980-101-0001 California Student Aid Commission	<i>May Revision:</i> Reduce Number of Competitive Cal Grant Awards (Issue 001)	Reduces the number of Competitive Cal Grant awards by 5,625 (25 percent), thus limiting the number of awards available to 16,875 from the original statutory level of 22,500	Reject May Revision <b>(Approved 2-1)</b>		5,400
7980-101-0001 California Student Aid Commission	<i>Governor's Budget:</i> Reduce number of APLE warrants	Reduces number of Assumption Program of Loans for Education (APLE) warrants from 7,700 to 3,500. This proposal has no savings in the budget year and is estimated to save \$57 million beginning in 2006-07.	Reject Governor's Budget proposal <b>(Approved 2-1)</b>		
7980-101-0001 7980-101-0784 California Student Aid Commission	<i>May Revision:</i> Shifts \$134 million of funding for the Cal grant Program from the General Fund to the Student Loan Operating Fund (Issue 002)	Uses Student Loan Operating Fund reserves maintained by EdFUND (the nonprofit auxiliary organization established by the state to administer the federal guaranteed student loan program) to offset \$134 million in Cal Grant costs that would otherwise be borne by the General Fund	Reject May Revision and instead shift funding for select financial aid programs from the General Fund to the Student Loan Operating Fund, as noted below <b>(Approve 2-1)</b>		134,000

## OUTCOMES -- California Student Aid Commission

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
7980-101-0001 7980-101-0784 California Student Aid Commission	<i>New Issue:</i> Shift \$49.3 million of funding for the Cal grant Program from the General Fund to the Student Loan Operating Fund	Shift a total of \$49.3 million worth of state-funded financial aid expenditures from the state General Fund to the Student Loan Operating Fund (SLOF) to cover the costs associated with restoring the (A) Cal Grant income ceiling (\$11.2 million); (B) maximum award level for private and independent colleges (\$32.7 million); and (C) denying the Governor's May Revision proposal to decrease the number of competitive Cal Grant Awards (\$5.4 million). Further, reimbursement authority in Item 7980-101-0001 needs to be increased to	Adopt proposal and <b>MODIFIED</b> Budget Bill Language (per handout at committee) <b>(Approved 2-1)</b>	Budget Bill Language	-49,300

## OUTCOMES -- Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6120-001-0001 California State Library	<i>New Issue:</i> Sutro Library Roof Repair	Would provide \$250,000 to repair the roof of the Sutro Library building, which has been leaking and causing damage	Approve \$250,00 augmentation <b>(Approved 3-0)</b>		
6870-101-0001 6870-601-0986 California Community Colleges	<i>May Revision:</i> Local Revenue Adjustment (Issue 1132)	Offsets a reduced allocation in local property tax revenues going to community colleges pursuant to recent Governor agreement with local governments	Conforming <b>(Approved 3-0)</b>		
6870-101-0001 6870-601-0992 California Community Colleges	<i>May Revision:</i> Student Fee Revenue Adjustment (Issue 115)	Reflects an adjustment in the amount of student fee revenue expected (\$18 million less than originally budgeted) and adds a like amount of General Fund to hold campuses harmless	Approve May Revision <b>(Approved 3-0)</b>		
6870-101-0001 California Community Colleges	<i>May Revision:</i> Financial Aid (BOG Waiver) Adjustment (Issue 116)	Reflects an increase in the number of BOG fee waiver participants and increases funding for that program by \$492,000	Approve May Revision <b>(Approved 3-0)</b>		

## OUTCOMES -- Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6870-101-0959 6870-102-0959 6870-486 6870-680-0001 California Community Colleges	<i>May Revision Finance Letter:</i> Foster Parent Training Program Fund Shift (Issue 117)	Shifts both current year and budget year funding (totaling \$5.4 million) from the Foster Parent Training Fund to the Proposition 98 Reversion Account	Approve May Revision <b>(Approved 3-0)</b>	Budget Bill Language to add new items with accompanying provisional language. Plus Trailer Bill language to appropriate current-year Proposition 98 funds	
6870-111-0001 California Community Colleges	<i>May Revision Finance Letter:</i> Federal Reimbursement Adjustment (Issue 118)	Adjusts downward (by \$1 million) the amount of funding available from the federal government for the Federal Foster Parent Training program	Approve May Revision <b>(Approved 3-0)</b>		
6870-495 California Community Colleges	<i>May Revision Finance Letter:</i> Reversion of various prior-year funds to the General Fund (Issue 119)	Reverts \$9.5 million in unused prior-year funds from various community college categorical programs to the Proposition 98 reversion account for	Approve May Revision <b>(Approved 3-0)</b>		

## OUTCOMES -- Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6870-101-0001 California Community Colleges	<i>May Revision Finance Letter:</i> Cost-of-Living Adjustment (Issues 104 and 107)	Provides a total of \$106.5 million for a 2.41 percent COLA for General Apportionments; Basic Skills; EOPS/CARE; DSPS and Matriculation	Approve May Revision <b>(Approved 3-0)</b>	Conforming BBL	
6870-101-0001 California Community Colleges	<i>May Revision Finance Letter:</i> Categorical Program Growth (Issues 105 and 108)	Provides a total of \$4.3 million to fund 1.66 percent growth for following programs: Basic Skills; EOPS/CARE; DSPS and Matriculation	Approve May Revision <b>(Approved 3-0)</b>	Conforming BBL	
7980-101-0001 California Student Aid Commission	<i>May Revision Finance Letter:</i> Cal Grant Baseline Adjustments (Issue 003)	Increases funding in both the current year (\$42.6 million) and the budget year (\$31.9 million) for the continued support of the Cal Grant Entitlement Program; changes are due to revised	Approve May Revision <b>(Approved 3-0)</b>		

## A. Categorical Program Reforms

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
Budget Control Section 12.70	<i>Governor's Budget: Categorical Program Shift to Revenue Limits</i>	The Governor's Budget proposes to eliminate separate funding for 22 categorical education programs (and shift \$2 billion in funding for those programs into revenue limits in 2004-05. Funds shifted into revenue limits would be available to school districts, county offices of education and charter schools for general purposes, but could also be used to continue funding for specific, categorical program purposes if desired. Local education agencies (LEAs) would receive the same level of overall funding in 2004-05 – specifically 2003-04 funding plus growth and COLAs -- as they would have received under separate categorical program allocations.	<b>Deny Governor's Categorical Reform proposal. Eliminate Budget Control Section 12.70. Pursue categorical reform through policy legislation. (Approved 2-1)</b>		

## A. Categorical Program Reforms - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-228-0001	<i>Governor's Budget: Consolidates School Safety Programs in Budget</i>	The Governor Budget proposes to consolidate nearly \$100 million for seven separate school safety programs currently contained in three budget act items into three programs within a single budget item in 2004-05. The Governor proposes to (1) maintain separate funding for the School Safety and Violence Prevention Block Grant program (\$82.1 million) and the School Safety Plans for New Schools Program (\$3.0 million), and (2) consolidate funding for five competitive school safety programs into a new School Safety Competitive Grant program (\$14.6 million).	<b>Approve Governor's Budget with a reduction of \$2.0 million for School Safety Plans for New Schools per LAO recommendation. (Approved 3-0)</b>		

<p>6110-128-0001 &amp; 6110-601-0001</p>	<p><i>May Revision Finance Letter: General Funds for Charter Schools - Economic Impact Aid and Apportionments (Issues 074, 076)</i></p>	<p>May Revision reduces Economic Aid funding for charter schools by \$2.8 million to reflect lower estimates of charter school enrollments. In addition, the May Revision reduces charter school apportionments by \$6.3 million to reflect a revised estimate of the cost of shifting the Charter School Block Grant into revenue limits as a part of the Governor's categorical reform proposal.</p>	<p><b>Restore \$6.3 million for Charter School Block Grant to conform to denial of Governor's categorical reform proposal. (Motion to restore includes restoration of budget item with additional funds, as adjusted by DOF to conform to latest estimates. Approved 2-1)</b></p>		
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## A. Categorical Program Reforms - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
Budget Bill/Trailer Bill Language	<i>LAO Proposal: Budget Bill and/or Trailer Bill Language-- Categorical Programs in Charter School Block Grant</i>	LAO proposes language to clarify the categorical programs that are included in the Charter Schools Block Grant.	<b>Hold Open</b>		
Budget Control Section 12. 40	<i>Governor's Budget: Continues Limited Categorical Program Transfer Authority</i>	The Governor's 2004-05 budget, continues provisions of Control Section 12.40 at the 2003-04 levels – 10 percent "in" and 15 percent "out". Still referred to as mega-item flexibility, the control section lists only nine different categorical program items -- down from the 20 included in 2003-04. Control Section 12.40 excludes eleven categorical programs that the Governor proposes to consolidate and shift into revenue limits in 2004-05.	<b>Approve Governor's Budget. (Approved 3-0)</b>		

## B. Categorical Program Adjustments

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-177-0001	<i>Governor's Budget: Eliminates Funds for Local Arts Education Partnership Program</i>	Governor's Budget eliminates \$6.0 million in funding for the Local Arts Partnership program. This program provides competitive grants to LEAs to support arts education.	<b>Deny Governor's Budget. (Approved 2-1)</b>		
4400-001-0001	<i>Governor's Budget: Reduces Funds for the Early Mental Health Initiative Program (EMHI)</i>	Governor's Budget reduces funding for the Early Mental Health Initiative program by \$5.0 million -- leaving \$5.0 million in remaining funds for the program in 2004-05. EMHI is administered by the Department of Mental Health.	<b>Deny Governor's Budget. (Approved 2-0)</b>		
6110-200-0001	<i>Governor's Budget: Eliminates Funds for Healthy Start Program.</i>	Governor's Budget eliminates the remaining \$2.0 million for the Healthy Start program.	<b>Deny Governor's Budget. (Approved 2-1)</b>		
6110-163-0001	<i>Governor's Budget: Eliminates Funds for Early Intervention for School Success Program.</i>	Governor's Budget eliminates \$2.2 million in funding for the Early Intervention for School Success. This program provides competitive grants to LEAs, which are part of regional partnerships with IHEs, to provide academic assistance and services to pupils to prepare them for admission to California State University and University of California. [Note: The program is due to sunset July 1, 2005.]	<b>Approve Governor's Budget. (Approved 3-0)</b>		

## B. Categorical Program Adjustments - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-243-0001	<i>Governor's Budget: Eliminate Funding for Academics Improvement and Achievement Program</i>	Governor's Budget eliminates \$5.0 million for the Academic Improvement and Achievement program. This program provides competitive grants to LEAs, which are part of regional partnerships with IHEs, to provide academic assistance and services to pupils to prepare them for admission to California State University and University of California. [Note: The program is due to sunset July 1, 2005.]	<b>Approve Governor's Budget. (Approved 3-0)</b>		
6110-164-0001	<i>Governor's Budget: Eliminates Funds for School -to- Career Partnerships</i>	Provides grants to LEAs to support local school-to-career partnerships. [Note: Administration of this program was shifted from the Office of the Secretary for Education to CDE in 2003-04.]	<b>Deny Governor's Budget. (Approved 2-0)</b>		
6110-130-0001	<i>May Revision Finance Letter: Reduce AVID Teacher Training Program. (Issue 713)</i>	May Revision reduces funding for the AVID program by \$1,265,000 to cut funding for advanced placement teacher training. This is an effective, low-cost college preparatory program for students from disadvantaged families. The teacher training component is considered integral to the effectiveness of the program.	<b>Deny May Revision. (Approved 2-1)</b>		

## C. Emergency Loan - General Fund (Non-98)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-625-0001	<i>May Revision Finance Letter: Reimburse General Fund for Emergency Loan Repayments (Issue 055)</i>	May Revision would reimburse General Fund for loan repayments of \$167,127,000 to reflect a new proposal to issue lease-revenue bonds through the State Infrastructure Bank. These new bonds would repay the General Fund for outlays for school district emergency loans in the Oakland USD, West Contra Costa USD and Vallejo City USD (pending). This proposal will be implemented pursuant to pending legislation.	<b>More information needed.</b>	DOF developing TB to implement.	
6110-615-0001	<i>May Revision Finance Letter: Monterey Peninsula Unified School District Loan Repayment (Issue 052)</i>	May Revision reflects loan repayments in the amount of \$4,376,000 in the 2002-03 fiscal year and increased by \$1,676,000 in both 2002-03 and 2003-04 to reflect early payoff of the loan provided to the Monterey Peninsula Unified School District, pursuant to Chapter 886, Statutes of 1993. This emergency loan addressed the loss of enrollment related to military base closure.	<b>Approve May Revision. (Approved 3-0)</b>		

6110-615-0001 (Issue 052) A158	<i>May Revision Finance Letter: Local Assistance, Vallejo City Unified Schools District Emergency Loan Set -Aside (Issue 054)</i>	May Revision sets-aside \$60 million in current year funding for the impending emergency loan to the Vallejo City Unified Schools District, pending SB 1190 (Chesbro). The budget year repayment of this emergency loan, given current interest rates, is estimated at \$3,495,000.	<b>Approve May Revision. (Approved 3-0)</b>	CY	
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## D. Reversions

