

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE****Assemblymember Susan Bonilla, Chair****TUESDAY, MARCH 13, 2012****9:00 AM - STATE CAPITOL ROOM 444**

ITEMS TO BE HEARD		
ITEM	DESCRIPTION	
6110	DEPARTMENT OF EDUCATION	2
ISSUE 1	GOVERNOR'S 2012-13 PROPOSAL: TRANSITIONAL KINDERGARTEN	2
ISSUE 2	GOVERNOR'S 2012-13 PROPOSAL: PRESCHOOL	6
ISSUE 3	GOVERNOR'S 2012-13 PROPOSAL: WEIGHTED PUPIL FORMULA	10

ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: GOVERNOR'S 2012-13 PROPOSAL: TRANSITIONAL KINDERGARTEN

The issue for the Subcommittee to consider is the Governor's proposal to eliminate Transitional Kindergarten (TK).

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Department of Education

BACKGROUND

Background on Kindergarten: Age of Admission. Kindergarten is currently not a requirement in California however, if parents/guardians choose to enroll their children, schools must admit children who are of legal age. SB 1381 (Simitian), Chapter 705, Statutes of 2010, changed the required birthday for admission to kindergarten and first grade to November 1 for the 2012–13 school year, October 1 for the 2013–14 school year, and September 1 for the 2014–15 school year and each school year thereafter. The law also requires districts to provide access to transitional kindergarten for a child whose admission to a traditional kindergarten would be delayed per the age changes.

The decision to change the age of admittance to kindergarten to require kindergarteners to be five years old before they start school was made for a number of reasons. Due to increased emphasis on test scores, kindergarten classes now place heavier emphasis on academics. Success in kindergarten is measured by academic ability, as well as, physical, social, and emotional factors. Delaying the entry of four-year-old children can give them time to prepare and mature.

While age of admission can be an important factor in kindergarten readiness, access to early learning opportunities are also important, particularly for low-income and English learner students. A report done by PPIC, *Changing the Kindergarten Cutoff Date: Effects on California Students and Schools (May 2008)* examined 14 recent studies on the short- and long-term effects of entering kindergarten at an older age. One study showed that kids from higher income families fare better than kids from disadvantaged families due to increased opportunities for access to prekindergarten/preschool programs. PPIC reported that the effect of delaying entry to kindergarten is contingent upon the extent to which disparities in skill acquisition between kids are removed. PPIC recommended that policymakers pay special attention to the effect on disadvantaged kids and English learners, who may need additional prekindergarten opportunities.

A 2005 study by the RAND Corporation, *Delaying Kindergarten: Effects on Test Scores and Childcare Costs*, found that delaying kindergarten boosts standardized test scores in math and reading. However, the study also noted that delaying kindergarten can have a negative economic effect on families by imposing additional childcare costs for families. The report suggested that "policymakers may need to view entrance age policies and childcare policies as a package."

Background on Transitional Kindergarten. When the State changed the age of admission to school to ensure all kids were five years old when they enter kindergarten, it was based on the policy rationale that age plays an important factor in readiness for kindergarten. This policy decision, however, displaced some four-year-old children that would have otherwise been allowed to attend kindergarten. The State acknowledged that it was still important to provide developmentally appropriate learning opportunities for four-year-old children not quite ready for kindergarten and as a result implemented TK.

Transitional kindergarten programs differ from preschool programs in that they are taught by credentialed teachers, and are adapted from kindergarten curriculum. Another advantage is that the kids will likely be on a school site where they will experience classroom setting, but without the stigma of being "held back" for another year of kindergarten. Transitional kindergarten can cause less change and disruption to children, their families, teachers, schools, and districts.

GOVERNOR'S PROPOSAL

- **Eliminates Transitional Kindergarten.** According to the Administration, over the course of the last summer and fall, the Administration heard from many school district officials that it would be impractical for them to implement a new TK program in the midst of budget cuts and layoffs. The Governor's budget proposes budget trailer bill language to eliminate statute governing the creation of transitional kindergarten for the students displaced from attendance in regular kindergarten based on the rollback of age eligibility. The Governor's initial savings were budgeted at \$223.7 million.
- **Clarifies Kindergarten Waiver.** Under current law, parents of children born after the cutoff can also request a waiver to have their children begin traditional kindergarten early. These children are not allowed to be admitted and generate ADA funding, however, until they turn five years old. The Governor proposes to modify current law to allow these children to begin kindergarten at the beginning of the school year, rather than waiting to enter in the middle of the year after they turn five. The waiver option would continue to pertain to early admittance to traditional kindergarten programs, not transitional kindergarten. Districts could choose to admit four-year old children to kindergarten early on a case-by-case basis if they believed it was in the best interest of the child. To the extent many parents request and districts grant these waivers, it would increase the 2012-13 kindergarten cohort, thereby reducing the amount of savings generated by the change in cutoff date.

