

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

May Revise: Part 1 (K-12 Education)

Assemblymember S. Joseph Simitian, Chair

MONDAY, MAY 17, 2004

Room 447

REGULAR BUSINESS

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CONSENT CALENDAR NUMBER ONE -- 6110 DEPARTMENT OF EDUCATION

This is the proposed consent calendar of non-controversial issues in the April DOF letters, which was provided to the public May 10, 2004.

1) May 10, 2004 agenda, p. 5 -- Correct technical error and add carryover money to federal special education local assistance item.

6110-161-0890, Local Assistance, 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”

2) May 10, 2004 agenda, p. 7 -- Adjust technical budget language to reflect authorized retirement rates in California Department of Education state operations item

6110-001-0890, Department of Education—State Operations

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.”

3) May 10, 2004 agenda, p. 9 - Adjustments in the federal Learn and Serve grant plus carryover funds**6110-102-0890, Local Assistance, 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.

4) May 10, 2004 agenda, p. 10 -- federal adult education carryover**6110-156-0890, Local Assistance for 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) May 10, 2004 agenda, p. 10 -- federal voc. Ed. carryover**6110-166-0890, Local Assistance, 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) May 10, 2004 agenda, p. 11 -- adjustments in federal drug free schools grant and carryover**6110-183-0890, Local Assistance, 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.

7) May 10, 2004 agenda, p. 11 -- adjustment to federal grant plus technical correction**6110-195-0890, Local Assistance, 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.

8) May 10, 2004 agenda, p. 14 -- Technical correction to allow 2002 unspent supplemental instruction funds to be reverted.**6110-495, Proposition 98 Reversion Language, Department of Education (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)”

CONSENT CALENDAR NUMBER TWO
6110 DEPARTMENT OF EDUCATION

ISSUE 1: CDE STATE OPERATIONS -- NON-CONTROVERSIAL MAY REVISE PROPOSALS

The issue for the subcommittee to consider is a number of reductions proposed to CDE's state operations as part of the Governor's May Revise. CDE recommended these reductions, when the administration requested a list of state operations reductions.

BACKGROUND:

The Governor's May Revise proposes the following reductions to CDE's state operations, as recommended by CDE under a state requirement for all departments to reduce expenditures by 3%. All of the reductions below are non-Proposition 98

- 1) **Reduce various demographic activities by \$31,000.** The May Revise proposes a reduction of \$31,000 in administrative activities in the Education Demographics Unit. CDE indicates that it would reduce supplies and travel and that no adverse service impact would result.
- 2) **Reduce CDE's participation in interstate organization.** The May Revise proposes a reduction of \$100,000 to eliminate membership fees in organizations such as the Council of Chief State School Officers. CDE states that it will continue to collaborate with other states on a less formal basis.
- 3) **Reduction to CDE's Secondary, Postsecondary and Adult Leadership Division.** The May Revise proposes a \$110,000 reduction to the Secondary, Postsecondary and Adult Leadership Division of CDE, as recommended by CDE as part of their 3% reduction plan requested by the administration. According to CDE, this reduction would reduce CDE's technical support to the Community Day Schools Program and the High Risk Youth and Public Safety Program.
- 4) **Eliminate contract with the California Association of Student Councils for Vocational Programs.** The May Revise proposes a decrease of \$50,000 to CDE state operations to reflect the elimination of the contract with the California Association of Student Councils for vocational programs. This cut was proposed by CDE as part of their 3% reduction, as requested by the administration. The May Revise letter states that the reduction would still leave \$33,000 for the association to contract with CDE for leadership training.

**ISSUE 2: MISCELLANEOUS MAY REVISE NON-PROPOSITION 98 GF
ADJUSTMENTS**

The issues for the subcommittee to discuss are a number of minor May Revise adjustments to education programs funded with non-Proposition 98 General Fund.