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-497	<i>May Revision Finance Letter: General Fund Reversions from Professional Development Institutes program. (Issue 179)</i>	May Revision reverts \$35.0 million in General Funds (Non-Prop 98) from the unexpended balance of funds appropriated by the Budget Act of 2001 for the Professional Development Institutes program. Previously administered by CDE, this program was eliminated in 2003.	<b>Approve May Revision. (Approved 3-0)</b>		
6110-495	<i>May Revision Finance Letter: Proposition 98 Reversions (Issues 0001,010, 011, 012, 013, 014, 028, 029, 159, 165, 177, 178, 179, 300, 350, and 675)</i>	May Revision proposes to revert approximately \$96 million in unexpended funds from a variety of education programs to the Proposition 98 Reversion Account in 2003-04. These amounts will be used for future expenditures for other Proposition 98 purposes. The \$96 million includes \$50 million in funds from the CSR program.	<b>Approve May Revision. (Motion to approve with language to specify "up to 96 million". Approved 3-0)</b>		
6110-496	May Revision: Adds Budget Bill Language to Provide Authority for Minimal Fund Reversions (Issue 345)	May Revision adds language to allow for the reversion of funds certified by the Superintendent of Public Instruction from program funding accounts when the amount available for reversion is \$20,000 or less.	<b>Approve May Revision with change in amount for reversion to \$50,000 or less. (Approved 3-0)</b>		

## E. Lottery Funds

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision
6110-101-0814	<i>May Revise Finance Letter: Increase in State Lottery Revenues to the Department of Education for Local Assistance to Public Schools (Issue 001)</i>	May Revision increases local assistance funding to public schools by \$13,459,000 to reflect additional, estimated State Lottery revenues. This additional funding will bring total Lottery revenues to \$806,755,000 for local schools in 2004-05.	<b>Approve May Revision (Approved 3-0)</b>		
006-0001	<i>May Revise Finance Letter: Decrease in State Lottery Revenues to the State Special Schools (Issue 001)</i>	May Revision decreases State Lottery Revenues to State Special Schools by \$6.0 million to reflect new revenue estimates and a lower allocation based upon decline in enrollment.	<b>Approve May Revision (Approved 3-0)</b>		
Budget Trailer Bill Language	<i>May Revise: Budget Trailer Bill to Direct Increased State Lottery Revenues to Purchase of Instructional Materials</i>	Governor proposes trailer bill language that specifies that any increased State Lottery revenues for public schools shall be used for purchase of instructional materials. Under current law, 50 percent of the increased Lottery revenues shall be used for instructional materials.	<b>More information needed. (Administration Rescinded Proposal)</b>	TB Language	

## F. Educational Technology -- Internet 2

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-182-0001	<i>Governor's Budget: Augmentation for New K-12 Technology Categorical Program</i>	Governor's Budget provides \$21 million in Proposition 98 funding to county offices of education to maintain Internet 2 connectivity and network infrastructure for K-12 LEAs. If available, funds could be used to expand the program to other schools and school districts.	<b>Deny Governor's Budget Augmentation. (Motion to approve Governor's Budget with language to provide first priority for connecting additional districts. Approved 2-0)</b>		
6110-182-0001	<i>May Revision Finance Letter: Add Budget Language for Internet 2 Item (Issue 338)</i>	May Revision requests that existing provisional language in Item 6110-182-0001 be replaced entirely with new language that specifies how the program is structured and how funds are allocated. <b>See attached language.</b>	<b>Conform Action to Funding. (Approved Governor's Budget language 2-0)</b>	BBL	

## G. Accountability (General Funds & Federal Funds)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-123-0890	<i>May Revision Finance Letter: Increased Funding Authority for Federal Comprehensive School Reform program. (Issue 157)</i>	May Revision provides increased federal funding of \$32.7 million for the Comprehensive School Reform program. This increases funding for the program to \$42.7 million, which will be available pursuant to legislation regarding the Comprehensive School Reform Program.	<b>Approve May Revision. (Approved 3-0)</b>	TB & Conforming provisional language.	
6110-136-0890	<i>May Revision Finance Letter: Increased Federal Title I School Improvement Funding. (Issues 158 &amp; 165)</i>	May Revision increases funding by \$28.2 million to reflect Title I School Improvement carryover funds. This increases funding for the program to \$100.6 million of which \$67.9 will be appropriated pursuant to legislation regarding district accountability. The May Revision also increases funding for Statewide System of School Support by \$2.5 million.	<b>Approve May Revision. (Approved 3-0, with updated figures per DOF)</b>	TB & Conforming provisional language.	

## H. Special Education (General Funds & Federal Funds) - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-161-0890	<i>May Revision Finance Letter: Increased Federal Special Education Funding (Issue 201 and 204)</i>	May Revision increases funding authority by \$63,673,000 to reflect an increase in the federal IDEA -Part B grant in 2004-05. Of these funds, \$31.0 million are set-aside to provide additional funding for mental health services subject to legislation.	<b>Approve May Revision. (Hold Open )</b>	TB & Conforming provisional language	
6110-161-0001	<i>May Revision Finance Letter: Adjustments to Special Education Local Assistance (Issues 211, 212, 213, 214)</i>	May Revision makes the following changes to General Funds for Special Education program:	<b>Approve May Revision. (Approved 3-0)</b>		
	Issue 211	Decreases funding by \$25.5 million to reflect a decrease in prior year growth.	<b>Approve May Revision. (Approved 3-0)</b>		
	Issue 212	Increases General Funds by \$47.3 million due to a decrease in estimated Property Tax Revenues for Special Education.	<b>Approve May Revision. (Approved 3-0)</b>		
	Issue 213	Decreases General Funds by \$35.4 million due to an increase in federal IDEA funds.	<b>Approve May Revision. (Approved 3-0)</b>		

	Issue 214	Increases General Funds by \$38.4 million for use towards a new funding formula for non-public, non-sectarian school placements for students with exceptional needs who reside in licensed children's institutions. The revised funding formula will be developed pursuant to legislation.	<b>Approve May Revision. (Approved 3-0)</b>	TB & Conforming provisional language.	
<b>H. Special Education (General Funds &amp; Federal Funds) - continued</b>					
Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
	Issue 215	Adds provisional language to specify pass through of federal IDEA funds to be used to provide \$31.0 million for special education mental health services pursuant to legislation.	<b>Approve May Revision. (Hold Open)</b>	TB & Conforming provisional language.	
6110-161-0890	April Finance Letter: Adjustments to Federal Special Education Funds (Issues 200, 203)	April Finance Letter increased by a total of \$2,906,000, including \$363,000 to reflect an increase in the Capacity Building Schedule as the result of a technical error and \$2,543,000 for additional local assistance carryover authority for 2002-03 federal IDEA funds.	<b>Approve April Finance Letter. (Approved 3-0)</b>		

## I. Title I - Reading First Program (Federal Funds)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-126-0890	<i>May Revision Finance Letter: Increased Carryover Authority for Federal Reading First Program (Issue 182)</i>	May Revision provides an increase of \$29.0 million, which includes a reduction of \$578,000 to align with estimated grant levels and \$29.6 million in one-time carryover funds. Carryover funds will be used to increase teachers grants to \$8,000 (from \$6,500) for teachers that agree to provide diagnostic reading assessments and remedial reading instruction to lower the number of special education referrals for students who are reading below grade level. Funds will also be used to expand Reading First grants. This Governor's January Budget provides \$145.2 million in ongoing funding for the program.	<b>More information needed.</b>	Conforming provisional language.	

## J. Vocational Education -- Federal Funds

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-166-0890	<i>May Revision Finance Letter: (Issue 199)</i>	May Revision increases appropriation authority for Vocational Education programs by \$919,000 in order to reflect additional federal funding.	<b>Approve May Revision.</b>		

## K. Mandates

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-113-0001	<i>May Revise Letter: Adds Mandates Language for State Assessments -- General Funds ( Issue 165)</i>	May Revision adds language to require LEAs to use General Funds provided for STAR, CAHSEE and CELDT tests in this budget item to be used first to offset any state-mandated reimbursable costs.	<b>Approve May Revision. (Approved 3-0)</b>	Conforming provisional language.	
6110-113-0890	<i>May Revise Letter: Adds Mandates Language for State Assessments -- Federal Funds ( Issue 166)</i>	May Revision adds language to require LEAs to use federal funding provided for STAR, CAHSEE, CELDT and CAPA assessments in this budget item to be used first to offset any state-mandated reimbursable costs.	<b>Approve May Revision. (Approved 3-0)</b>	Conforming provisional language.	
6110-107-0001	<i>LAO Proposal: Offsetting Revenues Language for K-12 Mandates: County Office of Education Oversight</i>	LAO proposes language to require that funds appropriated for county office fiscal oversight be used first to offset any state-mandated costs for such activities.	<b>Approve LAO Language. (Approved 3-0)</b>		
6110-104-001	<i>LAO Proposal: Offsetting Revenues Language for K-12 Mandates: Remedial Instruction</i>	LAO proposes language to require that funds appropriated for supplemental instruction be used first to offset any state-mandated costs for such activities.	<b>Approve LAO Language. (Approved 3-0)</b>		

## L. State Operations (General Funds & Federal Funds)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0001	<i>May Revision Finance Letter: Suspend state Physical Fitness Test report. (Issue 710)</i>	May Revision reduces funding by \$50,000 to eliminate state reporting of local physical fitness assessment results.	<p><b>Approve May Revision with substitute Budget Bill language:</b></p> <p><b>"The report required by Education Code section 60800 is not required to be printed and mailed, but shall be compiled and reported electronically." (Approved 3-0)</b></p>		
6110-001-0890	<i>April Finance Letter: Increase Federal Funding Authority and Staff for School Improvement (Issue 150)</i>	April Finance Letter increases funding by \$93,000 and one Education Research and Evaluation Consultant position to process and monitor statewide assessment data for determining Adequate Yearly Progress and identifying Program Improvement schools pursuant to NCLB.	<p><b>Discussed on 4/26; no motion. (Approved April Letter, 2-0)</b></p>		



Jack Scott, Chair  
Bob Margett  
John Vasconcellos

May 20, 2004  
1:30 p.m. – Room 113  
(Part 1 of 3)

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# University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-101-0001 University of California 6610-001-0001 California State University	<i>Governor's Budget:</i> Student Academic Preparation Programs (Outreach)	Governor's Budget removed all General Fund support for student outreach programs at the UC and CSU; pursuant to new "Compact" with the Administration, UC will provide \$12 million of its own resources and CSU \$45 million to continue	<b>Restore funding to Current-year level of \$85 million</b> (before mid year reductions), as follows: UC \$33 million; CSU \$52 million (Intent is to conform to the Assembly action)		85,000
6440-101-0001 University of California 6610-001-0001 California State University	<i>Governor's Budget:</i> Redirection of 10 percent of incoming freshman class to community colleges	Governor's Budget proposes to reduce enrollment levels at UC and CSU by diverting 7,000 otherwise eligible first-time freshman to the community colleges and then waive the community college fees for this student	<b>Deny Governor's proposal</b> and restore savings associated with decreasing the number of students served as follows: \$24.8 million to UC and \$21.1 to CSU		45,900

6440-101-0001 University of California 6610-001-0001 California State University	<i>Governors Budget:</i> Enrollment Growth	Governor's Budget fails to provide funding for enrollment growth at either the UC or CSU but provides 3 percent enrollment growth at the community colleges and 1.66 percent growth for K-12 apportionment and categorical programs	<b>Provide enrollment growth</b> equivalent to the percent change in the high school graduating class (2.33 percent), for an increased funding level of \$34.4 million at UC and \$44.39 million at CSU		78,790
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# University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-001-0001 University of California 6610-001-0001 California State University	<i>New Issue:</i> Specify UC and CSU enrollment levels in Budget Act	The Governor's Budget proposes to provide funding to support 187,062 general campus and summer session students at UC and 341,587 undergraduate, graduate and summer session enrollments at CSU. Given mid-year reductions and CSU's shift of enrollment	<b>Adopt Budget Bill Language</b> (per handout) stating intent of Legislature that a specified number of students be enrolled at UC and CSU in the 2004-05 academic year	BBL	
6440-101-0001 University of California 6610-001-0001 California State University	<i>New Issue:</i> Cost-Of-Living Adjustment (COLA)	Governor's Budget fails to provide funding for a cost-of-living-adjustment for UC and CSU or to otherwise account for price increases in goods and services, while providing a 2.41 percent statutorily-required COLA for K-14	<b>Provide additional General Fund</b> equivalent to a 2.41 percent increase, which is equivalent to \$69.1 million at UC and \$63.4 million at CSU. (Intent is to conform to Assembly Action)		132,500
6440-101-0001 University of California	<i>Governors Budget:</i> Institute for Labor Studies	Governor's Budget eliminates all funding for the Institute for Labor Studies while reducing funding for state-funded research by \$11.6	<b>Provide additional \$3.8 million</b> in General Fund to backfill reduction in program		3,800

# University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-101-0001 University of California 6610-001-0001 California State University	<i>May Revision:</i> CSU Graduate Student Fees	May Revision reduced downward from 40 percent, the level of proposed fee increases for graduate students as follows: 20 percent increase at UC; 25 percent increase at CSU; and 20 percent increasing for teacher	In order to provide consistency, <b>approve a 20 percent fee increase</b> for CSU graduate students and provide \$4.1 million General Fund support to "backfill" the lost		4,100
6440-101-0001 University of California	<i>May Revision:</i> Professional Student Fee Increase (UC)	Governor's Budget reduced state support for professional school instruction which has the direct impact of increasing student fees by approximately 30 percent (per UC).	In order to provide consistency, <b>approve a 20 percent fee increase</b> for UC professional school students and provide \$20 million General Fund to "backfill" the lost revenue		20,000

