

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

May Revise: Part 1 (K-12 Education)

Assemblymember S. Joseph Simitian, Chair

TUESDAY, MAY 18, 2004

ROOM 447

REGULAR BUSINESS

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ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: 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. The subcommittee heard this issue at yesterday's hearing and held it open.

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 2: EFFECT OF LOCAL GOVERNMENT PROPOSAL ON PROPOSITION 98 --
INFORMATION ONLY**

The issue for the subcommittee to consider is the effect of the Governor's local government proposal on Proposition 98 funding.

BACKGROUND:

Change in the "make-up" of Proposition 98 funds. The Governor's May Revise includes a major local government proposal that includes a restructuring of the way property taxes are distributed through the state budget, such that local governments are allowed to "keep" a larger share of local property tax revenues. The effect of this proposal on the Proposition 98 guarantee appears to be a change in the composition of funds that make up Proposition 98. Namely, there is an increase in the proportion of the guarantee that is made up of General Fund and a decrease in the amount that is made up of property tax revenues. The Governor's May Revise includes a reduction of \$3.5 billion in property tax revenues going to Proposition 98 for K-12 school districts and county offices of education. This reduction is backfilled by an increase in General Fund revenues for the same purpose.

Effect on basic aid districts? Basic aid districts are districts' whose revenue limit apportionments are funded entirely with local property taxes. Given that the Governor's local government proposal shifts the distribution of local property tax revenues, it is unclear what the effect of this proposal will be on basic aid districts.

**ISSUE 3: PROPOSITION 98 OVERVIEW -- OVERALL INCREASES AND CHANGES
(INFORMATION / POSSIBLE ACTION)**

The table below describes the various Proposition 98 cuts and augmentations proposed in the Governor's budget (including adjustments made in the April DOF letters and the May Revise), relative to last year's funding level. The table is based on a table provided by the LAO, but altered to include cuts proposed by the Governor.

Selected changes proposed in 2004-05 relative to 2003-04 funding level

Program	2003-04 funding level	2004-05 proposed			Total funding level, as of May Revise
		January 10 budget (change relative to 2003-04 level)	April DOF letter (change relative to 2003-04 level)	May Revise (change relative to 2003-04 level)	
Revenue Limits					
COLA's	N/a	\$555	\$555	\$724	N/a
Growth	N/a	\$280	\$280	\$162	N/a
K-12 equalization	\$0	\$110	\$82	\$110	\$110
Deficit factor reduction	\$0	\$0	\$270	\$270	\$270
Categorical program growth and COLA	N/a	\$167	\$220	\$388	N/a
Instructional materials	\$175	\$188	\$0	\$100	\$275
Deferred maintenance	\$77	\$173	\$0	\$107	\$184
Library materials	N/a	\$0	\$0	\$95	\$95*
Net reduction of deferral pay- offs	\$0	-\$1,036	-\$1,036	-\$1,029	-\$1,029
Beginning Teacher Support and Assessment	\$86	\$1	\$1	-6	\$80
II/USP - phase outs	\$130	-\$77	-\$77	-\$77	\$53
High Priority Schools Grants - phase outs	\$218	-\$25	-\$25	-\$25	\$193
Healthy Start	\$2	-\$2	-\$2	-\$2	\$0
Early Mental Health Initiative	\$5	-\$5	-\$5	-\$5	\$0
Early Intervention for School Success	\$2	-\$2	-\$2	-\$2	\$0
School-to-Career Program	\$1.7	-\$1.7	-\$1.7	-\$1.7	\$0
Local Arts Education Partnership	\$6	-\$6	-\$6	-\$6	\$0
Academic Improvement and Achievement	\$5	-\$5	-\$5	-\$5	\$0
Pre-intern program	\$10.4	-\$10.4	-\$10.4	-\$10.4	\$0
Charter School Facilities Grant Program	\$7.7	-\$7.7	-\$7.7	\$0	\$7.7*
Childcare -- effect of proposed reform	\$1,281	-\$14**	-\$14**	-\$62***	\$1,219

*Reversion account funds

** Net effect of caseload changes, federal funds shifts, and \$123 million in childcare reform savings.

*** Includes \$90.7 million in child care reform "savings" due to the policy changes proposed by the administration. That is, if the subcommittee wishes to reject the reform package, it will need to restore \$90.7 million.

Highlights of the Governor's May Revise:

- Fully funds growth and COLA. Growth costs go down, due to lower enrollment estimates, and COLA costs increase due to the increase of the COLA rate to 2.41%.
- Reinstates January 10 level of funding for equalization, at \$110 million.
- Reinstates part of the funding reduced from instructional materials in the April DOF letter, at a total \$100 million in funding above the \$175 million base funding level that is proposed to be rolled into the revenue limit.
- Maintains the \$270 million for revenue limit deficit reduction, as proposed in the April DOF letter.
- Reinstates part of the January increase proposed for deferred maintenance, which was retracted in the April DOF letter. The proposed increase in the May Revise is \$107 million.
- Proposed a new \$95 million augmentation for school and classroom library materials, out of one-time reversion account funds.
- Restores none of the cuts proposed for various categorical cuts in the January 10 budget, with the exception of \$7.7 million in one-time reversion account funds for the charter school facilities program.
- Provides \$270 million in current year funds to pay off deferrals (see below).