BACKGROUND:

The Governor's May Revise proposes the following adjustments in non-Proposition 98 education items:

- 1) **Savings from unused 2001-02 Professional Development Institute funding.** (Issue 179) The Governor's May Revise proposed to revert \$35 million in unused funding from the Professional Development Institute, which were housed in UC and provided standards-aligned professional development but are no longer funded. This funding was appropriated in the 2001 Budget Act to pay for teacher stipends to attend the institutes. The proposed savings is available for other non-Proposition 98 uses in other areas of the budget.
- 2) **Increase funding for Child Nutrition Programs.** (Issues 741 and 742) The Governor's May Revise proposes a \$353,000 increase to provide growth and COLA for child nutrition programs, which reimburse participating agencies for meals served to children in public and private schools, childcare centers, family day care homes, residential child care institutions, and adult day care facilities.
- 3) **Provide expenditure authority for consumer lawsuit settlement funding regarding nutrition.** (Issue 707) The Governor's May Revise proposes to increase reimbursement authority for the child nutrition program by \$2 million, to allow for the expenditure of a grant award from the Vitamin Case Consumer Settlement Fund. The funding is expected to be provided to school districts to improve school nutrition services. DOF and CDE indicate that the criteria for the distribution of the funds will be determined by the settlement and the Attorney General's office. The Governor's May Revise also proposes the following accompanying provisional language:

XX. Of the funds appropriated in this item, \$2 million shall be available for grants to local education agencies to improve school nutrition service. Funding for these grants shall be contingent on an award from the Vitamin Cases Consumer Settlement Fund for this purpose. Funding for these grants shall not exceed the amount of the award.

ISSUE 3: MAY REVISE -- ADJUSTMENTS FOR FEDERAL PROGRAMS

The issues for the subcommittee to consider are two May Revise proposals to adjust federal fund appropriations to reflect: 1) revised grant amounts and 2) carryover (unused funding that is available for one-time expenditure).

BACKGROUND:

The Governor's May Revise proposes the following adjustments to federal fund appropriations:

- 1) **Charter School Carryover (Issue 072)** - Increase of \$6.6 million in appropriation authority to allow for expenditure of federal funds that were unexpended in the current year. The administration states that the funds were returned by grantees, and would be redistributed to other charters for the same purpose.
- 2) **Federal Vocational Education Funds Carryover (Issue 199)** - Increase of \$919,000 to reflect an expected increase in the federal grant to California. The administration states that the funding will be used to meet existing leadership priorities, including standards and curriculum development, professional development, and guidance and counseling.

6125 EDUCATION AUDIT APPEALS PANEL

ISSUE 1: MAY REVISE ADJUSTMENT

The issue for the subcommittee to consider is a proposed May Revise reduction to the Education Audit Appeals Panel. The Governor's May Revise proposes a \$39,000 reduction, as part of the 3% reductions that all state departments are required to adopt. The proposed reduction will result in the elimination of all hardcopy publishing. Instead, publications will be made available on the Internet.

The Education Audit Appeals Panel was established for the appeal of attendance audits initiated several years ago but since terminated.

6330 CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE

ISSUE 1: MAY REVISE REDUCTION/ CORRECTION

The issue for the subcommittee to consider is a May Revise proposal to reduce expenditure authority for the support for this committee by \$30,000. This proposal corrects an earlier error that overestimated the amount of centralized legal services used in 2002-03 and therefore resulted in an overestimate in the amount of cost recovery.

ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: CDE STATE OPERATIONS -- OTHER MAY REVISE PROPOSALS

The issues for the subcommittee to consider are two additional May Revise proposals to reduce CDE state operations.

BACKGROUND:

The Governor's May Revise includes the following additional proposals to reduce state operations costs at CDE.

- 1) **Reduction of one visiting educator to the Visual and Performing Arts program.** The May Revise proposes a \$84,000 reduction to CDE to eliminate funding for one visiting educator in the Visual and Performing Arts program -- in his January budget, the Governor proposed to eliminate funding for this program. CDE indicates that the proposed state operations reduction would still leave one position to administer the program, if the subcommittee chooses to restore funding for the program.
- 2) **Suspend state report for reporting physical fitness test results.** The May Revise proposes to decrease CDE's state operations budget by \$50,000 to suspend the state reporting requirement on physical fitness testing. The May Revise letter states that testing results would still be available locally. It also proposed corresponding budget bill language as follows:

XX. Notwithstanding Section 60800 of the Education Code, or any other provision of law, the state reporting requirement on physical fitness testing is suspended.

ISSUE 2: MAY REVISE PROPOSAL TO REDUCE TECHNICAL ASSISTANCE FOR AVID

The issue for the subcommittee to consider is a May Revise proposal to reduce technical assistance to the Advancement Via Individual Determination program.