# University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-101-0001 University of California 6610-001-0001 California State University	<i>Governors Budget/May Revision:</i> Excess Unit Fee (Issue 003)	Governor's Budget proposes that UC and CSU charge the full cost of instruction to students who have exceeded (by 110 percent) the number of units needed to graduate. The Administration believes this proposal would result in \$33.7 million in revenue (\$24.4 million at UC and \$9.3 million at CSU)	<b>Approve May Finance letter</b> which revised downwards, the revenue estimates for UC and provided an additional \$8.2 million GF.  <b>Augment by \$25.5 million</b> to "backfill" the remaining lost revenue at UC (\$1.1 million) and CSU (\$24.4 million)		25,500
6440-101-0001 University of California 6610-001-0001 California State University	<i>Governors Budget:</i> Campus-Based Financial Aid	Governor's Budget reduces from 33 percent to 20 percent the amount of student fee revenue that is set aside for campus-based financial aid programs.	<b>Provide \$45.9 million General Fund</b> to keep campus financial aid budgets at the original 33 percent return-to-aid level (\$25.6 million UC; \$3.5 million UC professional schools; \$16.8 million CSU)		45,900

# University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6600-001-0001 Hastings College of Law	<i>New Issue:</i> Additional support for Hastings College of Law	Additional funding to provide COLA and decrease law school fees to 20 percent increase	<b>Conforming to prior action</b> -- provide \$2.8 million to increase professional school fees by 20 percent		2,800
6440-001-0001 University of California	<i>Governors Budget:</i> University of California, Merced	Governor's budget provides a total of \$20 million General Fund for start-up costs associated with the new Merced campus; additional bond funding is proposed for facilities construction	<b>Deny Governor's Budget</b> proposal and provide \$0 to support UC Merced start-up costs; approve capital outlay proposal, as budgeted		-20,000

## Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-001-0001 University of California	<i>May Revision Finance Letter:</i> Technical Adjustment related to undergraduate student fees (Issue 001)	Provides additional General Fund to correct a calculation error in the number of full-time equivalent students	<b>Approve May Revision.</b>		
6440-001-0001 University of California	<i>May Revision Finance Letter:</i> Technical Adjustment related to graduate student fees (Issue 002)	Provides additional General Fund to correct a calculation error in the number of full-time equivalent students	<b>Approve May Revision.</b>		
6440-001-0001 University of California	<i>May Revision Finance Letter:</i> Technical Adjustment related to proposed outreach reduction (Issue 004)	Provides additional General Fund to correct an error in the amount of university funds already	<b>Approve May Revision.</b>		
6440-001-3054 University of California	<i>May Revision Finance Letter:</i> Technical Adjustment related to Health Care Benefit Expenditures (Issue 001)	Adds item and appropriates \$3.2 million pursuant to statute	<b>Approve May Revision.</b>		
6610-001-0001 California State University	<i>May Revision Finance Letter:</i> Technical Adjustment related to undergraduate student fees (Issue 001)	Provides additional General Fund to correct a calculation error in number of full-time equivalent students	<b>Approve May Revision.</b>		
6610-301-6041 6610-493 California State University	<i>May Revision Finance Letter:</i> Capital Outlay Changes	Increase project costs for California Maritime Academy acquisition project and systemwide minor capital outlay projects and add item to	<b>Approve May Revision.</b>		

## Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6610-301-6041 6610-302-6041 California State University	<i>May Revision Finance Letter:</i> Capital Outlay Changes	Shift following two projects from "streamlined" capital outlay process to "conventional" process: Dominguez Hills	<b>Approve May Revision.</b>		
6870-101-0001 California Community Colleges	<i>Technical Adjustment:</i> Board of Governor's (BOG) Fee Waivers	Decrease funding for BOG fee waivers by \$418,893 to account for the decreased need for financial aid due to the	<b>Approve Reduction</b>		-0,419

## **6440-001-0001 University of California**

### *Add New Provision:*

The Amount appropriated in Schedule (1) includes funding for the University of California to enroll 211,907 full time equivalent students (FTES), which represents 2.33 percent (5,079 FTES) above the budgeted enrollment provided in the Budget Act of 2003. The Legislature expects the University to enroll this number of FTES during the 2004-05 academic year. The University shall report to the Legislature by April 15, 2005 on whether it has met the 2004-05 enrollment goal. If it does not meet this goal, the Director of Finance shall revert to the General Fund the total amount of enrollment funding associated with the share of the enrollment goal that was not met.

## **6610-001-0001 California State University**

### *Add New Provision:*

The Amount appropriated in Schedule (1) includes funding for the California State University to enroll 329,380 full time equivalent students (FTES), which represents 2.33 percent (7,413 FTES) above the budgeted enrollment provided in the Budget Act of 2003. The Legislature expects the University to enroll this number of FTES during the 2004-05 academic year. The University shall report to the Legislature by April 15, 2005 on whether it has met the 2004-05 enrollment goal. If it does not meet this goal, the Director of Finance shall revert to the General Fund the total amount of enrollment funding associated with the share of the enrollment goal that was not met.

# OUTCOMES -- University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-101-0001 University of California 6610-001-0001 California State University	<i>Governor's Budget:</i> Student Academic Preparation Programs (Outreach)	Governor's Budget removed all General Fund support for student outreach programs at the UC and CSU; pursuant to new "Compact" with the Administration, UC will provide \$12 million of its own resources and CSU \$45 million to continue operating these programs	Restore funding to Current-year level of <del>\$85</del> \$81 million (before mid year reductions), as follows: UC <del>\$33</del> \$29 million; CSU \$52 million. Intent is to conform to the Assembly action. <b>(Approved 2-1)</b>		85,000
6440-101-0001 University of California 6610-001-0001 California State University	<i>Governor's Budget:</i> Redirection of 10 percent of incoming freshman class to community colleges	Governor's Budget proposes to reduce enrollment levels at UC and CSU by diverting 7,000 otherwise eligible first-time freshman to the community colleges and then waive the community college fees for this student population.	<b>Deny Governor's proposal</b> and restore savings associated with decreasing the number of students served as follows: \$24.8 million to UC and \$21.1 to CSU <b>(Approved 2-1)</b>		45,900

6440-101-0001 University of California 6610-001-0001 California State University	<i>Governors Budget:</i> Enrollment Growth	Governor's Budget fails to provide funding for enrollment growth at either the UC or CSU but provides 3 percent enrollment growth at the community colleges and 1.66 percent growth for K-12 apportionment and categorical programs	Provide enrollment growth equivalent to the percent change in the high school graduating class (2.33 percent), for an increased funding level of \$34.4 million at UC and \$44.39 million at CSU <b>(Approved 2-1)</b>		78,790
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# OUTCOMES -- University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-001-0001 University of California 6610-001-0001 California State University	<i>New Issue:</i> Specify UC and CSU enrollment levels in Budget Act	The Governor's Budget proposes to provide funding to support 187,062 general campus and summer session students at UC and 341,587 undergraduate, graduate and summer session enrollments at CSU. Given mid-year reductions and CSU's shift of enrollment growth funding to cover cuts in academic preparation programs, these enrollment numbers no longer appear valid.	Adopt Budget Bill Language (per handout) stating intent of Legislature that a specified number of students be enrolled at UC and CSU in the 2004-05 academic year <b>(Approved 2-0)</b>	BBL	
6440-101-0001 University of California 6610-001-0001 California State University	<i>New Issue:</i> Cost-Of-Living Adjustment (COLA)	Governor's Budget fails to provide funding for a cost-of-living-adjustment for UC and CSU or to otherwise account for price increases in goods and services, while providing a 2.41 percent statutorily-required COLA for K-14 education	Provide additional General Fund equivalent to a 2.41 percent increase, which is equivalent to \$69.1 million at UC and \$63.4 million at CSU. Intent is to conform to Assembly Action. <b>(Approved 2-1)</b>		132,500
6440-101-0001 University of California	<i>Governors Budget:</i> Institute for Labor Studies	Governor's Budget eliminates all funding for the Institute for Labor Studies while reducing funding for state-funded research by \$11.6 million or 5 percent.	Provide additional \$3.8 million in General Fund to backfill reduction in program <b>(Approved 2-1)</b>		3,800

# OUTCOMES -- University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-101-0001 University of California	<i>May Revision:</i> CSU Graduate Student Fees	May Revision reduced downward from 40 percent, the level of proposed fee increases for graduate students as follows: 20 percent increase at UC; 25 increase percent at CSU; and 20 percent increasing for teacher credentialing candidates at the CSU	In order to provide consistency, approve a 20 percent fee increase for students at UC and CSU (teacher credentialing students) <b>(Approved 2-0)</b>		
6610-001-0001 California State University		Same As Above	Decrease graduate student fees at CSU by 5 percent (from 25 percent to 20 percent) and provide \$4.1 million General Fund support to "backfill" the lost revenue <b>(Approved 2-1)</b>		4,100

6440-101-0001 University of California	<i>May Revision:</i> Professional Student Fee Increase (UC)	Governor's Budget reduced state support for professional school instruction which has the direct impact of increasing student fees by approximately 30 percent (per UC).	In order to provide consistency, approve a 20 percent fee increase for UC professional school students and provide \$20 million General Fund to "backfill" the lost revenue <b>(Approved 2-1)</b>		20,000
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# OUTCOMES -- University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-101-0001 University of California 6610-001-0001 California State University	<i>Governors Budget/May Revision: Excess Unit Fee (Issue 003)</i>	Governor's Budget proposes that UC and CSU charge the full cost of instruction to students who have exceeded (by 110 percent) the number of units needed to graduate. The Administration believes this proposal would result in \$33.7 million in revenue (\$24.4 million at UC and \$9.3 million at CSU)	Approve May Finance letter which revised downwards, the revenue estimates for UC and provided an additional \$8.2 million GF. <b>(Approved 3-0)</b> Augment by \$25.5 million to "backfill" the remaining lost revenue at UC (\$1.1 million) and CSU (\$24.4 million) <b>(Approved 2-1)</b>		25,500
6440-101-0001 University of California 6610-001-0001 California State University	<i>Governors Budget: Campus-Based Financial Aid</i>	Governor's Budget reduces from 33 percent to 20 percent the amount of student fee revenue that is set aside for campus-based financial aid programs.	Provide \$45.9 million General Fund to keep campus financial aid budgets at the original 33 percent return-to-aid level (\$25.6 million UC; \$3.5 million UC professional schools; \$16.8 million CSU) <b>(Approved 2-1)</b>		45,900

# OUTCOMES -- University of California and California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6600-001-0001 Hastings College of Law	<i>New Issue:</i> Additional support for Hastings College of Law	Additional funding to <del>provide COLA</del> and decrease law school fees to 20 percent increase	Conforming to prior action -- provide \$2.8 million to increase professional school fees by 20 percent <b>(Approved 2-1)</b>		2,800
6440-001-0001 University of California	<i>Governors Budget:</i> University of California, Merced	Governor's budget provides a total of \$20 million General Fund for start-up costs associated with the new Merced campus; additional bond funding is proposed for facilities construction	Deny Governor's Budget proposal and provide \$0 to support UC Merced start-up costs; approve capital outlay proposal, as budgeted <b>(Approved 2-1)</b>		-20,000
6440-001-0001 University of California	<i>New Issue (in committee):</i> UC Supplemental Reporting Language	Adopt Supplemental Report Language pursuant to handout in committee	<b>(Approved 3-0)</b>		
6440-001-0001 University of California 6610-001-0001 California State University	<i>New Issue (in committee):</i> UC and CSU Undergraduate Student Fee Increases	UC Board of Regents and CSU Board of Trustees approved fee increases of 14 percent for undergraduate students	Provided \$24 million to UC and \$21.2 million to CSU to "backfill" lost fee revenue in order to reduce undergraduate fee increase to 10 percent level <b>(Approved 2-1)</b>		

## OUTCOMES -- Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-001-0001 University of California	<i>May Revision Finance Letter:</i> Technical Adjustment related to undergraduate student fees (Issue 001)	Provides additional General Fund to correct a calculation error in the number of full-time equivalent students (FTES) upon whom the fee would be assessed	<b>Conforming (Approved 3-0)</b>		
6440-001-0001 University of California	<i>May Revision Finance Letter:</i> Technical Adjustment related to graduate student fees (Issue 002)	Provides additional General Fund to correct a calculation error in the number of full-time equivalent students (FTES) upon whom the fee would be assessed	<b>Approve May Revision (Approved 3-0)</b>		
6440-001-0001 University of California	<i>May Revision Finance Letter:</i> Technical Adjustment related to proposed outreach reduction (Issue 004)	Provides additional General Fund to correct an error in the amount of university funds already provided for the program	<b>Approve May Revision (Approved 3-0)</b>		
6440-001-3054 University of California	<i>May Revision Finance Letter:</i> Technical Adjustment related to Health Care Benefit Expenditures (Issue 001)	Adds item and appropriates \$3.2 million pursuant to statute	<b>Approve May Revision (Approved 3-0)</b>		
6610-001-0001 California State University	<i>May Revision Finance Letter:</i> Technical Adjustment related to undergraduate student fees (Issue 001)	Provides additional General Fund to correct a calculation error in number of full-time equivalent students (FTES) upon whom the fee would be assessed	<b>Conforming (Approved 3-0)</b>		
6610-301-6041 6610-493 California State University	<i>May Revision Finance Letter:</i> Capital Outlay Changes	Increase project costs for California Maritime Academy acquisition project and systemwide minor capital outlay projects and add item to reappropriate funds from 2002 capital outlay bond fund	<b>Approve May Revision (Approved 3-0)</b>		