Additional current-year proposal to pay off deferrals. In addition to the above proposals, the Governor's May Revise estimates an increase in the 2003-04 minimum Proposition 98 guarantee and proposes to spend this increase to reduce the amount of funding the state defers to the following year. The May Revise does not identify which deferred programs it would pay off, but states that it would identify such programs in the accompanying trailer bill. (DOF indicates that it may be inclined to propose paying off a portion of the P-2 apportionment deferral, which has been problematic to defer.) By paying off deferrals, the state would be making two payments for a program in one year to re-align the funding so that it would be provided in the year of its intended use. This proposal leaves the total amount of settle up "owed" to districts from 2002-03 and 2003-04 the same, at approximately \$1 billion, as proposed in January 10 budget.

Proposed trailer bill language to implement deficit reduction. The administration proposes trailer bill language to implement the proposed deficit reduction. This trailer bill language is contained in attachments A and B.

ISSUE 4: MAY REVISE -- MISCELLANEOUS PROPOSITION 98 ADJUSTMENTS

The issues for the subcommittee to consider are various Proposition 98 adjustments proposed in the May Revise.

BACKGROUND:

The Governor's May Revise proposes the following miscellaneous Proposition 98 adjustments:

1) Adjustment for community day schools, (Issue 334) The Governor's May Revise proposes a cost-neutral switch of funding between the line item for this program and the apportionments that go to these programs, by augmenting item 6110-190-0001 by \$12,079,000, and decreasing the apportionments by the same amount. The administration proposes the change to allow the allocation of funding for mandatorily and non-mandatorily expelled community day school students to reflect current utilization. The administration also proposes trailer bill language to allow for this transfer for 2003-04 only. The proposed trailer bill language is contained in attachment C.

2) Adjustment for Beginning Teacher Support and Assessment Program (Issue 191)

The Governor's May Revise proposes to decrease this item by \$6,886,000 to reflect an adjustment in the estimated number of eligible new teachers expected to participate from 24,000 to 22,000. This is consistent with current-year participation estimates. (The Governor's May Revise also reverts unused funding from the current year for this program due to lower-than-expected number of participants.)

3) Adjustment for National Board Certification (Issue 200) The Governor's May Revise proposes to increase this item by \$235,000 to provide \$5,000 grants to new National Board Certified teachers who commit to work in a low-performing school. These teachers would be eligible for an additional three years of grants in future years provided that they continue to teach in a low-performing school. The Governor's Budget provided funding for 1,460 participants. This action will provide sufficient funding for the 1,507 teachers that the department anticipates to be eligible for awards.

4) Basic aid categorical reduction. (Issue 064) The May Revise proposes to reduce basic aid district categorical programs by \$2.7 million, so that the total cut to basic aid categoricals reflects the proposed deficit reduction funding for non-basic aid school districts, and the remaining cut reflects the same proportion of deficit the state owed to school districts as a result of last year's denial of revenue limit COLA's and revenue limit cut. The administration proposes trailer bill language to implement the change. The proposed trailer bill language is contained in attachment D.

Information only items. The Governor's May Revise highlights the following issues for information only:

1) High School Class Size Reduction (Issue 001) -- No change is requested for Item 6110-232-0001. However, it is noted that a COLA change of 2.41 percent would have increased this item by \$753,000, but due to a decrease in program participation, no funds were added to the

item. In addition, the per-pupil rate will be adjusted for this program to reflect an increase from \$183 to \$184 per pupil for the COLA change.

2) K-3 Class Size Reduction (Issue 001) -- No change is requested for Item 6110-234-0001. However, it is noted that a COLA change of 2.41 percent would have increased this item by \$9,200,000, but due to a decrease in program participation in the current year and uncertainty about budget year participation, no funds were added to the item. In addition, the per-pupil rate for Option One participants will be adjusted to reflect an increase from \$923 to \$928 per pupil and the rate for Option Two participants will be amended to reflect an increase from \$461 to \$464 per pupil for the COLA change.

COMMENTS:

LAO estimate of basic aid reduction. The LAO's estimate of the cut to basic aid categoricals to correspond to deficit reduction is different than the administration's, based on a different estimate of the number of excess property tax districts.

ISSUE 5: PROPOSITION 98 REVERSION ACCOUNT

The issues for the subcommittee to consider are various issues regarding the Proposition 98 reversion account.