BACKGROUND:

The Governor's May Revise proposes to reduce teacher training funding for the Advancement Via Individual Determination (AVID) program by \$1.3 million, out of a total of \$3 million for teacher training. This proposal would leave \$6 million for program development grants and \$1.7 million for teacher training and technical assistance. CDE and DOF state that they believe that the proposed cut would not adversely affect the program because the same districts receive the grants every year and do not need to train their teachers annually.

AVID is a program that aims to improve the college readiness and attendance rates of disadvantaged students, through counseling and academic support.

COMMENTS:

AVID advocates oppose this proposed reduction, arguing that teacher training is central to the success of AVID.

ISSUE 3: MAY REVISE EMERGENCY LOAN PROPOSALS

The issues for the subcommittee to consider are various major May Revise proposals regarding emergency loans for school districts. These issues include: 1) proposed trailer bill language to restructure existing emergency loans by replacing the General Fund loans with lease revenue bonds issued by the state infrastructure bank, and 2) a \$60 million appropriation for an emergency loan to Vallejo Unified School District.

BACKGROUND:

The Governor's May Revise includes the following proposals regarding emergency loans to school districts:

- 1) **Proposed restructuring of existing outstanding General Fund emergency loans (Issue 055)** The Governor's May Revise proposes to restructure \$167.1 million in outstanding General Fund loans to three districts that have received or will receive emergency loans in exchange for some form of state takeover: Oakland Unified, West Contra Costa Unified and Vallejo Unified. The budget assumes \$167 million in non-Proposition General Fund savings as a result of the proposal. In the past when a district needed an emergency loan, the state provided it with a General Fund loan, and the district paid it back to the General Fund over time with interest according to the Pooled Money Investment Account. The administration's proposal would issue lease revenue bonds through the State Infrastructure Bank for any new emergency loans, and would issue lease revenue bonds to replace the \$167 million in outstanding General Fund loans to existing districts who are currently receiving emergency loans (including Vallejo Unified -- see below). The administration indicates that it will propose trailer bill language linked to the proposal.
- 2) **Proposed \$60 million for emergency loan for Vallejo Unified (Issue 054).** The Governor's May Revise proposes to set aside \$60 million in non-Proposition 98 General Fund in the 2003-04 budget year for the impending Vallejo City Unified School District emergency loan, pursuant to legislation (SB 1190, Chesbro), due to the district's financial troubles. It is noted that the budget-year repayment of this loan would be \$3.5 million. The appropriation of this funding will be in the legislation.
- 3) **Technical adjustment due to early repayment of Monterey Peninsula Unified School District Loan (Issue 052).** The Governor's May Revise notes the non-budget act item that reflects loan repayments as negative expenditures is decreased by \$4.4 million in 2002-03 and increased by \$1.7 million in the 2003-04 and 2004-05 fiscal years due to the early repayment of the loan provided to the Monterey Peninsula Unified School District, pursuant to 1993 legislation.

COMMENTS:

Questions regarding the proposal to restructure emergency loans. The subcommittee may wish to ask questions about the proposal to restructure outstanding emergency loans, and particularly on the proposal's effect on the districts receiving the loans. In particular,

- Given that the proposal will entail lease revenue bonds that make the district liable to repayment, how will the proposal affect the districts' ability to borrow for other purposes, such as to build facilities?
- Will there be any issuance costs related to the lease revenue bonds for the districts in question and who will pay them?
- In the event the interest rate for the refinanced lease revenue bonds is different than when the districts received their General Fund loan from the state, who will pay the difference and how will it be counted?

Staff notes that on the third question, the administration has indicated that the state will hold Oakland Unified harmless from the higher interest rate it will have to pay on the new lease revenue bonds, compared to the interest rate it began paying last year when it received its General Fund loan from the state.

ISSUE 4: STATE SPECIAL SCHOOLS -- MAY REVISE ISSUES

The issues for the subcommittee to consider are two adjustments proposed in the May Revise to the state special schools.

BACKGROUND:

The May Revise proposes the following adjustments to the state's special schools:

- 1) **Increased reimbursements to state operations for tobacco use prevention grants (issue 208).** An increase of \$345,000 to provide authority to reflect increased reimbursement billings to school districts and tobacco use prevention grants.
- 2) **Reappropriation for School for the Deaf, Riverside.** Add item 6110-490 to reappropriate funds for the working drawings and construction phases from funds provided in the 2003 Budget Act for the California School for the Deaf , Riverside, Multipurpose/Activity Center project. According to DOF, the 2003 Budget Act contained a technical error that did not allow for sufficient time to encumber the necessary funds for the different phases of the project, and the funds need to be reappropriated for the project.