## OUTCOMES -- Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6610-301-6041 6610-302-6041 California State University	<i>May Revision Finance Letter:</i> Capital Outlay Changes	Shift following two projects from "streamlined" capital outlay process to "conventional" process: Dominguez Hills Education Resource Center and Long Beach Peterson Hall 3	<b>Approve May Revision (Approved 3-0)</b>		
6870-101-0001 California Community Colleges	<i>Technical Adjustment:</i> Board of Governor's (BOG) Fee Waivers	Decrease funding for BOG fee waivers by \$418,893 to account for the decreased need for financial aid due to the committee's rejection of \$50 differential fee	<b>Approve Reduction (Approved 3-0)</b>		-0,419

Jack Scott, Chair  
Bob Margett  
John Vasconcellos



May 20, 2004  
1:30 p.m. – Room 113  
(Part 2 of 3)

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## Child Care

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0001 6110-001-0890 California Department of Education	<i>May Revision:</i> Child Care Anti-Fraud Initiative (Issue 361)	Governor's budget included \$2 million in federal funds to address child care fraud; as part of the May Revision, the Governor proposes an additional \$1.6 million (for a total of \$3.6 million) to hire fraud investigators at the county level throughout the state and support 5.5 positions within the	<b>Approve May Revision letter as it pertains to positions at the CDE to conduct compliance reviews of child care programs</b>		0,000
6110-196-0001 California Department of Education	<i>Governor's Budget:</i> <u>Proposed Reform</u> -- Shift 11- and 12-year old children to after school programs	Discussed at May 10, 2004 hearing; Administration proposes to shift 11- and 12-year olds to after school programs where available. Note: Consent item adjusts the amount of monetary savings the Administration	<b>Deny Governor's Budget Proposal</b>		36,200
6110-196-0001 California Department of Education	<i>Governor's Budget:</i> <u>Proposed Reform</u> -- Implement a tiered income eligibility system	Discussed at May 10, 2004 hearing; Administration proposes to decrease the income eligibility ceilings for families to receive subsidized child care in all counties statewide except the Bay Area (Santa Clara, San Francisco, Marin and San Mateo). Shifts annual income adjustment index from State Median Income (SMI) to the	<b>Deny Governor's Budget Proposal</b>		8,900

## Child Care

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-196-0001 California Department of Education	<i>Governor's Budget: Proposed Reform</i> -- Family Fees	Discussed at May 10, 2004 hearing; Administration proposes to decrease the income level at which families are assessed fees and increase the amount of their income that they can pay in fees annually (from 8 percent to 10	<b>Deny Governor's Budget Proposal</b>		28,500
6110-196-0001 California Department of Education	<i>Governor's Budget: Proposed Reform</i> -- Tiered Reimbursement Rate Schedule	Discussed at May 10, 2004 hearing; Administration proposes a six-tiered reimbursement rate structure that reimburses providers anywhere between the 40th and 85th percentile of the Regional Market Rate depending on the licensure and training of the provider as well as whether or not the provider cares for	<b>Deny Governor's Budget Proposal</b>		44,800
6110-196-0001 California Department of Education	<i>Governor's Budget/May Revision: Proposed Reform</i> -- Limit services for CalWORKS stage 3 child care and shift current Stage 3 caseload to AP Programs (Issue 360)	Limits Stage 3 child care services to one year (in addition to CalWORKS recipient's two years in Stage 2). Families currently in Stage 3 would (under the May Revision proposal) be "grandfathered in" and shifted to the Alternative Payment Provider program. CalWORKS recipients would be allowed to sign up on	<b>Deny Governor's Budget Proposal</b>		0,000

6110-196-0001 California Department of Education	<u>Governor's Budget: Proposed Reform-- Eligibility for Nonworking Parents</u>	Limits eligibility for parents in vocational/education programs to two years. Families would be given an additional two-years worth of education/training upon implementation of the proposal.	<b>Deny Governor's Budget Proposal</b>		0,000
<b>After School Programs</b>					
<b>Item</b>	<b>Issue</b>	<b>Description</b>	<b>Staff Recommendation</b>	<b>BBL/TB</b>	<b>Compare to May Revision (000's)</b>
6110-197-0890 California Department of Education	<i>May Revision:</i> Increased funds for 21st Century Community Learning Centers (Issue 354)	Increases the amount of funding available for the federal 21st Century Community Learning Centers program by \$61.8 million due primarily to a \$60 million increase in the amount of funds reallocated to the state from the federal government. Administration further proposes budget bill language which would specify that services to 11 and 12-year olds displaced	<b>Approve appropriation of dollars for program; deny language placing emphasis on enrolling 11- and 12-year olds</b>		
6110-197-0890 California Department of Education	<i>May Revision:</i> Carryover -- 21st Century Community Learning Centers (Issue 362)	Augments funding for the program by \$25.4 million to reflect one-time influx of funds into the programs due primarily to carry-over funds; proposes that funding be spent based on specific priorities	<b>Approve augmentation with revised budget bill language deleting references to increasing slots for 11- and 12-year olds</b>		

<p>6110-196-0001 California Department of Education</p>	<p><i>May Revision:</i> State After School Education and Safety Program (Issue 369)</p>	<p>Adds Budget Bill Language allowing the Superintendent of Public Instruction to waive the existing programmatic funding caps for elementary, middle and junior high to create additional "slots" for 11- and 12-year old children, consistent with Governor's child care reform proposal</p>	<p><b>Deny May Revision; language not necessary due to committee's action to deny Governor's Child Care reform proposal directed at 11- and 12-year olds</b></p>		
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## Vote Only

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0890 California Department of Education	May Revision: 21st Century Learning Centers State Operations (Issue 351)	Adds \$283,000 in federal funds to support 4.0 positions to administer the expanding program	<b>Approve May Revision</b>		
6110-196-0001 California Department of Education	<i>May Revision:</i> Provider administrative rates (Issue 350)	<b>Clarifies</b> 2003-04 enacted child care reform to limit the amount of funding available for child care provider administrative costs	<b>Approve May Revision</b>		

## Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-196-0001 6110-196-0890 California Department of Education	<i>May Revision:</i> Update CalWORKS child care caseload estimates (Issue 358)	Decreases funding for both CalWORKS Stage 2 (\$54 million) and Stage 3 (\$45 million) child care services based on revised monthly caseload estimates	<b>Approve May Revision</b>		
6110-196-0001 6110-196-0890 California Department of Education	<i>May Revision:</i> Technical adjustment to child care reform savings (Issue 363)	Increases funding (\$14.3 million P-98; \$18 million federal funds) to adjust the amount of savings anticipated from Governor's proposal to shift 11- and 12-year olds to after school programs	<b>Approve May Revision</b>		
6110-196-0001 6110-196-0890 California Department of Education	<i>May Revision:</i> Adjustment to child care reform savings due to caseload changes (Issue 373)	Increases both P-98 funds and federal TANF funds to account for the effect of revised caseload figures on the estimated savings due to proposed child care reforms	<b>Approve May Revision</b>	conforming provisional language	
6110-196-0001 6110-196-0001 California Department of Education	<i>May Revision:</i> Child care carryover issues (Issue 374)	Increases expenditures from carryover funds by \$5.4 million to reflect revised estimates of funds available; makes these fund available for stage 2 CalWORKS child care	<b>Approve May Revision</b>	conforming provisional language	
6110-494 6110- 196-0890 California Department of Education	<i>May Revision:</i> Child care carryover issues (Issue 365)	Deletes prior expenditure authority due to DOF estimation that carryover funds will not materialize	<b>Approve May Revision</b>	conforming provisional language	

## Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-494 California Department of Education	<i>May Revision:</i> Reappropriation for CalWORKS Stage 2 Child Care (Issue 367)	Accounts for increased 2003-04 Stage 3 savings (\$18.6 million) and reappropriates those funds for Stage 2 in 2004-05 budget; requires that prior proposal to reappropriate \$15 million in estimated savings for Stage 2 be	<b>Approve May Revision</b>	conforming provisional language	
6110-494 6110-196-0001 California Department of Education	<i>May Revision:</i> Reappropriation for CalWORKS Stage 2 Child Care (Issue 366 and 368)	Deletes proposal to reappropriate \$15 million in estimated current year savings for Stage 2 CalWORKS child care in 2004-05 (see above issue)	<b>Approve May Revision</b>	conforming provisional language	
6110-196-0001 6110-196-0890 California Department of Education	<i>May Revision:</i> Shift funding between P-98 and federal TANF for CalWORKS Stage 3 (Issue 364)	Decreases the amount of funding for child care from Proposition 98 by \$27.3 million and instead uses a like-amount of prior-year federal CCDF (Child Care Development Block Grant program) funds	<b>Approve May Revision</b>	conforming provisional language	

## OUTCOMES -- Child Care

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0001 6110-001-0890 California Department of Education	<i>May Revision:</i> Child Care Anti-Fraud Initiative (Issue 361)	Governor's budget included \$2 million in federal funds to address child care fraud; as part of the May Revision, the Governor proposes an additional \$1.6 million (for a total of \$3.6 million) to hire fraud investigators at the county level throughout the state and support 5.5 positions within the Department of Education.	Approve May Revision letter as it pertains to positions at the CDE to conduct compliance reviews of child care programs <b>(Approved 2-0)</b>		0,000
6110-196-0001 California Department of Education	<i>Governor's Budget:</i> <u>Proposed Reform</u> -- Shift 11- and 12-year old children to after school programs	Discussed at May 10, 2004 hearing; Administration proposes to shift 11- and 12-year olds to after school programs where available. Note: Consent item adjusts the amount of monetary savings the Administration expects to reap from this proposal	Deny Governor's Budget Proposal <b>(Approved 2-1)</b>		36,200

6110-196-0001 California Department of Education	<u>Governor's Budget: Proposed Reform</u> -- Implement a tiered income eligiblity system	Discussed at May 10, 2004 hearing; Administration proposes to decrease the income eligibility ceilings for families to receive subsidized child care in all counties statewide except the Bay Area (Santa Clara, San Francisco, Marin and San Mateo). Shifts annual income adjustment index from State Median Income (SMI) to the California Necessities Index (CNI)	Deny Governor's Budget Proposal <b>(Approved 2-1)</b>		8,900
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## OUTCOMES -- Child Care

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-196-0001 California Department of Education	<i>Governor's Budget: <u>Proposed Reform</u> -- Family Fees</i>	Discussed at May 10, 2004 hearing; Administration proposes to decrease the income level at which families are assessed fees and increase the amount of their income that they can pay in fees annually (from 8 percent to 10 percent)	Deny Governor's Budget Proposal <b>(Approved 2-1)</b>		28,500
6110-196-0001 California Department of Education	<i>Governor's Budget: <u>Proposed Reform</u> -- Tiered Reimbursement Rate Schedule</i>	Discussed at May 10, 2004 hearing; Administration proposes a six-tiered reimbursement rate structure that reimburses providers anywhere between the 40th and 85th percentile of the Regional Market Rate depending on the licensure and training of the provider as well as whether or not the provider cares for private-pay children	Deny Governor's Budget Proposal <b>(Approved 2-1)</b>		44,800
6110-196-0001 California Department of Education	<i>Governor's Budget/May Revision: <u>Proposed Reform</u>-- Limit services for CalWORKS stage 3 child care and shift current Stage 3 caseload to AP Programs (Issue 360)</i>	Limits Stage 3 child care services to one year (in addition to CalWORKS recipient's two years in Stage 2). Families currently in Stage 3 would (under the May Revision proposal) be "grandfathered in" and shifted to the Alternative Payment Provider program. CalWORKS recipients would be allowed to sign up on general child care wait lists	Deny Governor's Budget Proposal <b>(Approved 2-1)</b>		0,000

6110-196-0001 California Department of Education	<u>Governor's Budget: Proposed Reform-- Eligibility for Nonworking Parents</u>	Limits eligibility for parents in vocational/education programs to two years. Families would be given an additional two-years worth of education/training upon implementation of the proposal.	Deny Governor's Budget Proposal <b>(Approved 2-1)</b>		0,000
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## OUTCOMES -- After School Programs

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-197-0890 California Department of Education	<i>May Revision:</i> Increased funds for 21st Century Community Learning Centers (Issue 354)	Increases the amount of funding available for the federal 21st Century Community Learning Centers program by \$61.8 million due primarily to a \$60 million increase in the amount of funds reallocated to the state from the federal government. Administration further proposes budget bill language which would specify that services to 11 and 12-year olds displaced by the child care reforms receive priority.	Approve appropriation of dollars for program <b>(Approved 3-0)</b> ; Deny language placing emphasis on enrolling 11- and 12-year olds <b>(Approved 2-1)</b>		
6110-197-0890 California Department of Education	<i>May Revision:</i> Carryover -- 21st Century Community Learning Centers (Issue 362)	Augments funding for the program by \$25.4 million to reflect one-time influx of funds into the programs due primarily to carry-over funds; proposes that funding be spent based on specific priorities	Approve May Revision augmentation <b>(Approved 3-0)</b> ; revised budget bill language deleting references to increasing slots for 11- and 12-year olds <b>(Approved 2-1)</b>		