BACKGROUND:

The Governor's May Revise contains the following proposals regarding the Proposition 98 reversion account:

- 1) **New reversions.** Reverts unused funds from prior years for a variety of programs to the Proposition 98 reversion account for use on other Proposition 98 expenditures. The biggest amounts are
 - \$50 million in expected unused K-3 class size reduction funds, due to a decline in participation in the current year
 - \$10 million in expected unused 2003-04 funds from the BTSA program
 - \$13.2 million in unused funds from the Child Care Facilities Revolving Fund
 - \$2 million in expected unused funds from the Safety Plans for New Schools program in the current year.Staff notes that the LAO believes that the administration reverts more than is really available.
- 2) **New appropriations.** Makes the following new appropriations from the Proposition 98 reversion account: a) \$95.1 million for school and classroom libraries and b) \$7.7 million to restore funds for the charter school facilities grant program, which was proposed to be eliminated in the January 10 budget.
- 3) **Provisional language** to give CDE the authority to revert minimal funds without legislative authority. CDE notes that this language would create efficiencies. The proposed language is below.

(X) The Superintendent for Public Instruction is hereby authorized to initiate the reversion of appropriations in cases where the balance available for reversion is less than \$20,000, and either of the following apply:

(i) The program in question has expired.

(ii) It is impractical to spend the funds for their original intended purpose, as certified by the Superintendent for Public Instruction.

(X) The Department of Education may periodically review its accounts at the State Controller's Office to identify appropriations that meet these criteria. Upon the request of the Department of Education, and if the Department of Finance approves the request, or portions thereof, the Department of Finance shall issue an executive order to revert identified appropriations. The State Controller shall timely revert appropriations identified in the executive order to the fund from which the appropriation was originally made (or a successor fund in the case of an expired fund), or the Proposition 98 Reserve Account, whichever is appropriate.

Outstanding letter regarding certificated awards. There is an outstanding Proposition 98 reversion account issue from an April DOF letter that the subcommittee has not acted on. It regards a \$50 million appropriation from the Proposition 98 reversion account to pay for a

lawsuit settlement regarding the Certificated Staff Performance Awards. The subcommittee has not acted on this proposal yet.

COMMENTS:

CDE recommended language to soften reversion account reporting language. CDE recommends adoption of the following changes to existing provisional language that requires CDE to report on the balances in the Proposition 98 reversion account. CDE indicates that the changes would allow it to provide information to the Legislature and staff on a more timely basis.

Item 6110-001-0001

18. The SDE shall make information available ~~report~~ to the Department of Finance, the Legislative Analyst's Office, and the budget committees of each house of the Legislature by October 31, 2004, March 31, 2005, and May 31, 2005, regarding ~~on~~ the amount of Proposition 98 savings estimated to be available for reversion by June 30, 2004.

ISSUE 6: CATEGORICAL DEFICIENCIES

The issues for the subcommittee to consider are potential current-year deficiencies in various categorical programs.

BACKGROUND:

Advocates and the LAO estimate that the following categorical programs may face deficiencies in the current year:

- 1) Charter Schools
- 2) Supplemental instruction, which provides funding to school districts to provide after and summer school programs for students who have been retained or are at risk of retention, among others. Funding is based on the number of students served and may vary from year to year based on districts' decisions to run summer school programs and variations in the number of students wanting and eligible to take summer school.
- 3) Community day schools, in which school districts may receive per average daily attendance (ADA) funding for serving high-risk students who, have been expelled from regular district-run schools. The funding is based on average daily attendance, and the rate is higher than traditional revenue limits. Enrollment in these programs has increased in recent years.

For supplemental instruction, CDE indicates that it will not know the extent of the deficiency for supplemental instruction until after June.

COMMENTS:

The Governor's May Revise does not propose to fund any possible deficiencies in the above programs. However, of the above programs, all but the community day schools are included in a control section 12.60, which allows CDE to move money between categorical programs in the event there are shortfalls in some programs and extra funding in others. K-3 class size reduction is included in that control section, but the May Revise reverts all unused funding in the current year, so that it would not be available to be used to fund other deficiencies per control section 12.60.

ISSUE 7: MAY REVISE TRAILER BILL PROPOSAL REGARDING COUNTY OFFICE FACILITIES

The issue for the subcommittee to consider is proposed trailer bill language regarding the construction of alternative schools.

BACKGROUND:

The administration proposes language intended to address county offices' use of state facilities bond funds to construct small alternative schools that serve expelled students. Currently, county offices do not need to provide a 50% local match to draw down bond funding to construct these facilities. The proposed language would count the new schools as being from the school district from which the expelled students originate. The effect will be to require those school districts to provide the local match.

COMMENTS:

Staff notes that there are no General Fund savings scored as a result of the proposed language, although there would be savings in facilities bond funds.

The proposed language from the administration is contained in attachment E.