Increases Preschool Eligibility. Related to the elimination of TK, the Governor proposes trailer bill language to increase the eligibility for the part-day State Preschool program in order to cover four-year old children who are no longer eligible for Kindergarten due to the eligibility age rollback, but who turn five years old during the school year.

The Governor's proposal would give eligible five-year olds first priority for part-day State Preschool funding; however, the Governor does not provide additional funding for the program to cover a potential increase in workload. Therefore, other eligible, low-income three-year olds and/or four-year olds would be displaced, as there is no funding redirection provided to accommodate the eligible five-year olds who would otherwise attend a Transitional Kindergarten.

STAFF COMMENTS

Governor's proposed savings has eroded. The Governor's January budget proposal would reduce the kindergarten population by 40,000 in the first year, which translates to an estimated savings of \$223.7 million General Fund (Proposition 98) according to the Administration's initial estimates. Since the release of the budget however, the Administration has acknowledged that actual savings may be less than half that amount, given that districts with declining enrollment will have a one-year hold harmless adjustment and because some districts may grant early admission to children that do not meet the new age requirements, but whose parents would still like to enroll their children in kindergarten.

LAO RECOMMENDATIONS

The LAO recommends the Legislature consider the Governor's transitional kindergarten and preschool proposals together to target and preserve pre-kindergarten services for the State's most needy three- and four-year olds.

According to the LAO, given the major funding and programmatic reductions school districts have experienced in recent years—and the potential for additional reductions if the November election does not result in new State revenue—the LAO agrees with the Governor's assessment that now is not the time to initiate major new programs. Budget reductions and unfunded COLAs mean districts currently are increasing class sizes, shortening the school year, and cutting many activities that have long been part of the school program. The LAO does not believe offering a 14th year of public education to a limited pool of children—and dedicating resources to develop new curricula and train teachers—at the expense of funding existing K-12 services makes sense.

Further, the LAO has fundamental policy concerns with the design of the TK program. While receiving an additional year of public school likely would benefit many four-year olds born between September and December, the LAO questions why these children are more deserving of this benefit than children born in the other nine months of the year. This preferential treatment is particularly questionable since the eligibility date change will render children born between September and December the oldest of their kindergarten cohorts, arguably an advantage over their peers. Moreover, the TK program would provide an additional year of public school to age-eligible children regardless of need. This includes children from high and middle-income families who already benefit from well-educated parents and high-quality preschool programs. The LAOs believe focusing resources on providing preschool services for low-income four-year olds—regardless of their exact birth month—likely would have a greater effect on improving school readiness and reducing the achievement gap.

ISSUE 2: 2012-13 GOVERNOR'S BUDGET PROPOSAL: CALIFORNIA STATE PRE-SCHOOL PROGRAMS' STANDARD REIMBURSEMENT RATE REDUCTION

The issue for the Subcommittee to consider is the Governor's 2012-13 budget proposals for the State Preschool Program (SPP).

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Department of Education

BACKGROUND

The 2011-12 Budget Act. In 2011-12, the State budgeted \$368 million in Proposition 98 funding to provide part-day/part-year center based preschool services to low-income children. The State also budgeted \$675 million for the General Child Care (GCC) program, to provide center-based child care services to low-income children from working families ages birth to 12 years of age.

Both the State Preschool Program and General Child Care Program experienced significant reductions of about 7 percent and 14 percent, respectively, due to changes in family income eligibility from 75 percent of the State Median Income (SMI) to 70 percent, and an across the board reductions of 11 percent. These funding reductions led to the curtailment in funded enrollment for Preschool by 17,513 slots and General Child Care by 12,751 slots.

Beginning in 2011-12, the Legislature also shifted the funding sources for GCC – and all child care programs other than part-day preschool – from Proposition 98 to non-Proposition 98 General Fund. Providers for both the part-day preschool and General Child Care receive funding through direct contracts with CDE. In addition to the reductions made in the budget, the State approved \$5.9 million in additional across-the-board reductions to State Pre-school Program and \$10.9 million in across the board reductions to General Child Care, as part of the budget trigger reductions, which took effect on January 1, 2012.