<p>6110-196-0001 California Department of Education</p>	<p><i>May Revision:</i> State After School Education and Safety Program (Issue 369)</p>	<p>Adds Budget Bill Language allowing the Superintendent of Public Instruction to waive the existing programmatic funding caps for elementary, middle and junior high to create additional "slots" for 11- and 12-year old children, consistent with Governor's child care reform proposal</p>	<p>Deny May Revision; language not necessary due to committee's action to deny Governor's Child Care reform proposal directed at 11- and 12- year olds (<b>Approved 2-1</b>)</p>		
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## OUTCOMES -- Vote Only

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0890 California Department of Education	May Revision: 21st Century Learning Centers State Operations (Issue 351)	Adds \$283,000 in federal funds to support 4.0 positions to administer the expanding program	Approve May Revision <b>(Approved 2-0)</b>		
6110-196-0001 California Department of Education	<i>May Revision:</i> Provider administrative rates (Issue 350)	<b>Clarifies</b> 2003-04 enacted child care reform to limit the amount of funding available for child care provider administrative costs	Approve May Revision <b>(Approved 3-0)</b>		

## OUTCOMES -- Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-196-0001 6110-196-0890 California Department of Education	<i>May Revision:</i> Update CalWORKS child care caseload estimates (Issue 358)	Decreases funding for both CalWORKS Stage 2 (\$54 million) and Stage 3 (\$45 million) child care services based on revised monthly caseload estimates	Approve May Revision <b>(Approved 3-0)</b>		
6110-196-0001 6110-196-0890 California Department of Education	<i>May Revision:</i> Technical adjustment to child care reform savings (Issue 363)	Increases funding (\$14.3 million P-98; \$18 million federal funds) to adjust the amount of savings anticipated from Governor's proposal to shift 11- and 12-year olds to after school programs	Approve May Revision <b>(Approved 3-0)</b>		
6110-196-0001 6110-196-0890 California Department of Education	<i>May Revision:</i> Adjustment to child care reform savings due to caseload changes (Issue 373)	Increases both P-98 funds and federal TANF funds to account for the effect of revised caseload figures on the estimated savings due to proposed child care reforms	Approve May Revision <b>(Approved 3-0)</b>	conforming provisional language	
6110-196-0001 6110-196-0001 California Department of Education	<i>May Revision:</i> Child care carryover issues (Issue 374)	Increases expenditures from carryover funds by \$5.4 million to reflect revised estimates of funds available; makes these fund available for stage 2 CalWORKS child care	Approve May Revision <b>(Approved 3-0)</b>	conforming provisional language	
6110-494 6110-196-0890 California Department of Education	<i>May Revision:</i> Child care carryover issues (Issue 365)	Deletes prior expenditure authority due to DOF estimation that carryover funds will not materialize	Approve May Revision <b>(Approved 3-0)</b>	conforming provisional language	

## OUTCOMES -- Consent

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-494 California Department of Education	<i>May Revision:</i> Reappropriation for CalWORKS Stage 2 Child Care (Issue 367)	Accounts for increased 2003-04 Stage 3 savings (\$18.6 million) and reappropriates those funds for Stage 2 in 2004-05 budget; requires that prior proposal to reappropriate \$15 million in estimated savings for Stage 2 be deleted (see below)	Approve May Revision <b>(Approved 3-0)</b>	conforming provisional language	
6110-494 6110-196-0001 California Department of Education	<i>May Revision:</i> Reappropriation for CalWORKS Stage 2 Child Care (Issue 366 and 368)	Deletes proposal to reappropriate \$15 million in estimated current year savings for Stage 2 CalWORKS child care in 2004-05 (see above issue)	Approve May Revision <b>(Approved 3-0)</b>	conforming provisional language	
6110-196-0001 6110-196-0890 California Department of Education	<i>May Revision:</i> Shift funding between P-98 and federal TANF for CalWORKS Stage 3 (Issue 364)	Decreases the amount of funding for child care from Proposition 98 by \$27.3 million and instead uses a like-amount of prior-year federal CCDF (Child Care Development Block Grant program) funds	Approve May Revision <b>(Approved 3-0)</b>	conforming provisional language	



Jack Scott, Chair  
Bob Margett  
John Vasconcellos

## K-12 EDUCATION and COMMISSION ON TEACHER CREDENTIALING AGENDA

May 20, 2004  
1:30 p.m. – Room 113

### PART 3 OF 3

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## A. Commission on Teacher Credentialing

Item	Issue	Description	Staff Recommendation	BBL/TB
6360-001-0407	<i>May Revision Finance Letter: Restoration of Staff to Address Credentials Backlog (Issue 192)</i>	May Revision increases state operations funding by \$200,000 and 2.0 positions to assist CTC in addressing a credential processing backlog. <b>Insert.</b>	<b>Staff recommends restoration of 4.0 positions and \$400,000 in the CAW Division.</b>	Add provisional language to conform.
6360-001-0407	<i>May Revision Finance Letter: Reimbursement Authority for Anticipated Revenue from Accreditation Fees (Issue 193)</i>	May Revision decreases expenditures in this item and increases expenditure authority by \$200,000 to accommodate anticipated revenues from charging UC, CSU, and private colleges for the costs of program accreditation.	<b>Deny May Revision</b>	TB?
6360-001-0407	<i>May Revision Finance Letter: Provide Carryover Authority for Cultural Competency Study (Issue 192)</i>	May Revision increases state operations reimbursement authority by \$42,000 to allow for carryover of funding provided in the Budget Act of 2003 for the cultural competency study required by Chapter 817; Statutes of 2003.	<b>Approve May Revision.</b>	

## A. Commission on Teacher Credentialing - continued

Item	Issue	Description	Staff Recommendation	BBL/TB
6360-001-0407	<i>May Revision Finance Letter: Provide Carryover Authority of TCSIP Funding (Issue 202)</i>	May Revision provides carryover authority of \$120,000 for Teacher Service Improvement Project (TCSIP) funding to allow CTC to contract for intensive training in Siebel to ensure their ability to maintain and service this new information technology system once the project is complete.	<b>Approve May Revision.</b>	Add provisional language making expenditure of funding contingent upon DOF approval of an expenditure plan.
6360-101-0001	<i>Governor's Budget: Elimination of funding for Pre-Internship Teaching Program.</i>	The Governor's Budget proposes to eliminate \$10,387,000 in funding for the Pre-Internship Teaching Program in 2004-05. Pre-Internship teachers do not meet the definition of "highly qualified" teacher under the NCLB, which becomes effective at the end of 2005-06. There are currently 1,750 first year teachers who need a second year of the program and who are not eligible for the Intern Program.	<b>Revise Governor's Budget and restore \$3.5 million to continue program for 1,750 second year teachers one more year.</b>	

## B. Governor's Education Agreement -- PERS & UI Increases

Item	Issue	Description	Staff Recommendation	BBL/TB
Non-Budget Item	<i>Governor's Budget: PERS Offset Funding for LEAs</i>	Governor's Budget provides an augmentation of \$106 million to cover an offset adjustment for PERS funding for classified employees. Recent reductions to the PERS rate are estimated to free-up \$140.7 million for school districts and county offices of education. This results in a net reduction of approximately \$35 million in 2004-05, instead of an increase of \$106.0 million as estimated in the Governor's January Budget.	<b><u>Adopt Governor's Budget with changes to reflect the most recent changes in the PERS rate.</u></b>	
Non-Budget Item	<i>Governor's Budget: Unemployment Insurance Funding for LEAs</i>	Governor's Budget provides \$136 million augmentation to cover Unemployment Insurance increases for LEAs.	<b>Approve Governor's Budget.</b>	

## C. Other PERS Issues in the Governor's Budget

Item	Issue	Description	Staff Recommendation	BBL/TB
Non-Budget Item	<i>Governor's Budget:</i>	Governor's Budget provides \$36 million to mitigate the PERS offset for school districts and county offices of education.	<b>Approve Governor's Budget.</b>	
Budget Trailer Bill	<i>Governor's Budget: Language to Cap the PERS Offset</i>	Governor proposes budget trailer bill language to cap the state's liability for the PERS offset at 13.02 percent.	<b>Deny Governor's</b>	
Budget Trailer Bill	<i>Governor's Budget: Language to Correct Reference Disallowing Avoidance of PERS Offset for JPS's</i>	Governor proposes budget trailer bill language to clarify existing law to assure that the PERS offset covers Joint Powers Agreements (JPAs).	<b>Approve Governor's Budget Trailer Bill Language.</b>	

## D. Governor's Education Agreement -- Deficit Reduction

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-601 0001 & 6110-608-0001	<i>April Finance Letter: Increase Funding to Reduce Revenue Limit Deficit Factor (Issue 051)</i>	April Finance Letter increases funding by \$270.0 million to reduce the deficit factor applied to school district and county office of education revenue limits. It is estimated that these adjustments will reduce the 2003-04 base deficit factor from approximately 1.2 percent to approximately .3 percent. This change will be made through trailer bill language.	<b>Approve April Finance Letter. Adopt Governor's Trailer Bill language.</b>	Governor proposes TB to conform to partially restore deficit reduction and extend deficit factor language through 2005-06.

## E. Governor's Education Agreement -- Equalization

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-601-0001	<i>May Revise Finance Letter: Increase Funding for Revenue Limit Equalization (Issue 077)</i>	May Revision increases equalization funding by \$27.7 million above the \$82.2 million proposed by the April Finance Letter. The Governor's May Revision proposal brings equalization funding to a total of \$110 million in 2004-05, which is the same as the Governor's January Budget. Equalization funds would be allocated pursuant to legislation (SB 1298/Brulte).	<b>Deny May Revision &amp; Governor's Budget.</b>	TB SB 1298 (Brulte)

## F. Governor's Education Agreement -- Instructional Materials & Deferred Maint

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-189-0001	<i>May Revise Letter: Partial Restoration of Instructional Materials Block Grant Funds (Issue 674)</i>	May Revision augments funding for instructional materials by \$100 million, and continues to shift another \$175 million in existing instructional materials funding to revenue limits as a part of the Governor's proposed categorical reform proposal. The augmentation partially restores the \$188 million that was proposed by the Governor in January and subsequently eliminated by an April Finance Letter.	<b>Revise May Revision to add \$85.0 million for Instructional Materials. Adopt language to direct the additional \$85.0 million to schools in the lowest two deciles of the API.</b>	
6110-188-0001	<i>May Revise Letter: Partial Restoration of Deferred Maintenance Program Funding (Issue 664)</i>	May Revision augments funding for deferred maintenance by \$107.1 million, bringing total funding for the program to \$184.1 million in 2004-05. The January budget originally proposed \$250 million.	<b>Revise May Revision to add \$66.2 million for Deferred Maintenance.</b>	

## G. Governor's Education Agreement -- Growth & COLA - General Fund (Pro

Item	Issue	Description	Staff Recommendation	BBL/TB
Various Items	<i>May Revision Finance Letter: K-12 Growth Adjustments, Local Assistance(Various Issues)</i>	May Revision includes a decrease of \$110,280,000 as a result of the less than anticipated growth in average daily attendance for revenue limit and categorical programs. January Budget growth estimates of 1.02 percent have dropped to 0.95 percent. Includes programs that receive statutory and discretionary growth. See attached chart.	<b>Approve May Revision.</b>	
Various Items	<i>May Revision Finance Letter: K-12 Cost-of-Living Adjustment (COLAs) for Local Assistance Programs. (Various Issues)</i>	May Revision includes an augmentation of \$253,214,000 associated with an increase in the COLA rate for K-12 revenue limit and categorical programs from 1.84 percent to 2.41 percent. Includes funding for programs that receive statutory and discretionary COLAs.	<b>Approve May Revision.</b>	
6110-202-0001	<i>May Revision Finance Letter: Growth and Cost-of-Living Adjustments for Child Nutrition Programs. (Issue 741 &amp; 742)</i>	May Revision increases funding for Child Nutrition programs by a total of \$353,000, which provides a 0.95 percent increase for growth (\$99,000) and a 2.41 percent increase for COLA (\$254,000).	<b>Approve May Revision.</b>	
6110-202-0001	<i>May Revision Finance Letter: Increase Growth &amp; COLA Funding for Child Nutrition Programs (Issues 741 &amp; 742)</i>	May Revision increases funding for Child Nutrition programs by \$353,000 to provide a growth adjustment of 0.95 percent (\$99,000) and a COLA factor of 2.41 percent (\$254,000).	<b>Approve May Revision.</b>	

## G. Governor's Education Agreement -- Growth & COLA - General Fund (Proposed) continued

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-232-0001	<i>May Revision Finance Letter: No Additional COLA Funding for High School Class Size Reduction Program (Issue 001)</i>	May Revision provides no change in funding for the 2.41 percent COLA due to a decrease in program participation. The per-pupil funding rate for the program is adjusted from \$183 to \$184 to reflect the COLA change.	<b>Approve May Revision.</b>	
6110-234-0001	<i>May Revision Finance Letter: No Change in Funding for K-3 Class Size Reduction program. (Issue 001)</i>	May Revision provides no change in funding for the 2.41 percent COLA due to a decrease in program participation. The per-pupil funding rate for the Option One program is adjusted from \$923 to \$928 and for Option Two from \$461 to \$464 to reflect the COLA change.	<b>Approve May Revision.</b>	

## H. Basic Aid

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-609-0001 & Control Section 12.75	<i>May Revision: Reduction Basic Aid District Categorical Programs</i>	May Revision reduces funding by \$2.6 million for Basic Aid districts from Proposition 98 categorical funds appropriated in this act that would otherwise be allocated to basic aid school districts, in accordance with legislation enacted prior to January 1, 2005. Funding reductions are commensurate with 0.323 percent deficit to district revenue limits. The LAO estimates the savings to equal \$3.3 million in 2004-05, using a somewhat different calculation than DOF.	<b>Approve May Revision. Adopt Control Section 12.74 and Governor's budget trailer bill language.</b>	Add Budget Control Section 12.75. Governor proposes budget trailer bill to conform to reduction.