**ISSUE 5: STATE SPECIAL SCHOOLS -- OPEN APRIL DOF CAPITAL OUTLAY
ISSUE**

The issue for the subcommittee to consider is an open capital outlay issue for the State School for the Deaf in Fremont. This issue was heard at the May 10 hearing.

BACKGROUND:

In an April DOF letter, the administration proposed \$3.3 million in lease revenue bonds to authorize the construction of the Pupil, Personnel Services building at the California School for the Deaf in Fremont. It notes that this phase was previously approved for \$2,144,000 in lease revenue bond funding in 2002. However, all of the bids received in December 2003 exceeded the appropriation by an amount that surpassed the Public Works Board augmentation authority. Therefore, the funding has been reverted and the project cancelled pending legislative approval of the new amount. The new proposed amount would be an increase of approximately \$1 million above the original proposed amount. DOF believes the revised amount reflects current market conditions.

COMMENTS:

This issue was heard at the May 10 hearing, but the subcommittee took no action at that time.

ISSUE 6: APRIL DOF LETTER ISSUES -- ADJUSTMENTS FOR FEDERAL PROGRAMS

The issue for the subcommittee to consider are three proposals from an April DOF letter to adjust federal funding to reflect revised grant amounts.

BACKGROUND:

In an April DOF letter, the Governor proposed the following adjustments to the January 10 budget. These adjustments all reflect an increase in the expected grant awards.

1) 6110-001-0890, Department of Education—State Operations

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) 6110-193-0890, Local Assistance, 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.

3) 6110-180-0890, Local Assistance, 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.”

COMMENTS:

Issues #1 and #2 are related to the same federal funding source.

ISSUE 7: MAY REVISE PROPOSAL FOR FEDERAL READING FIRST CARRYOVER

The issue for the subcommittee to consider is a new May Revise proposal for spending \$26.7 million in federal carryover (unused funding) from the federal Reading First program.

BACKGROUND:

The Governor's May Revise includes the following proposal for spending \$26.7 million in federal carryover funding from the federal Reading First program. The carryover funding is funding appropriated in prior years that has gone unused for various reasons. The proposed augmentation would be added to the \$145 million ongoing grant the state receives in federal Reading First funding, and would leave that funding unchanged. The proposal is to use the one-time carryover funding to provide a 23% increase in the per-teacher grant amount and require a diagnostic test and a plan to reduce special education referrals for readers below grade level. It includes budget bill language (in italics, below) to specify how the funding is to be spent.

"It is requested that this item be increased by \$28,986,000, which is comprised of: (1) \$26,564,000 in carryover from prior years, and (2) a reduction of \$578,000 to align the appropriation with the anticipated ongoing federal grant amount. This funding will be used to: (1) increase the funding level of existing participants to \$8,000 per full-time equivalent classroom teacher provided that they agree to provide diagnostic reading assessments and remedial reading instruction with the goal of lowering the number of pupils unnecessarily referred to special education due to having below grade-level reading skills, and (2) to provide additional Reading First grants.

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

X. Of the funds appropriated in this item, \$29,564,000 is available as carryover from prior years. The first priority for this funding shall be to increase the grant amount provided to existing grantees to \$8,000 per full-time equivalent classroom teacher in the Reading First Program. As a condition of the receipt of this supplemental funding, the grantee will have to provide a plan to utilize their Reading First program to lower the number of special education referrals based upon reading below grade-level. Such a plan should include diagnostic reading assessments and remedial reading instruction to students being considered for referral to special education. Any remaining carryover funds will be available to provide additional Reading First grants.

COMMENTS:

The May Revise proposal constitutes a change in the way the program is currently run. According to the LAO, the existing program provides \$6500 per participating teacher to improve reading instruction. The proposal would increase the amount by 23% per teacher to \$8000 and would require that receiving schools have a plan to reduce the number of special education referrals based on reading below grade-level, and that the plan include the use of a diagnostic reading assessments and remedial reading instruction to students being considered for referral to special education. The LAO believes that there are eligible schools that would like to participate but are unable to due to limited federal funding.