GOVERNOR'S BUDGET PROPOSALS

For 2012-13, the Governor proposes to reduce funding for the Proposition 98 portion of the SPP by \$58 million, or 16 percent. These savings would be achieved through two changes that mirror proposals for other subsidized child care programs (which will be discussed on March 14, 2012).

1. **Provider Rate Reductions.** The State would pay preschool providers 10 percent less, for Proposition 98 savings of \$34 million. The part-day per-child Standard Reimbursement Rate (SRR) would drop from \$21.22 to \$19.10, and the full-day per child SRR would drop from \$34.38 to \$30.94.
2. **Family Income Eligibility Criteria.** The State would reduce program eligibility criteria by lowering the amount a family can earn and still participate in the program. Specifically, the maximum monthly income threshold would drop from 70 percent of the State median income (SMI) – from \$3,518 per month for a family of three – to 200 percent of the federal poverty level (about 62 percent of SMI, or \$3,090 per month.) The Governor would achieve \$24 million in Proposition 98 savings from this change by defunding the estimated number of part-day preschool slots currently associated with children from families that exceed the new eligibility threshold – about 7,300 slots.

PROVIDER RATE REDUCTIONS

The Rate Reductions are Problematic. A year ago, the Legislature approved, as part of the March budget package, to reduce the Standard Reimbursement Rate by 10 percent. Right away, the Department of Education and Title 5 providers informed the Legislature of the detrimental impacts that would lead to the disruption and closure of many centers due to the requirements under Title 5 that prevent them from scaling back. This reduction was rescinded as part of the final 2011-12 Budget Act.

The concerns still exist that many preschool providers have few options or levers for absorbing the Governor's proposed 10 percent reduction to the SRR, and might close or drop out of the State program as a result. The State mandates, under Title 5 regulations, the adult-to-child ratios, and instructional day requirements for these centers. Combine that with local collective bargaining agreements – which frequently are embedded within larger K-12 school district contract agreements – and it means that providers have limited flexibility to generate local savings. Moreover, the state rate for these centers is already somewhat low – in several areas in the State, the SRR currently is lower than the rates charged by the majority of other preschool providers in the county.

PRESCHOOL & GENERAL CHILD CARE INTERACTION

AB 2759 (Jones), Chapter 308, Statutes of 2008, allows local providers to merge monies from these two contracts to offer part-day/part-year preschool programs or full-day/full-year preschool programs for three- and four-year olds to best serve the needs of working families and local communities.

While still budgeted as two programs and funded by two sources at the State level, these services are thought of as one SPP program at the local level. Data from CDE suggest that in 2011-12, local providers blended the Proposition 98 funds with about \$400 million from the General Child Care (or about 60 percent of the total \$685.9 million for General Child Care funding) to offer SPP services to approximately 145,000 low-income preschool age children. Of these, two-thirds were served in part-day programs and one-third in full-day programs.

In 2013-14, Governor Proposes to Revert to Part-Day/Part-Year Preschool Program. As part of his proposed changes for non-Proposition 98 funded child care, beginning in 2013-14, the Governor would eliminate the existing General Child Care program and shift the associated funding to a child care voucher system to be administered by county welfare departments. This would abolish the blended SPP and revert the State's direct-funded center-based preschool program to only a Proposition 98 funded part-day/pare-year program for about 91,000 children (a reduction of roughly 54,000 compared to how many children were served in SPP in 2011-12).

Preschool providers' ability to serve additional children or offer full-day/full-year services to meet the needs of working families would depend upon how many enrolled families could afford to pay out of pocket or obtain a state-subsidized voucher from the county welfare department. (Under the Governor's proposal, low-income families not receiving CalWORKs cash assistance would have more limited access to these vouchers).

Governor's Proposal for 2013-14 Ignores Reality of State's Current Preschool Program. The Governor's proposal for 2013-14 treats the Proposition 98 preschool budget item and General Child Care budget item as two separate programs – preserving one and eliminating the other. However, in reality these funding sources have been supporting one uniform preschool program. By redirecting all General Child Care funding into vouchers, the Governor's proposal would reduce the existing State Preschool program by roughly 40 percent. Moreover, the dismantling of the blended SPP would notably limit local providers' ability to provide a full-day/full-year preschool program, which is often the only way children from working low-income families are able to access services.