## I. Reappropriations of General Fund (Prop 98) Reversions

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-485 and 6110-605-0001	May Revise Letter: Additional Appropriations from the Prop 98 Reversion Account (Issues 026, 027, 028, 029, 071, 349, 659, and 680)	May Revision adds two, one-time appropriations from the Proposition 98 Reversion Account. (1) \$95.1 million augmentation for K-4 school library materials; (2) \$7.7 million augmentation to continue the Charter School Facilities Grant Program one more year. The Governor's January Budget provided \$4.2 million for school libraries and proposed to eliminate funding for the Charter Schools Facilities Grant program.	<b>Approve May Revision to provide \$7.7 million for the Charter Schools Facilities Grant program. Revise May Revision to provide \$25.0 million for school library materials and \$500,000 for the electronic learning assessment resources review (see item below).</b>	
6110-113-0890	<i>Legislative Proposal; Funding for CDE Review of Electronic Assessment Resources</i>	Requests \$500,000 in Proposition 98 Reversion funds for a CDE review of electronic assessment resources to assist school districts to utilize existing assessment data to directly address curriculum strategies, target pupil instruction and analyze data. Funding would be authorized pursuant to pending legislation.	<b>Approve \$500,000 from Proposition 98 Reversion Funds -- conforms to recommendation above.</b>	TB

## I. Reappropriations of General Fund (Prop 98) Reversions - continued

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-485 and 6110-605-0001	<i>Governor's Budget: Appropriations from the Prop 98 Reversion Account</i>	The Governor's 2004-05 budget also proposes using \$144.4 million in one-time Proposition 98 Reversion Account funds to restore funding for some programs subject to deferred appropriations schedules. Of this amount, \$98.1 million fully restores funding for the Targeted Instructional Improvement Grant program, which was deferred from 2003-04 to 2004-05, and \$46.3 million partially restores appropriations from the School Safety Program that were deferred from 2004-05 to 2005-06.	<b>Approve Governor's Budget.</b>	

## J. Assessment (General Funds & Federal Funds)

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-113-0001	<i>May Revision Finance Letter: Increase General Funds for High School Exit Exam (Issue 164 )</i>	May Revision increases funding by \$127,000 for an additional 1,494 pupils to take the California High School Exit Exam.	<b>Approve May Revision.</b>	
6110-113-0890	<i>May Revision Finance Letter: Increase Federal Funding for Assessment Review and Reporting (Issue 167 )</i>	May Revision increases federal Title VI funding by \$200,000 for analyses of the STAR, CAHSEE, CELDT assessments and for other reporting purposes under NCLB.	<b>Approve May Revision.</b>	
6110-113-0890	<i>May Revision Finance Letter: Provide Carryover Authority for Federal Funds for CSIS Program (Issue 183)</i>	May Revision increases item by \$721,000 to provide one-time carryover authority for the California School Information Services (CSIS) program to reimburse districts for the issuance of student identifiers. The carryover authority will allow them to complete all remaining identifiers in 2004-05.	<b>Approve May Revision.</b>	Conforming provisional language.
6110-113-0890	<i>April Finance Letter: Federal Funds Adjustments for State Assessments</i>	April Finance Letter makes the following adjustments:	See Below:	

	Issue 152	<p><b>California English Language Development Test Contract</b>—Increases funding by \$563,000 for the purpose of making a technical adjustment to align program funding with current contract requirements. This request would restore the funding level to fully fund the contract for this program.</p>	<p><b>Approve April Finance Letter</b></p>	<p>Conforming provisional language.</p>
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## J. Assessment (General Funds & Federal Funds) - continued

Item	Issue	Description	Staff Recommendation	BBL/TB
	Issue 153	<p><b>California English Language Development Test Apportionment</b>—Increases funding by \$2,493,000 for apportionment funding to accommodate the additional 498,600 pupils projected to take the California English Language Development Test in 2004-05.</p>	<p><b>Approve April Finance Letter</b></p>	
	Issue 155	<p><b>Standardized Testing and Reporting (STAR) Item Development</b>—Increases funding by \$535,000 to ensure there are sufficient test items for the STAR exam. CDE will begin to publicly release 25 percent of the test items used in the most recent California Standards Tests, requiring the continuous development of new items.</p>	<p><b>Approve April Finance Letter</b></p>	<p>Conforming provisional language.</p>
	Issue 156	<p><b>STAR Restoration Funds</b>—Increases funding by \$450,000 to restore STAR pre-test workshops and the STAR Technical Assistance Center that was reduced as part of the General Fund unallocated reduction to the various testing programs in 2003-04.</p>	<p><b>Approve April Finance Letter</b></p>	

## J. Assessment (General Funds & Federal Funds) - continued

Item	Issue	Description	Staff Recommendation	BBL/TB
	Issue 179	<b>Local Assistance for the California School Information Services (CSIS)</b> —Increases funding by \$2,246,000 to provide \$1,947,000 for the first of two years of funding for local implementation costs of a new CSIS cohort and \$299,000 for CSIS central operations for hardware and software to accommodate the new cohort.	<b>Deny April Letter.</b>	Conforming provisional language.
6110-113-0001 & 6110-113-0890	<i>CDE Proposal: Swap State and Federal Funding for the CELDT Assessment</i>	CDE requests language to switch funding for the CELDT assessment between state and federal budget items in order to assure the timely expenditure of federal funds. There is no impact on the amount of funding available for CELDT.	<b>Approve CDE request.</b>	

## K. Child Nutrition -- Federal Funds

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0001	<i>CDE Proposal: Increased Federal Funding and Positions for Child Nutrition State Operations</i>	The Department of Education has requested authority to spend \$1.942 million in new and existing federal funds in 2004-05 to expand state administrative activities for its federal nutrition programs. As a part of this request, CDE is requesting approval of 15 additional positions in the Nutrition Services Division to improve state-level monitoring and technical assistance to local agencies participating in federal child nutrition programs in 2004-05. California will receive approximately \$1.6 billion in federal funding from USDA for these child nutrition programs in 2004-05.	<b>Approve CDE requests for \$1.9 million and 15 positions.</b>	

## L. Deferrals

Item	Issue	Description	Staff Recommendation	BBL/TB
??	<i>May Revise Finance Letter: Increases Current Year Prop 98 Funds to Buyout and Reduction Continuing Apportionment Deferrals</i>	May Revise increases 2003-04 funding by \$270 million to buy-out deferrals of principal apportionment payments commenced in 2002-03 to achieve budget savings in that year. The Governor proposes to increase the Proposition 98 Guarantee by \$270 million in 2003-04 and to expend increased funds to reduce ongoing deferrals of revenue limit and categorical programs.	<b>Approve May Revision. Approve Governor's trailer bill language.</b>	Governor proposes trailer bill language to use additional Prop 98 funds in 2003-04 to buyout P2 deferrals.
Various Items	<i>Governor's Budget: Continues P-2 Apportionment Deferrals in 2004-05.</i>	In 2004-05, the Governor proposes to continue the deferral of most of the second principal (P2) apportionments (revenue limits and categorical programs) that were first deferred in the 2003-04 as a budget savings measure. There is strong agreement among CDE, DOF and LAO that there are problems with the P2 apportionment deferral process that need to be corrected in trailer bill language. These problems stem from the difficulty in utilizing revenue limit apportionments to meet a specific budget target.	<b>Approve Governor's Budget. Adopt Governor's trailer bill language.</b>	Governor proposes budget trailer bill to revise P2 deferrals mechanism to match an amount certain in the budget.

## M. Continuous Appropriations -- Local Government Agreement

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-601-0986	<i>May Revision: Local Government Allocation (Issue 333)</i>	May Revision reduces property tax allocations by \$3,393,428,000 to reflect adjustments to the estimated property tax revenue allocated to K-12 districts.	<b>Conform to Legislative Action on Local Government Finance</b>	
6110-602-0986	<i>May Revision: Local Government Allocation (Issue 333)</i>	May Revision reduces property tax allocations by \$53,293,000 to reflect adjustments to the estimated property tax revenue allocated to county offices of education.	<b>Conform to Legislative Action on Local Government Finance</b>	
6110-603-0986	<i>May Revision: Local Government Allocation (Issue 333)</i>	May Revision reduces property tax allocations by \$47,311,000 to reflect adjustments to the estimated property tax revenue allocated to special education programs.	<b>Conform to Legislative Action on Local Government Finance</b>	
6110-608-0001	<i>May Revision: Local Government Allocation -- County Offices of Education (Issue 332)</i>	May Revision increases property tax allocations by \$53,293,000 to offset changes to local property tax allocations to county offices of education.	<b>Conform to Legislative Action on Local Government Finance</b>	
6110-608-0001	<i>May Revision: Local Government Allocation -- School Districts (Issue 073)</i>	May Revision increases property tax allocations by \$3,393,428,000 to offset changes to local property tax allocations to school districts.	<b>Conform to Legislative Action on Local Government Finance</b>	

## N. Continuous Appropriations -- Current Year

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-610-0001	<i>May Revision: Adjustments to County Office of Education Apportionments -- Current Year. (Issues 332 &amp; 342)</i>	May Revision decreases item by a total of \$1,227,000 and reflects a decrease of \$12,220,000 for baseline changes to local property tax estimates and an increase of \$10,993,000 for revised growth estimates.	<b>Approve May Revision.</b>	
6110-608-0001	<i>May Revision: Adjustments to School District Apportionments -- Current Year. (Issues 066 &amp; 075)</i>	May Revision: Adjustments to School District Apportionments reflects an increase of \$34,482,000 in revised local revenue offsets, which is offset by a decrease of \$76,884,000 due to revised estimates of ADA, costs of the PERS offset, UI reimbursements and other changes. The total change nets to a decrease in General Fund commitments of \$42,402,000.	<b>Approve May Revision.</b>	

## O. Open Issues

Item	Issue	Description	Staff Recommendation	BBL/TB
<b>1. Charter Schools -- Categorical Block Grant Language</b>				
Budget Bill/Trailer Bill Language	<i>LAO Proposal: Budget Bill and/or Trailer Bill Language-- Categorical Programs in Charter School Block Grant</i>	LAO proposes language to clarify the categorical programs that are included in the Charter Schools Block Grant.	<b>Approve LAO trailer bill language.</b>	
<b>2. Emergency Loan - General Fund (Non-98)</b>				
6110-625-0001	<i>May Revision Finance Letter: Reimburse General Fund for Emergency Loan Repayments (Issue 055)</i>	May Revision would reimburse General Fund for loan repayments of \$167,127,000 to reflect a new proposal to issue lease-revenue bonds through the State Infrastructure Bank. These new bonds would repay the General Fund for outlays for school district emergency loans in the Oakland USD, West Contra Costa USD and Vallejo City USD (pending). This proposal will be implemented pursuant to pending legislation.	<b>Approve General Fund savings in 2004-05 per the Governor's proposal, but refer trailer bill language to policy committee.</b>	DOF developing trailer bill to implement.

## O. Open Issues - Continued

Item	Issue	Description	Staff Recommendation	BBL/TB
<b>3. Special Education -- General Funds and Federal Funds</b>				
6110-161-0890	<i>May Revision Finance Letter: Increased Federal Special Education Funding (Issue 201 and 204)</i>	May Revision increases funding authority by \$63,673,000 to reflect an increase in the federal IDEA -Part B grant in 2004-05. Of these funds, \$31.0 million are passed through to provide additional funding for mental health services subject to legislation.	<b>Approve May Revision.</b>	TB & Conforming provisional language
6110-161-0001	Issue 215	Adds provisional language to specify pass through of federal IDEA funds to be used to provide \$31.0 million for special education mental health services pursuant to legislation.	<b>Approve May Revision. Adopt LAO recommendation to shift \$400,000 of the funds appropriated for LCI/NPS formula to the Extraordinary Cost Pool.</b>	TB & Conforming provisional language.

## O. Open Issues - Continued

Item	Issue	Description	Staff Recommendation	BBL/TB
<b>4. Title I -- Reading First Program (Federal Funds)</b>				
6110-126-0890	<i>May Revision Finance Letter: Increased Carryover Authority for Federal Reading First Program (Issue 182)</i>	May Revision provides an increase of \$29.0 million, which includes a reduction of \$578,000 to align with estimated grant levels and \$29.6 million in one-time carryover funds. Carryover funds will be used to increase teachers grants to \$8,000 (from \$6,500) for teachers that agree to provide diagnostic reading assessments and remedial reading instruction to lower the number of special education referrals for students who are reading below grade level. Funds will also be used to expand Reading First grants. This Governor's January Budget provides \$145.2 million in ongoing funding for the program.	<b>Approve May Revision.</b>	Conforming provisional language.
<b>5. Title I -- Comprehensive School Improvement Program ( Federal Fund</b>				
6110-123-0890	<i>May Revision Finance Letter: Increased Funding Authority for Federal Comprehensive School Reform program. (Issue 157)</i>	May Revision provides increased federal funding of \$32.7 million for the Comprehensive School Reform program. This increases funding for the program to \$42.7 million, which will be available pursuant to legislation regarding the Comprehensive School Reform Program.	<b>Approve May Revision with corrections to reflect available funds.</b>	TB & Conforming provisional language.