The state is expected to receive an ongoing grant for this program of \$145 million, including a \$13.6 million set aside for bilingual programs, which was approved as part of a bill last year that required the state to include bilingual programs as recipients of the federal Reading First funds. That legislation also specified how the funding is to be distributed and the requirements for participation.

ISSUE 8: MANDATES -- MAY REVISE PROVISIONAL LANGUAGE

The issue for the subcommittee to consider is a May Revise proposal to add mandate-related provisional language to the testing item.

BACKGROUND:

The Governor's May Revise proposes budget bill provisional language similar to that recommended by LAO, that would require that state funds provided to districts for the state testing systems be first used to offset any state-reimbursable mandated costs. This is in response to a recent action by the Commission on State Mandates to approve the various testing requirements as reimbursable state mandates, even though the state provides money to districts to administer these tests. The administration's proposed language would apply to the STAR, the California High School Exit Exam and the California English Language Development Test. It is proposed for both state and federal funding that is provided to school districts for these testing programs.

X. Funds provided in Schedules (3), (4), and (5), shall first be used to offset any state-mandated reimbursable costs that may otherwise be claimed through the state mandates reimbursement process for the Standardized Testing and Reporting Program, the California English Language Development Test, and the California High School Exit Exam, respectively. Local education agencies accepting funding from these schedules shall reduce their estimated and actual mandate reimbursement claims by the amount of funding provided -- to them from these schedules.

COMMENTS:

LAO recommendation. The LAO recommends adoption of the above language, but recommends adoption of the following similar language for two other items with related mandates that have recently been approved by the Commission on State Mandates: supplemental instruction and county oversight.

1. **County Office of Education Fiscal Oversight.** Amend existing provision 2 of item 6110-107-0001 to read as follows:

2. Funds contained in Schedule (1) shall first be used to offset any state-mandated reimbursable costs that may otherwise be claimed through the state mandates reimbursement process for implementing Education Code sections 42100, 42127, 42127.5, 42127.6, 42128, and 42131 and Government Code section 3540.2. County offices accepting funding from these schedules shall reduce their estimated and actual mandate reimbursement claims by the amount of funding provided to them from these schedules. County offices shall annually provide written notification of the number of school districts with disapproved budgets, qualified or negative certifications, or pursuant to Section 42127.6 of the Education Code, districts facing fiscal uncertainty to the Superintendent of Public Instruction, the Director of Finance, and the Office of the Secretary of Education.

2. **Remedial Instruction.** Add a new provision to item 6110-104-001, as follows:

5. Funds contained in Schedule (1) and (2) shall first be used to offset any state-mandated reimbursable costs that may otherwise be claimed through the state mandates reimbursement process of implementing Education Code sections 37252 and 37252.2. Local education agencies accepting funding from these schedules shall reduce their estimated and actual mandate reimbursement claims by the amount of funding provided to them from these schedules.

ISSUE 9: MAY REVISE PROPOSAL FOR INTERNET 2 PROGRAM LANGUAGE

The issue for the subcommittee to consider is a May Revision modification to a January 10 proposal to provide a \$21 million Proposition 98 increase to county offices for Internet 2 access. The proposed modification would add extensive budget bill language to specify a governance structure and distribution criteria for the program.

BACKGROUND:

The Governor's May Revise proposes to add the following budget bill language to a new item proposed this year that provides \$21 million to county offices of education for Internet 2 access. The language: 1) provides the funding to a lead county office to provide high speed Internet access to local education agencies, 2) specifies what the funding is for and 3) establishes a governance structure that includes members appointed by the California County Superintendents Educational Services Association and the Association of California School Administrators.

X. The funds appropriated in this item shall be allocated by the Controller directly to a lead county office of education selected on a competitive basis by the California Department of Education pursuant to Provision 4, to cover the costs of providing high speed Internet connectivity and network infrastructure for local educational agencies (LEAs). Any remaining funds may be used to connect additional school facilities to the network.

X. (a) The California Department of Education shall convene a 24-member governing board consisting of one representative chosen by the California County Superintendents Educational Services Association from each of the 11 county service regions designated by the association, 11 superintendents of school districts chosen by the Association of California School Administrators from each of the 11 county service regions, one non-voting representative from the Office of the Secretary for Education, and one non-voting member from the State Department of Education as chosen by the Superintendent of Public Instruction. This governing board shall oversee the allocation of funding provided in this item, and shall allocate funds provided pursuant to this item in the following order:

(1) First priority shall be given to maintaining statewide high speed Internet connectivity and network infrastructure for use by K-12 LEAs in each of the 58 counties in California.