LAO COMMENTS ON THE GOVERNOR'S BUDGET

Reject the Standard Reimbursement Rate. Because of concerns, that a 10 percent cut to the Standard Reimbursement Rate may be untenable for many providers and because the State rate is already low compared to what other providers charge in many counties, the LAO recommends the Legislature reject this proposed reduction. As discussed in their "2012-13 Budget: Proposition 98 Education Analysis," the LAO recommends pursuing other options if the Legislature needs to achieve Proposition 98 savings from the preschool program.

Instead of Lowering Family Income Thresholds, Eliminate Slots. The State already prioritizes enrollment in the State Preschool for the lowest income applicants, therefore, the Governor's proposal to lower the income eligibility threshold to achieve savings is not necessary. That is, providers already are required to select first from the families furthest below the existing ceiling of 70 percent of the SMI. The LAO recommends if savings have to be generated, to instead, reduce the number of available slots in order to focus eligibility on an even narrower group of families.

Recognize the Interaction between State Preschool & General Child Care Programs.

The LAO also recommends that the Legislature accurately reflect the existing State Preschool Program budget and align all funding for the program within Proposition 98. As part of this alignment, they recommend a comparable adjustment to the Proposition 98 minimum guarantee to avoid the need for a corresponding reduction to K-12 programs. Specifically, the LAO recommends the Legislature reduce non-Proposition 98 General Fund for General Child Care by \$400 million (the amount of General Child Care spent for State Preschool Program services in 2011-12) and increase the Proposition 98 funding for preschool by a like amount. This would allow the State to make policy and budget decisions affecting preschool services for four year olds based on actual programmatic funding and caseload counts.

ISSUE 3: GOVERNOR'S 2012-12 PROPOSAL: WEIGHTED PUPIL FORMULA

The issue for the Subcommittee to consider is the Governor's proposal to replace the existing K-12 funding system with a new weighted student formula.

PANEL 1

- Department of Finance
- Legislative Analyst's Office
- California Department of Education

PANEL 2

- Local Perspectives Panel

BACKGROUND

Background on existing system of School Finance in California. The California K-12 public school system is supported predominantly with state funds. Of the state funds that are provided to K-12 schools, there are two major types of funding: discretionary funds and categorical funds. Discretionary funds comprise approximately two-thirds of the funds the State provides to school districts and categorical funds comprise approximately a third.

- **Discretionary Funds** are provided to school districts to support the general costs of operating schools. They are provided on a continuous appropriation basis, meaning that the funds are provided on an ongoing basis and are not subject to the annual Budget Act. Funds are provided to school districts and county offices of education based on a formula that takes their average daily attendance over the course of the year and multiplies it by their individual funding rate (also known as a "revenue limit"). Each district has its own unique revenue limit based on historical spending. The end result is a school district's "apportionment funding." Although this funding does not require an annual appropriation in the budget, the State can still affect the amount of total funding that is provided for this purpose by increasing or decreasing the rates (revenue limits) that are used to calculate apportionments. In addition, the Legislature's ability to approve or deny a cost-of-living adjustment for revenue limits also affects the total amount of funding that is provided in discretionary funds.
- **Categorical Funds** have been created over the years to provide school districts funding for specific purposes, such as improving school safety or improving the academic achievement of struggling students. Unlike discretionary funds, categorical funds (also known as "categorical programs") are all funded through the annual budget act. They are usually accompanied by regulations that require that they be spent in specific ways or for specific purposes.

Many Categorical Program Funds Currently Flexible. As part of the February 2009 budget package, the State allowed school districts to use the funding associated with nearly 40 categorical programs for any education purpose. This change made roughly \$4.7 billion in restricted funding discretionary. About 20 state-funded categorical programs totaling roughly \$7.5 billion were excluded from this flexibility. This categorical flexibility has been authorized through 2015-16.

GOVERNOR'S 2012-13 PROPOSAL: WEIGHTED PUPIL FORMULA

The Governor proposes to consolidate revenue limit apportionments and most State categorical programs into a weighted pupil formula – beginning in 2012-13 – for school districts and charter schools. The newly proposed formula would provide a basic per pupil allocation with additional supplements – based upon pupil weights – for economically disadvantaged pupils and English learner pupils. The Governor's proposal would ultimately involve consolidation of most existing K-12 education funding programs worth approximately \$39 billion in 2012-13, which reflects approximately \$32 billion in revenue limit apportionments and \$7 billion in categorical funding. Specific components of the plan are as follows:

- Base Grants. The Governor proposes an equal base funding grant to school districts and charter schools per pupil, as measured by average daily attendance (ADA). According to the Administration, the base amount is estimated to be \$4,920 per pupil in 2012-13. Currently, the statewide base revenue limit average is approximately \$5,020 per pupil.
- Targeted Funding Supplements.
 - Pupil Weights. School districts and charter schools would receive supplemental funding for educationally disadvantaged pupils based upon pupil weights. Specifically, the Governor would provide an additional 37 percent in base funding for low-income pupils – measured by pupils receiving free or reduced price lunch or for English learner pupils. (These would be unduplicated pupil counts so that pupils who are low-income and English learners are not double counted). The Administration estimates this weight would yield \$1,820 pupil in 2012-13.
 - Concentration Factors. School districts and charter schools with larger proportions of educationally disadvantaged pupils would receive supplemental “concentration” funding on top of pupil weights. According to the Department of Finance, the formula calculates per ADA funding on a district basis, based on student population factors inherent to that district. The Department of Finance has provided the following examples to illustrate how the concentration factors would work.
 - Scenario 1: Assuming a school district or charter school's per pupil amount if the school district or charter school has no English learners or students eligible for a free or reduced price meal:

$\$4,920 + (\$4,920 \times 0.37 \times 0) + (\$4,920 \times 0.37 \times 2 \times 0) = \$4,920$ per student.

According to the Department of Finance data run, only one district (Mountain Elementary in Santa Cruz County) falls into this category.

- Scenario 2: Assuming a school district or charter school's per pupil amount if the school district or charter school has an enrollment base of English learners or students eligible for a free or reduced price meal less than 50 percent of total enrollment:

The Murrieta Valley Unified School District has an unduplicated English learner and student eligible for free or reduced price meals percentage equal to approximately 26.97 percent. Therefore, Murrieta Valley would receive $\$4,920 + (\$4,920 \times 0.37 \times 0.2697) + (\$4,920 \times 2 \times 0.37 \times 0) = \$4,920 + \$491$, for a total of \$5,411 per student.

- Scenario 3: Assuming a school district or charter school's per pupil amount if the school district or charter school has an enrollment base of English learners or students eligible for a free or reduced price meal greater than 50 percent of total enrollment:

The Inglewood Unified School District has an unduplicated English learner and student eligible for free or reduced price meals percentage equal to approximately 83.69 percent. Therefore, Inglewood Unified School District would receive $\$4,920 + (\$4,920 \times 0.37 \times 0.8369) + (\$4,920 \times 2 \times 0.37 \times 0.3369) = \$4,920 + \$1,523.49 + \$1,226.59$, for a total of \$7,670 per student

- Incentive Funding Supplements. The Governor proposes to provide an incentive-funding supplement equal to 2.5 percent of the base grant to school districts and charter schools, which meet accountability requirements to be established by the State Board of Education. Unlike the other funding elements above, which would begin in 2012-13, the Governor would begin incentive-funding supplements in 2013-14, based on 2012-13 performance.

Six year phase in of the formula. The weighted pupil formula would be phased in over a six-year period beginning in 2012-13. In order to phase in the new formula, the Administration proposes to provide 95 percent funding according to current funding formulas and 5 percent funding according to the new weighted pupil formula in 2012-13. The percent of new formula implemented would increase to 15 percent in 2013-14, 40 percent in 2014-15, 60 percent in 2015-16, 80 percent in 2016-17, and 100 percent in 2017-18.

Hold harmless provisions implemented in the first year, including school transportation funding. The Governor's original proposal in January would have begun a redistribution of funding starting in 2012-13. The Governor has revised his proposal to hold school districts harmless from any loss of per pupil funding in 2012-13. This will assure the same per pupil funding levels for school districts and charter schools as provided in 2011-12.

In order to hold districts harmless in 2012-13, the Governor proposes to rescind his proposal to eliminate \$496 million from the Home-to-School Transportation program and instead provides school districts with the same amount of funding they received for this program in 2011-12. The Governor then proposes to redirect approximately \$90 million from the deferral buy-down to provide schools with the same level of per pupil funding they received in the prior year. In 2013-14, districts would no longer receive their Home-to-School funding allocation and would no longer be held harmless for the redistribution of funding under the weighted pupil formula.

Programs previously excluded from flexibility included in the formula and now flexible. When categorical flexibility was implemented in 2009, programs were placed into three categories or "Tiers". The following provides an explanation of each tier and the programs associated with them as well as the changes under the Governor's proposal.