## P. Budget Trailer Bill Language & Control Sections

Item	Issue	Description	Staff Recommendation	BBL/TB
	In Lieu Language			
	Kindergarten Readiness			

## Q. Other Issues

Item	Issue	Description	Staff Recommendation	BBL/TB
6110	Legislative Request -- General Fund, State Operations -- One-Time Funding for Human Rights and Genocide Curriculum	Request to provide \$250,000 for the purpose of having CDE distribute a model curriculum regarding the issue of human rights and genocide. The model curriculum on human rights and genocide covers by grade level various curriculum strands in the areas of Human Rights and Genocide including the Armenian, Ukrainian, Jewish, Polish, Argentine, Cambodian, South African genocide and/or human rights violations. Also included in the model curriculum are broader strands covering human rights. The last budget appropriation for this model curriculum was in the 1999-2000 State Budget for a reprint of the document (not distribution).		Adopt proposed trailer bill language to conform to action.
Trailer Bill Language	Legislative Request -- Trailer Bill Language to Require DOF to Refinance Emergency Loan Upon Request of the District	Request to adopt trailer bill language to amend Section 414714 of the Education Code to require DOF to refinance (currently law is permissive) an emergency loan upon request of the district.		Adopt proposed trailer bill language to conform to action.

## Q. Other Issues - continued

Item	Issue	Description	Staff Recommendation	BBL/TB
Various Budget Items	Senate Request: Proposition 98 Balancer	Appropriates Proposition 98 funds that : (1) are within the amount available under the Governor's Budget in 2004-05, and (2) have not been appropriated for other purposes by Subcommittee #1, and use these funds to augment funding for the High Priority Schools program for schools in Decile 2.		

Item	Issue	Description	Staff Recommendation	BBL/TB	
6360-001-0407	<i>May Revision Finance Letter: Restoration of Staff to Address Credentials Backlog (Issue 192)</i>	May Revision increases state operations funding by \$200,000 and 2.0 positions to assist CTC in addressing a credential processing backlog. <b>Insert.</b>	<b>Staff recommends restoration of 4.0 positions and \$400,000 in the CAW Division. (Approved 2-1)</b>	Add provisional language to conform.	
6360-001-0407	<i>May Revision Finance Letter: Reimbursement Authority for Anticipated Revenue from Accreditation Fees (Issue 193)</i>	May Revision decreases expenditures in this item and increases expenditure authority by \$200,000 to accommodate anticipated revenues from charging UC, CSU, and private colleges for the costs of program	<b>Deny May Revision (Approved 2-0)</b>	TB?	
6360-001-0407	<i>May Revision Finance Letter: Provide Carryover Authority for Cultural Competency Study (Issue 192)</i>	May Revision increases state operations reimbursement authority by \$42,000 to allow for carryover of funding provided in the Budget Act of 2003 for the cultural competency study required by Chapter 817; Statutes	<b>Approve May Revision. (Approved 3-0)</b>		

Item	Issue	Description	Staff Recommendation	BBL/TB
6360-001-0407	<i>May Revision Finance Letter: Provide Carryover Authority of TCSIP Funding (Issue 202)</i>	May Revision provides carryover authority of \$120,000 for Teacher Service Improvement Project (TCSIP) funding to allow CTC to contract for intensive training in Siebel to ensure their ability to maintain and service this new information technology system once the project is complete.	<b>Approve May Revision. (Approved 3-0)</b>	Add provisional language making expenditure of funding contingent upon DOF approval of an expenditure plan.
6360-101-0001	<i>Governor's Budget: Elimination of funding for Pre-Internship Teaching Program.</i>	The Governor's Budget proposes to eliminate \$10,387,000 in funding for the Pre-Internship Teaching Program in 2004-05. Pre-Internship teachers do not meet the definition of "highly qualified" teacher under the NCLB, which becomes effective at the end of 2005-06. There are currently 1,750 first year teachers who need a second year of the program and who are not eligible	<b>Revise Governor's Budget and restore \$3.5 million to continue program for 1,750 second year teachers one more year. (Approved 2-1)</b>	

Item	Issue	Description	Staff Recommendation	BBL/TB
Non-Budget Item	<i>Governor's Budget: PERS Offset Funding for LEAs</i>	Governor's Budget provides an augmentation of \$106 million to cover an offset adjustment for PERS funding for classified employees. Recent reductions to the PERS rate are estimated to free-up \$140.7 million for school districts and county offices of education. This results in a net reduction of approximately \$35 million in 2004-05, instead of an increase of \$106.0 million as estimated in the Governor's <del>Leases Budget</del>	<u>Adopt Governor's Budget with changes to reflect the most recent changes in the PERS rate.</u> <b>(Approved 3-0)</b>	
Non-Budget Item	<i>Governor's Budget: Unemployment Insurance Funding for LEAs</i>	Governor's Budget provides \$136 million augmentation to cover Unemployment Insurance increases for LEAs.	<b>Approve Governor's Budget. (Approved 3-0)</b>	

Item	Issue	Description	Staff Recommendation	BBL/TB
Non-Budget Item	<i>Governor's Budget:</i>	Governor's Budget provides \$36 million to mitigate the PERS offset for school districts and county offices of education.	<b>Approve Governor's Budget. (Approved 3-0)</b>	
Budget Trailer Bill	<i>Governor's Budget: Language to Cap the PERS Offset</i>	Governor proposes budget trailer bill language to cap the state's liability for the PERS offset at 13.02 percent.	<b>Deny Governor's (Approved 2-1)</b>	
Budget Trailer Bill	<i>Governor's Budget: Language to Correct Reference Disallowing Avoidance of PERS Offset for JPS's</i>	Governor proposes budget trailer bill language to clarify existing law to assure that the PERS offset covers Joint Powers Agreements (JPAs).	<b>Approve Governor's Budget Trailer Bill Language. (Approved 3-0)</b>	

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-601 0001 & 6110-608-0001	<i>April Finance Letter: Increase Funding to Reduce Revenue Limit Deficit Factor (Issue 051)</i>	April Finance Letter increases funding by \$270.0 million to reduce the deficit factor applied to school district and county office of education revenue limits. It is estimated that these adjustments will reduce the 2003-04 base deficit factor from approximately 1.2 percent to approximately .3 percent. This change will be made through trailer bill language.	<b>Approve April Finance Letter. Adopt Governor's Trailer Bill language. (Approved 2-1)</b>	Governor proposes TB to conform to partially restore deficit reduction and extend deficit factor language through 2005-06.

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-601-0001	<i>May Revise Finance Letter: Increase Funding for Revenue Limit Equalization (Issue 077)</i>	May Revision increases equalization funding by \$27.7 million above the \$82.2 million proposed by the April Finance Letter. The Governor's May Revision proposal brings equalization funding to a total of \$110 million in 2004-05, which is the same as the Governor's January Budget. Equalization funds would be allocated pursuant to legislation (SB 1298/Brulte).	<b>Deny May Revision &amp; Governor's Budget.</b> <b>(Approved 2-1)</b>	TB SB 1298 (Brulte)

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-189-0001	<i>May Revise Letter: Partial Restoration of Instructional Materials Block Grant Funds (Issue 674)</i>	May Revision augments funding for instructional materials by \$100 million, and continues to shift another \$175 million in existing instructional materials funding to revenue limits as a part of the Governor's proposed categorical reform proposal. The augmentation partially restores the \$188 million that was proposed by the Governor in January and subsequently eliminated by an April Finance Letter.	<b>Revise May Revision to add \$85.0 million for Instructional Materials. Adopt language to direct the additional \$85.0 million to schools in the lowest two deciles of the API.</b> <b>(Approved 2-1)</b>	
6110-188-0001	<i>May Revise Letter: Partial Restoration of Deferred Maintenance Program Funding (Issue 664)</i>	May Revision augments funding for deferred maintenance by \$107.1 million, bringing total funding for the program to \$184.1 million in 2004-05. The January budget originally proposed \$250 million.	<b>Revise May Revision to add \$66.2 million for Deferred Maintenance.</b> <b>(Approved 2-1)</b>	

Item	Issue	Description	Staff Recommendation	BBL/TB
Various Items	<i>May Revision Finance Letter: K-12 Growth Adjustments, Local Assistance(Various Issues)</i>	May Revision includes a decrease of \$110,280,000 as a result of the less than anticipated growth in average daily attendance for revenue limit and categorical programs. January Budget growth estimates of 1.02 percent have dropped to 0.95 percent. Includes programs that receive statutory and discretionary growth. See	<b>Approve May Revision. (Approved 3-0)</b>	
Various Items	<i>May Revision Finance Letter: K-12 Cost-of-Living Adjustment (COLAs) for Local Assistance Programs. (Various Issues)</i>	May Revision includes an augmentation of \$253,214,000 associated with an increase in the COLA rate for K-12 revenue limit and categorical programs from 1.84 percent to 2.41 percent. Includes funding for programs that receive statutory and discretionary COLAs.	<b>Approve May Revision. ACTIONS: (1) Reduce COLA from 2.41 to 2.2 percent (Failed 1-0). (2) Approve May Revision (Approved 3-0).</b>	
6110-202-0001	<i>May Revision Finance Letter: Growth and Cost-of-Living Adjustments for Child Nutrition Programs. (Issue 741 &amp; 742)</i>	May Revision increases funding for Child Nutrition programs by a total of \$353,000, which provides a 0.95 percent increase for growth (\$99,000) and a 2.41 percent increase for COLA (\$254,000).	<b>Approve May Revision. (Approved 3-0)</b>	

6110-202-0001	<i>May Revision Finance Letter: Increase Growth &amp; COLA Funding for Child Nutrition Programs (Issues 741 &amp; 742)</i>	May Revision increases funding for Child Nutrition programs by \$353,000 to provide a growth adjustment of 0.95 percent (\$99,000) and a COLA factor of 2.41 percent (\$254,000).	<b>Approve May Revision. (Approved 3-0)</b>		
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Item	Issue	Description	Staff Recommendation	BBL/TB
6110-232-0001	<i>May Revision Finance Letter: No Additional COLA Funding for High School Class Size Reduction Program (Issue 001)</i>	May Revision provides no change in funding for the 2.41 percent COLA due to a decrease in program participation. The per-pupil funding rate for the program is adjusted from \$183 to \$184 to reflect the COLA change.	<b>Approve May Revision. (Approved 3-0)</b>	
6110-234-0001	<i>May Revision Finance Letter: No Change in Funding for K-3 Class Size Reduction program. (Issue 001)</i>	May Revision provides no change in funding for the 2.41 percent COLA due to a decrease in program participation. The per-pupil funding rate for the Option One program is adjusted from \$923 to \$928 and for Option Two from \$461 to \$464 to reflect the COLA change.	<b>Approve May Revision. (Approved 3-0)</b>	

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-609-0001 & Control Section 12.75	<i>May Revision: Reduction Basic Aid District Categorical Programs</i>	May Revision reduces funding by \$2.6 million for Basic Aid districts from Proposition 98 categorical funds appropriated in this act that would otherwise be allocated to basic aid school districts, in accordance with legislation enacted prior to January 1, 2005. Funding reductions are commensurate with 0.323 percent deficit to district revenue limits. The LAO estimates the savings to equal \$3.3 million in 2004-05, using a somewhat different calculation than DOE.	<b>Approve May Revision. Adopt Control Section 12.74 and Governor's budget trailer bill language. (Approved 3-0)</b>	Add Budget Control Section 12.75. Governor proposes budget trailer bill to conform to reduction.

Item	Issue	Description	Staff Recommendation	BBL/TB	
6110-485 and 6110-605-0001	May Revise Letter: Additional Appropriations from the Prop 98 Reversion Account (Issues 026, 027, 028, 029, 071, 349, 659, and 680)	May Revision adds two, one-time appropriations from the Proposition 98 Reversion Account. (1) \$95.1 million augmentation for K-4 school library materials; (2) \$7.7 million augmentation to continue the Charter School Facilities Grant Program one more year. The Governor's January Budget provided \$4.2 million for school libraries and proposed to eliminate funding for the Charter Schools Facilities Grant program.	<p><b>Approve May Revision to provide \$7.7 million for the Charter Schools Facilities Grant program.</b></p> <p><b>Revise May Revision to provide \$25.0 million for school library materials and \$500,000 for the electronic learning assessment resources review (see item below).</b></p> <p><b>ACTIONS: (1) May Revise for Charter Schools Facilities Grants Funds (Approved 3-0); (2) May Revise for School Libraries (Failed 1-0); (3)</b></p>		
6110-113-0890	<i>Legislative Proposal; Funding for CDE Review of Electronic Assessment Resources</i>	Requests \$500,000 in Proposition 98 Reversion funds for a CDE review of electronic assessment resources to assist school districts to utilize existing assessment data to directly address curriculum strategies, target pupil instruction and analyze data. Funding would be authorized pursuant to pending legislation.	<p><b>Approve \$500,000 from Proposition 98 Reversion Funds -- conforms to recommendation above. (See action above)</b></p>	TB	

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-485 and 6110-605-0001	<i>Governor's Budget: Appropriations from the Prop 98 Reversion Account</i>	The Governor's 2004-05 budget also proposes using \$144.4 million in one-time Proposition 98 Reversion Account funds to restore funding for some programs subject to deferred appropriations schedules. Of this amount, \$98.1 million fully restores funding for the Targeted Instructional Improvement Grant program, which was deferred from 2003-04 to 2004-05, and \$46.3 million partially restores appropriations from the School Safety Program that were deferred from 2004-05 to 2005-06.	<b>Approve Governor's Budget. (Approved 3-0)</b>	