(2) Second priority shall be given to ensuring that all California public schools and school district offices are connected at a speed of T-1 or greater into the nearest local access point for statewide high speed Internet connectivity. To be eligible for funding pursuant to this subdivision, the public school district must: (i) have signed a Letter of Agency in the fall of the proceeding fiscal year, and (ii) be part of the statewide E-Rate consortium by meeting all federal criteria.

(3) Third priority shall be given to innovative projects that will support and benefit network users on a statewide basis.

X. Applicant LEAs can apply for connectivity funding to their central office and/or to any of their eligible school sites. Each site applied for will count as one entity. Fund recipients will be chosen by the governing board through a random selection process that draws from amongst all eligible entities. Prior to the award of funds, applicants must

certify that they have in place sufficient network equipment, end user devices, and support to make use of a T-1 or faster connection to the high speed Internet.

X. On or before September 1, 2004, the California Department of Education shall issue a request for proposals and select a county superintendent of schools to serve as the lead fiscal agent for funds provided in this item. The lead fiscal agent shall have the authority to enter into contracts on behalf of all counties in California in accordance with direction received from the governing board specified in Provision 2. The lead fiscal agent shall provide technical assistance on the use of federal E-Rate and California Teleconnect Fund Administrative Committee Fund funding to assist LEAs with high speed Internet connectivity.

X. The governing board, with assistance from the lead fiscal agent, shall provide the Superintendent of Public Instruction and the Department of Finance with fiscal and administrative information relating to high speed Internet connectivity and the network infrastructure upon request. In addition, the governing board shall provide all county superintendents of schools, the Superintendent of Public Instruction, the Department of Finance, the Legislative Analyst's Office, and the fiscal committees of the Legislature that consider the education budget with a report by April 1 of each year that describes the use of funds provided pursuant to this section and the benefits derived by county offices of education, districts, and schools.

COMMENTS:

LAO recommendation. The LAO recommends deletion of the \$21 million, pending the receipt of information that demonstrates the project's benefit to district instruction. There also appears to be no long-term expenditure plan for this project.

SCHOLARSHARE INVESTMENT BOARD

ISSUE 1: MAY REVISE SAVINGS AND TRAILER BILL LANGUAGE

The Governor's May Revise proposes to capture \$50 million in prior year funds from Governor's Merit Scholarships¹ that were earned but unclaimed. Specifically, there is \$13 million from 2000-01, \$12 million from 2001-02, and \$25 million from 2002-03. The proposal would leave \$6 million for expected claims in the coming year. The proposed savings would go to the General Fund.

The May Revise also proposes accompanying trailer bill language to allow this transfer. Specifically, it proposes to add the following provision to section 69995, subdivision (e) of the Education Code. The language would make the General Fund liable for any outstanding claims for awards, if the \$6 million is insufficient.

(2) Notwithstanding subdivision (1), and subsections (b) and (c) (1) of Section 69996 or any other provision of law or regulation, the board shall authorize the transfer of \$50 million deposited for awards earned but unclaimed for the 2000-01, 2001-02 and 2002-03 fiscal years to the General Fund. These funds shall be transferred from the single accounts established, in each of the years previously stated, within the Golden State Scholarshare Trust, no later than 30 days after the enactment of the Budget Act of 2004. To the extent that there are insufficient funds available within the remaining single accounts, the General Fund shall be liable for any funds required to establish participant accounts for students who claim their 2000-10, 2001-02, or 2002-03 awards, consistent with Section 69996. After the funds are transferred to the General Fund and if there are insufficient funds remaining in the single accounts to establish the separate participant accounts, the Controller shall transfer funds from the General Fund to the Golden State Scholarshare Trust upon notification by the board that funds are needed to meet the General Fund's liability. The board shall promulgate regulations that are consistent with this paragraph pursuant to the authorization provided under Section 69999.

¹ Governor's Merit Scholarships were established several years ago as cash awards to high students achieving high test scores. The awards were available for students to continue their education and were provided regardless of income. The Legislature has already eliminated funding for these awards.