- Tier I. Tier I programs remained intact, that is, no reductions were made to their allocation, no programmatic changes were made, and no flexibility granted. These programs included: Child Nutrition, Economic Impact Aid (EIA), Charter EIA, K-3 Class Size Reduction, Special Education, After-school, and Child Development (Pre-K only in 11-12).

The Governor's proposal would continue to fund most of these programs separately except for Economic Impact Aid and K-3 Class Size Reduction. These two program requirements would now be flexible and the funding associated with them would be folded in to the weighted pupil formula.

- Tier II. Programs in this tier were subject to program cuts but the program requirements were kept in place, that is, they were not "flexible". These programs included: Apprenticeship programs, County Office Oversight (FCMAT), Home-to-School, Student assessments, Foster Youth Programs, Adults in Correctional Facilities, Partnership Academies, Agricultural Vocational Education, K-12 Internet, Charter School Facility Grants, and Year Round Schools.

The Governor's proposal would now make Apprenticeship programs, Adults in Correctional Facilities, Agricultural Vocational Education, and Partnership Academies program requirements flexible and would include the funds associated with these programs in the weighted pupil formula.

Home-to-School Transportation is proposed to be funded for the 2012-13 fiscal year *only* at a cost of \$496 million, but the program would be made flexible. After 2012-13, the Administration proposes to eliminate funding for the program and redistribute funds under the weighted pupil formula.

- **Tier III:** The majority of categorical programs were included in this category. Funding for roughly 40 programs was reduced and then made flexible, that is, all program requirements were removed, and the funding associated could be used for any educational purpose. Under the Governor's proposal most of these programs continue to be flexible and the money associated with the programs would be included in the weighted pupil formula.

Two programs in this category are excluded from the weighted pupil formula: American Indian Education Centers (Proposition 98 portion) and County Office of Education Oversight for the Williams lawsuit. While funding is excluded, it is not clear if the programs would remain "flexible" or if program requirements would be reinstated.

Programs excluded from the formula. The Administration notes the following major exclusions from the weighted pupil formula proposal:

- Special Education due to federal program requirements and maintenance of effort issues.
- School Nutrition (funding for school lunches) due to federal accounting and maintenance of effort issues.
- After-school Programs, because Proposition 49 requires a ballot initiative approved by the voters to make any changes to afterschool funding.
- Quality Education Investment Act (QEIA), because this is part of a legal settlement.
- Pre-school, because it is not a K-12 program.
- Necessary Small Schools, because this funding is necessary to maintain schools in sparsely populated areas.

Full Flexibility for Programs in the Weighted Pupil Formula in 2012-13. Per the Administration, funding for all of the categorical programs included in the new funding formula would be subject to full and permanent flexibility beginning in 2012-13.

New Accountability Requirements Delayed Until 2013-14. The Governor's new funding proposal would be accompanied by new accountability requirements for schools that would be the basis for evaluation and rewarding school performance under the new funding model. However, while both phase-in of the new weighted pupil formula and the expanded flexibility provisions for additional categorical programs would commence in 2012-13, the new accountability requirements would not be added until 2013-14 – one year after commencement of the Governor's new formula. While there are few details yet, the Administration has indicated generally that the new measures will include the current quantitative, test-based accountability measures, along with locally developed assessments and qualitative measures of schools.

County Offices of Education Excluded from New Formula. The Governor's weighted pupil formula would apply to K-12 school districts and charter schools, but does not include county offices of education. The Governor proposes to continue existing revenue limit funding and county-specific categorical programs for county offices of education. Other categorical funding available to county offices of education would gradually be phased-out per the Governor's proposal, but districts would be free to contract with county offices for continued operation of these programs.

Other categorical program adjustments. The Governor's budget proposes to eliminate funding for several categorical programs. With the exception of the Early Mental Health Initiative, these programs are funded with non-Proposition 98 General Fund dollars. The Administration has indicated that these program funds have been eliminated: 1) to achieve general fund savings; and, 2) to be consistent with the Administration's approach to categorical programs under the weighted student formula proposal. While State program funding is proposed to be eliminated, the Administration has indicated that these programs could continue to be provided at the local level with other existing State or local resources.