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-113-0001	<i>May Revision Finance Letter: Increase General Funds for High School Exit Exam (Issue 164 )</i>	May Revision increases funding by \$127,000 for an additional 1,494 pupils to take the California High School Exit Exam.	<b>Approve May Revision. (Approved 3-0)</b>	
6110-113-0890	<i>May Revision Finance Letter: Increase Federal Funding for Assessment Review and Reporting (Issue 167 )</i>	May Revision increases federal Title VI funding by \$200,000 for analyses of the STAR, CAHSEE, CELDT assessments and for other reporting purposes under NCLB.	<b>Approve May Revision. (Approved 3-0)</b>	
6110-113-0890	<i>May Revision Finance Letter: Provide Carryover Authority for Federal Funds for CSIS Program (Issue 183)</i>	May Revision increases item by \$721,000 to provide one-time carryover authority for the California School Information Services (CSIS) program to reimburse districts for the issuance of student identifiers. The carryover authority will allow them to complete all remaining identifiers in 2004-05.	<b>Approve May Revision. (Approved 3-0)</b>	Conforming provisional language.
6110-113-0890	<i>April Finance Letter: Federal Funds Adjustments for State Assessments</i>	April Finance Letter makes the following adjustments:	See Below:	

	Issue 152	<p><b>California English Language Development Test Contract</b>—Increases funding by \$563,000 for the purpose of making a technical adjustment to align program funding with current contract requirements. This request would restore the funding level to fully fund the contract for this program</p>	<p><b>Approve April Finance Letter (Approved 3-0)</b></p>	<p>Conforming provisional language.</p>	
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Item	Issue	Description	Staff Recommendation	BBL/TB	
	Issue 153	<b>California English Language Development Test Apportionment</b> —Increases funding by \$2,493,000 for apportionment funding to accommodate the additional 498,600 pupils projected to take the California English Language Development Test in 2004-05.	<b>Approve April Finance Letter (Approved 3-0)</b>		
	Issue 155	<b>Standardized Testing and Reporting (STAR) Item Development</b> —Increases funding by \$535,000 to ensure there are sufficient test items for the STAR exam. CDE will begin to publicly release 25 percent of the test items used in the most recent California Standards Tests, requiring the continuous development of new items.	<b>Approve April Finance Letter (Approved 3-0)</b>	Conforming provisional language.	
	Issue 156	<b>STAR Restoration Funds</b> —Increases funding by \$450,000 to restore STAR pre-test workshops and the STAR Technical Assistance Center that was reduced as part of the General Fund unallocated reduction to the various testing programs in 2003-04.	<b>Approve April Finance Letter (Approved 3-0)</b>		

Item	Issue	Description	Staff Recommendation	BBL/TB
	Issue 179	<p><b>Local Assistance for the California School Information Services (CSIS)</b>—Increases funding by \$2,246,000 to provide \$1,947,000 for the first of two years of funding for local implementation costs of a new CSIS cohort and \$299,000 for CSIS central operations for hardware and software to accommodate the new cohort</p>	<p><b>Deny April Letter. (Action: Provide \$1,000 in funding. Approved 2-0)</b></p>	<p>Conforming provisional language.</p>
6110-113-0001 & 6110-113-0890	<p><i>CDE Proposal: Swap State and Federal Funding for the CELDT Assessment</i></p>	<p>CDE requests language to switch funding for the CELDT assessment between state and federal budget items in order to assure the timely expenditure of federal funds. There is no impact on the amount of funding available for CELDT.</p>	<p><b>Approved CDE request. (Approved 3-0)</b></p>	

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0001	<i>CDE Proposal: Increased Federal Funding and Positions for Child Nutrition State Operations</i>	The Department of Education has requested authority to spend \$1.942 million in new and existing federal funds in 2004-05 to expand state administrative activities for its federal nutrition programs. As a part of this request, CDE is requesting approval of 15 additional positions in the Nutrition Services Division to improve state-level monitoring and technical assistance to local agencies participating in federal child nutrition programs in 2004-05. California will receive approximately \$1.6 billion in federal funding from USDA for these child nutrition programs in	<b>Approve CDE requests for \$1.9 million and 15 positions. (Approved 2-0, with change to reduce increased positions from 15.0 to 14.0 )</b>	

Item	Issue	Description	Staff Recommendation	BBL/TB
??	<i>May Revise Finance Letter: Increases Current Year Prop 98 Funds to Buyout and Reduction Continuing Apportionment Deferrals</i>	May Revise increases 2003-04 funding by \$270 million to buy-out deferrals of principal apportionment payments commenced in 2002-03 to achieve budget savings in that year. The Governor proposes to increase the Proposition 98 Guarantee by \$270 million in 2003-04 and to expend increased funds to reduce ongoing deferrals of revenue limit and categorical	<b>Approve May Revision. Approve Governor's trailer bill language. (Approved 2-0)</b>	Governor proposes trailer bill language to use additional Prop 98 funds in 2003-04 to buyout P2 deferrals.
Various Items	<i>Governor's Budget: Continues P-2 Apportionment Deferrals in 2004-05.</i>	In 2004-05, the Governor proposes to continue the deferral of most of the second principal (P2) apportionments (revenue limits and categorical programs) that were first deferred in the 2003-04 as a budget savings measure. There is strong agreement among CDE, DOF and LAO that there are problems with the P2 apportionment deferral process that need to be corrected in trailer bill language. These problems stem from the difficulty in utilizing revenue limit apportionments to meet a specific budget target.	<b>Approve Governor's Budget. Adopt Governor's trailer bill language. (Approved 3-0)</b>	Governor proposes budget trailer bill to revise P2 deferrals mechanism to match an amount certain in the budget.

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-601-0986	<i>May Revision: Local Government Allocation (Issue 333)</i>	May Revision reduces property tax allocations by \$3,393,428,000 to reflect adjustments to the estimated property tax revenue allocated to K-12 districts.	<b>Conform to Legislative Action on Local Government Finance (Conforms to May Revision Prop 98 Actions)</b>	
6110-602-0986	<i>May Revision: Local Government Allocation (Issue 333)</i>	May Revision reduces property tax allocations by \$53,293,000 to reflect adjustments to the estimated property tax revenue allocated to county offices of education.	<b>Conform to Legislative Action on Local Government Finance (Conforms to May Revision Prop 98 Actions)</b>	
6110-603-0986	<i>May Revision: Local Government Allocation (Issue 333)</i>	May Revision reduces property tax allocations by \$47,311,000 to reflect adjustments to the estimated property tax revenue allocated to special education programs.	<b>Conform to Legislative Action on Local Government Finance (Conforms to May Revision Prop 98 Actions)</b>	

6110-608-0001	<i>May Revision: Local Government Allocation -- County Offices of Education (Issue 332)</i>	May Revision increases property tax allocations by \$53,293,000 to offset changes to local property tax allocations to county offices of education.	<b>Conform to Legislative Action on Local Government Finance (Conforms to May Revision Prop 98 Actions)</b>		
6110-608-0001	<i>May Revision: Local Government Allocation -- School Districts (Issue 073)</i>	May Revision increases property tax allocations by \$3,393,428,000 to offset changes to local property tax allocations to school districts.	<b>Conform to Legislative Action on Local Government Finance (Conforms to May Revision Prop 98 Actions)</b>		

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-610-0001	<i>May Revision: Adjustments to County Office of Education Apportionments --Current Year. (Issues 332 &amp;342)</i>	May Revision decreases item by a total of \$1,227,000 and reflects a decrease of \$12,220,000 for baseline changes to local property tax estimates and an increase of \$10,993,000 for revised growth estimates.	<b>Approve May Revision. (Approved 3-0)</b>	
6110-608-0001	<i>May Revision: Adjustments to School District Apportionments -- Current Year. (Issues 066 &amp; 075)</i>	May Revision: Adjustments to School District Apportionments reflects an increase of \$34,482,000 in revised local revenue offsets, which is offset by a decrease of \$76,884,000 due to revised estimates of ADA, costs of the PERS offset, UI reimbursements and other changes. The total change nets to a decrease in General Fund commitments of \$42,402,000.	<b>Approve May Revision. (Approved 3-0)</b>	

Item	Issue	Description	Staff Recommendation	BBL/TB
Budget Bill/Trailer Bill Language	<i>LAO Proposal: Budget Bill and/or Trailer Bill Language-- Categorical Programs in Charter School Block Grant</i>	LAO proposes language to clarify the categorical programs that are included in the Charter Schools Block Grant.	<b>Approve LAO trailer bill language. (No action; Direct to policy committee.)</b>	
6110-625-0001	<i>May Revision Finance Letter: Reimburse General Fund for Emergency Loan Repayments (Issue 055)</i>	May Revision would reimburse General Fund for loan repayments of \$167,127,000 to reflect a new proposal to issue lease-revenue bonds through the State Infrastructure Bank. These new bonds would repay the General Fund for outlays for school district emergency loans in the Oakland USD, West Contra Costa USD and Vallejo City USD (pending). This proposal will be implemented pursuant to pending legislation.	<b>Approve General Fund savings in 2004-05 per the Governor's proposal, but refer trailer bill language to policy committee. (Approved 2-0)</b>	DOF developing trailer bill to implement.

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-161-0890	<i>May Revision Finance Letter: Increased Federal Special Education Funding (Issue 201 and 204)</i>	May Revision increases funding authority by \$63,673,000 to reflect an increase in the federal IDEA - Part B grant in 2004-05. Of these funds, \$31.0 million are passed through to provide additional funding for mental health services subject to legislation.	<b>Approve May Revision. (Approved 3-0)</b>	TB & Conforming provisional language

6110-161-0001	Issue 215	Adds provisional language to specify pass through of federal IDEA funds to be used to provide \$31.0 million for special education mental health services pursuant to legislation.	<p><b>Approve May Revision. Adopt LAO recommendation to shift \$400,000 of the funds appropriated for LCI/NPS formula to the Extraordinary Cost Pool.</b></p> <p><b>ACTIONS: (1) Approve May Revision (3-0); (2) Adopt LAO recommendation to shift \$400,000 of LCI/NPS augmentation to the Extraordinary Cost Pool (Approved 2-1).</b></p>	TB & Conforming provisional language.	
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Item	Issue	Description	Staff Recommendation	BBL/TB
6110-126-0890	<i>May Revision Finance Letter: Increased Carryover Authority for Federal Reading First Program (Issue 182)</i>	May Revision provides an increase of \$29.0 million, which includes a reduction of \$578,000 to align with estimated grant levels and \$29.6 million in one-time carryover funds. Carryover funds will be used to increase teachers grants to \$8,000 (from \$6,500) for teachers that agree to provide diagnostic reading assessments and remedial reading instruction to lower the number of special education referrals for students who are reading below grade level. Funds will also be used to expand Reading First grants. This Governor's January Budget provides \$145.2 million in ongoing funding for the program.	<b>Approve May Revision. (Approved 3-0)</b>	Conforming provisional language.

6110-123-0890	<i>May Revision Finance Letter: Increased Funding Authority for Federal Comprehensive School Reform program. (Issue 157)</i>	May Revision provides increased federal funding of \$32.7 million for the Comprehensive School Reform program. This increases funding for the program to \$42.7 million, which will be available pursuant to legislation regarding the Comprehensive School Reform Program.	<b>Approve May Revision with corrections to reflect available funds. (Approved on 5/19; double counting relates to Title I School Improvement item also approved on 5/19.)</b>	TB & Conforming provisional language.	
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Item	Issue	Description	Staff Recommendation	BBL/TB
Budget Trailer Bill	Governor's Proposed Trailer Bill Language: In Lieu Language		ACTION: Approved Governor's proposed trailer bill language to provide in lieu language on growth and COLA. (Approved 3-0)	
Budget Trailer Bill	Governor's Proposed Trailer Bill Language: Kindergarten Readiness		No Action. Directed to Policy Committee.	

Item	Issue	Description	Staff Recommendation	BBL/TB
6110	Legislative Request -- General Fund, State Operations -- One-Time Funding for Human Rights and Genocide Curriculum	Request to provide \$250,000 for the purpose of having CDE distribute a model curriculum regarding the issue of human rights and genocide. The model curriculum on human rights and genocide covers by grade level various curriculum strands in the areas of Human Rights and Genocide including the Armenian, Ukrainian, Jewish, Polish, Argentine, Cambodian, South African genocide and/or human rights violations. Also included in the model curriculum are broader strands covering human rights. The last budget appropriation for this model curriculum was in the 1999-2000 State Budget for a <del>reprint of the document (not</del>	(Approved 2-1)	Adopt proposed trailer bill language to conform to action.
Trailer Bill Language	Legislative Request -- Trailer Bill Language to Require DOF to Refinance Emergency Loan Upon Request of the District	Request to adopt trailer bill language to amend Section 414714 of the Education Code to require DOF to refinance (currently law is permissive) an emergency loan upon request of	[Approved 2-1, with change to specify West Contra Costa School District in the language.]	Adopt proposed trailer bill language to conform to action.

Item	Issue	Description	Staff Recommendation	BBL/TB	
Various Budget Items	Senate Request: Proposition 98 Balancer	Appropriates Proposition 98 funds that : (1) are within the amount available under the Governor's Budget in 2004-05, and (2) have not been appropriated for other purposes by Subcommittee #1, and use these funds to augment funding for the High Priority Schools program for schools in Decile 2	(Approved 2-1)		