- **Indian Education Centers (*non-Proposition 98 portion*).** The American Indian Education Center Program was established in statute in 1974. According to CDE, the centers serve as educational resource centers for Native American students, their families, and the public schools. The primary focus of the centers is providing direct services to improve achievement in reading/language arts and mathematics. A secondary purpose is to build student self-concept through cultural activities. A desired outcome of these activities is to create a skilled educated workforce in the Indian community and in California. American Indians have the highest dropout rates and largest achievement gaps of any group in our State.

Currently the California Department of Education funds 27 Indian Education Centers, which serve approximately 5,000 American Indian students. Each center receives anywhere from \$92,980–\$221,422. These centers are funded by two funding streams: \$3,639,000 in Proposition-98 funding and \$376,000 non-Prop 98 General Fund.

Governor's Proposal: The Governor proposes to eliminate the \$376,000 in non-Proposition 98 funding for these centers. The Governor's budget proposes to continue funding the Proposition 98 portion of the program and does not fold this funding into the weighted pupil formula. According to CDE, the funds proposed to be eliminated are used for administrative costs and staff salaries. To provide the same level of academic assistance, direct services would have to be cut and fewer students would be served.

- **Advancement Via Individual Determination (AVID).** The AVID program began in 1980 and is authorized in the annual Budget Act. According to CDE, AVID is a teacher-inspired, research-based classroom innovation that helps disadvantaged and underachieving students graduate from high school and complete the preparation necessary to successfully access "four-year" colleges and universities.

CDE allocates state funds in the form of grants to 11 county offices of education that house AVID "regional centers" via a subvention contract with the non-profit AVID Center of San Diego, which carries out statewide coordination activities to support AVID implementation. State funding supports regional and statewide coordination activities, professional development, instructional materials, school site certifications (quality reviews), and a data collection and reporting system. Student activities are funded with local school site dollars.

Since 2008–09, CDE has been allocated \$8.1 million in non-Proposition 98 General Fund money (local assistance) to support AVID implementation on a regional and statewide basis. Pursuant to Budget Act language, the 11 regional grants total \$6,961,000.00, and the AVID Center contract totals \$1,170,000.00.

Governor's Proposal. The Governor's budget proposes to eliminate the \$8.1 million in non-Proposition 98 General Fund provided to support the AVID program. According to CDE, if these funds were eliminated, local education agencies that wanted to continue to run an AVID program would need to pay for membership and licensing fees to participate in the national program. It is estimated these fees would be about \$3,300 per school site. They would also lose the benefit of the various statewide coordinated support activities.

- **Vocational Education Leadership Program.** According to CDE, this program funding distributes funds to the Career Technical Student Organizations (CTSO's) and the California Association of Student Councils (CASC) through contracts to support the operation of leadership programs for students studying career and technical education or involved in student government. CTSO's chartered in California are Cal-HOSA for Health Career students; Future Farmers of America (FFA) for students studying agriculture, and its related careers; FBLA which is comprised of students enrolled in business courses; FHA-HERO for students interested in home economics and related occupations; DECA for students engaged in marketing programs; and SkillsUSA which encompasses students in transportation, arts, media, entertainment, engineering, and construction.

None of the funds are allocated to individual schools but are contracted with the respective non-profit governing boards who oversee each of these programs. The funds from this item are used to provide for student leadership training conferences and workshops, advisor training leadership development and organization operation, student officer travel for leadership development delivery and organizational business and leadership meetings, fiscal management and oversight, membership services management, instructional materials, leadership conference and workshop curriculum development, and communications and information dissemination to students and advisors. These events, activities, resources, and services are provided on a statewide basis to students and advisors at local, district, and state levels.

Governor's Proposal. The Governor's budget proposes to eliminate the \$540,000 non-Proposition 98 General Fund the State provides for this program. According to CDE, elimination of these funds would have significant negative effect on providing leadership development to student leaders in almost every secondary school in the State and greatly reduce statewide coordination of this component of career and technical education instruction. CDE also notes that these funds have been supporting student leadership development since 1983 with no increase in funding level.

- **Early Mental Health Initiative.** The Early Mental Health Initiative (EMHI) was statutorily enacted through AB 1650, Chapter 757, Statutes of 1991. According to CDE, the EMHI grants fund prevention and early intervention programs for students experiencing mild-to-moderate school adjustment difficulty. Services are provided to kindergarten through third grade (K–3) students in California's publicly-funded elementary schools.

The 2011-12 Budget Act provided \$15 million (Proposition 98) to the Department of Mental Health (DMH) to award three-year grants to county offices of education, school districts, and state special schools to provide EMHI program services. A 50 percent local match is required from the LEA, which can include in-kind services in collaboration with a community mental health agency. Approximately one third of the funds—\$4.6 million—funds new EMHI programs each year, providing an average of 50 new grants. The remaining two-thirds of the funds are used to continue grants from previous cycles. Currently there are 152 grants in three grant cycles.

Governor's Proposal. The Governor's proposed 2012–13 budget eliminates the Department of Mental Health and transfers the EMHI program to the California Department of Education (CDE). Although the Governor's Budget Summary refers to continuing the program, the budget does not contain any local assistance or State operations funds to do so. According to the Administration, the program was transferred to CDE to assist in closing out the remaining grant cycles.

CDE has expressed a willingness to implement the program, should that be the desire of the Legislature, however the Department would need to evaluate resources necessary to continue the program.

LAO COMMENTS

According to the LAO, the Governor's approach to restructuring the current K-12 funding system moves in the right direction. The LAO contends that the State's categorical program structure, as well as its broader K-12 funding system, has major shortcomings. First, according to the LAO, little evidence exists that the vast majority of categorical programs are achieving their intended purposes. This is in part because programs are so rarely evaluated. In addition, separate categorical programs often contain both overlapping and unique requirements. This magnifies the difficulty that districts have in offering cohesive services to students. It also blurs accountability and increases administrative burden. Moreover, having so many different categorical programs with somewhat different requirements creates a compliance-oriented system rather than a student-oriented system. In California, these problems are further exacerbated by categorical programs that have antiquated funding formulas that over time have become increasingly disconnected from local needs. For all these reasons, the LAO notes that several research groups over the last decade have concluded that California's K-12 finance system is overly complex, irrational, inequitable, inefficient, and highly centralized. Though the State's current categorical flexibility provisions have temporarily decentralized some decision making, the provisions have done little to make the K-12 funding system more rational, equitable, or efficient.

The LAO notes that the Governor's proposal has several strengths. First and foremost, it replaces the complexities and inequities of the current system with a formula that they argue is straightforward, rational, and linked to student need. By removing more categorical restrictions, the LAO notes that the new system also would provide districts with greater latitude to tailor program services to best meet local needs. Moreover, in contrast with many funding reform proposals that are predicated on a prolonged implementation period and the addition of substantial additional revenue, the Governor's proposal uses existing resources to begin restructuring immediately and achieve full implementation without delay. By beginning implementation immediately, the LAO argues that existing funding inequities are addressed right away rather than being allowed to persist many years into the future.

The LAO also notes some concerns with the proposal.

- Important State priorities may not be accomplished. One of the primary reasons the State establishes categorical programs is that it believes districts may underinvest in certain services or student populations unless the State guarantees those priorities through a dedicated source of funding. Because all funding distributed under the Governor's weighted student formula would be general-purpose funds, the State would no longer be able to ensure that important State priorities would be accomplished.

- Does not ensure additional funding will translate to additional services for disadvantaged students. The LAO is particularly concerned that districts would not be required to spend the additional funding generated by their disadvantaged student populations on services that benefit those students. A district could, for example, choose to spend that additional funding on providing an across-the-board increase to teacher salaries rather than on supplemental services for EL and low-income students.
- Overestimates the power of the existing accountability system. While the LAO agrees that stronger accountability systems could allow for more local flexibility, the LAO is concerned the Governor is overestimating the power of the existing accountability system. The existing K-12 accountability framework is not nuanced enough to help districts clearly determine how they need to improve or help the State clearly identify which school districts need intervention.

LAO recommends a modified approach: The LAO recommends the Legislature require that districts spend the supplemental “weighted” portion of their allocations to provide supplemental services to the disadvantaged students who generate the additional funds. The LAO believes these requirements are needed to protect services for disadvantaged students, at least until the State has developed a more robust accountability system that can both guide districts and provide reliable information to the State.

The LAO also notes that the Legislature may wish to make additional modifications to the Governor’s proposal to adjust the weighting factors, preserve other Legislative priorities, or mitigate the transition to the new formula.

STAFF COMMENTS

Related Legislation: AB 18 (Brownley), pending in the Senate Education Committee, would restructure California’s system for allocating State funding for public schools beginning in 2015-16. Specifically, the bill would consolidate over 20 revenue limit add-ons and categorical programs into a base funding apportionment to school districts, and provide this funding on the basis of average daily attendance (ADA). The bill would also group various categorical programs and target funding to English learners and economically disadvantaged students, as well as provide targeted funds for staff and school site support.