

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

ASSEMBLYMEMBER JOE SIMITIAN, CHAIR

TUESDAY, APRIL 30, 2002
STATE CAPITOL, ROOM 444
10:00 AM

ITEMS TO BE HEARD

ITEM	DESCRIPTION	PAGE
4220	CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE	2
ISSUE 1	PROPOSED EIMINATION OF CDPAC	2
6110	STATE DEPARTMENT OF EDUCATION	4
ISSUE 1	SPECIAL EDUCATION	4
ISSUE 2	GOVERNOR'S CHILDCARE REFORM PROPOSAL	6
ISSUE 3	FUNDING FOR CHILDCARE REFORM STUDY	10
ISSUE 4	CHILDCARE DATA COLLECTION SYSTEM	11
ISSUE 5	AFTER SCHOOL PROGRAMS – STATE FUNDING	13
ISSUE 6	FEDERAL TITLE IV -- NEW 21 ST CENTURY LEARNING CENTERS AFTER SCHOOL PROGRAM	15
ISSUE 7	PRESCHOOL EDUCATION PROJECTS	17
ISSUE 8	ADULT AND VOCATIONAL EDUCATION	18
ISSUE 9	ADULT EDUCATION CITIZENSHIP FUNDING	20
ISSUE 10	CHARTER SCHOOLS	21

ITEM # 4220 CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE**ISSUE 1: PROPOSED ELIMINATION OF CDPAC**

The issue for the subcommittee to consider is the Governor's proposed elimination of the Child Development Policy Advisory Committee, and the corresponding reduction.

BACKGROUND:

The Governor's budget proposes a total funding level of \$227,000 in General Fund for the Child Development Policy Advisory Committee (CDPAC), a reduction of \$265,000 and 4.1 personnel years from the \$492,000 base funding level in the current year. The Governor proposes to eliminate the CDPAC, as of January 1, 2003, and the proposed funding level represents half-year funding through that date. The Governor also proposes trailer bill language in the social services trailer bill to eliminate CDPAC. (Assembly Budget Subcommittee #1 will consider this proposed trailer bill language.)

The Governor's budget also proposes the reduction of \$274,000 in expenditure authority that CDPAC utilizes when it receives contracts from other agencies. This reduction does not represent a reduction in General Fund expenditures, but DOF proposes the reduction, nevertheless, to reflect what it expects CDPAC to receive in reimbursements through January 1, 2003.

CDPAC provides policy recommendations to the Governor, the Superintendent of Public Instruction, the Legislature and other state agencies regarding childcare and development. It is a citizen's review board comprised of appointed members -- parents, public members, family childcare and childcare center operators, and representatives of five state departments. CDPAC was originally created as the Governor's Advisory Committee on Preschool and Educational Programs in 1965 by AB 1331 (Unruh). It has provided non-partisan policy advice since that time. Since that time, the Legislature has also asked CDPAC to carry out various policy reviews of the state's childcare system, as well as carry out certain legislative mandates related to improving the quality and availability of childcare.

COMMENTS:

The Governor's proposal saves only \$265,000 in General Fund in the budget year, yet it eliminates a body that has provided policy advice and guidance for many years regarding the state's \$3 billion childcare system. CDPAC has also been able to leverage private and federal funding for initiatives to support this system, through its relationships with non-profit organizations and private foundations.

In order to retain this agency in the budget year, staff recommends the subcommittee make a recommendation to Assembly Subcommittee #1 to reject the Governor's proposed trailer bill language to eliminate CDPAC. In order to allow CDPAC to continue operating in the budget year, but still capture some General Fund savings relative to last year, staff recommends

adopting a General Fund funding level for CDPAC that reflects the following adjustments to its base funding level:

Base funding level in current year:	\$492,000
Savings from deletion of two unfilled associate governmental program analyst positions (including benefits), leaving 2 positions	-130,000

Sub-total (GF only)	\$362,000

Staff notes that the total proposed funding level is only \$135,000 more than the funding level proposed by the Governor, and would allow CDPAC to continue to operate, albeit at a reduced staffing level.

Staff also recommends an increase in expenditure authority (reflecting expected reimbursements in the budget year) of \$83,000, for a total of \$252,000. This action does not increase General Fund expenditures, and would allow CDPAC to administer its normal volume of contracts throughout the year. This would bring CDPAC's total budget to \$612,000.

ITEM # 6110 DEPARTMENT OF EDUCATION**ISSUE 1: SPECIAL EDUCATION**

The issue for the subcommittee to consider is the availability of new federal special education funding, and the Governor's proposal for its use

BACKGROUND:

Federal increases. The Governor's budget includes an increase of \$112.3 million in federal special education funding. However, California is expected to receive a total increase of \$131.6 million in the budget year, approximately \$19.3 million more than what's reflected in the January budget. The Governor proposes to apply all of the \$112.3 million increase in federal funds to offset current General Fund expenditures on special education (for a General Fund savings of the same amount). While this would be considered supplanting under other federal education programs, this is allowed with federal special education funding. California often used federal funds to offset General Fund spending in prior years, but in recent years it has applied any increased federal funds to special education equalization and other adjustments, pursuant to requirements of state legislation. Now that those statutory obligations have been met, DOF argues that the state is under no statutory obligation to pass on increased federal funds to local education agencies.

The LAO notes that in the original 1975 federal special education legislation that required schools to provide equal access to educational services to special education students, Congress stated its intent to provide 40 percent of the additional cost of meeting the requirements it was imposing. However, the federal government has never contributed more than 17 percent of this cost. In California, the federal share of cost is close to 10 percent, and SDE estimates that California would receive more than double the amount it currently receives if the federal government met its 40 percent commitment.

Overall increases. The Governor's budget proposes a total of \$2.7 billion in Proposition 98 funding for special education in the budget year. This includes a total increase of \$117 million, or about 3 percent, including \$77.5 million for a 2.15 percent COLA. In addition, the budget contains the second of ten annual installments of \$25 million, in accordance with the terms of a settlement approved last year over the cost of special education mandates.

COMMENTS:

DOF notes that its calculation of the amount of General Fund required for special education, as well as the amount of federal funds available to offset General Fund expenditures will change in May Revise, based on changes in property tax revenues and other factors.

LAO recommendation: The LAO recommends adoption of the Governor's proposed use of increased federal funds to offset General Fund expenditures, given the state's fiscal situation. For the remaining \$19.3 million in increased federal funding that DOF did not include in the January budget, the LAO recommends:

- \$4 million to offset General Fund expenditures, freeing up an equal amount of Proposition 98 funding for other K-12 priorities.
- \$300,000 to fund a study of special disabilities adjustments. Current law provides additional funding to areas that have a disproportionately large number of high-cost special education students. However, the funding mechanism for calculating these adjustments expires in the budget year, and current law requires a new study to calculate the new adjustments to be completed by March, 2003. The Governor's budget does not contain funding for this study.
- Split the remaining \$15 million between equalization and per-ADA distribution. This 50-50 split reflects the action the Legislature took last year with increased federal funding.

Legislation. The Legislature is currently considering legislation that would require that any future increases in federal special education funding be passed on to local education agencies as increases, and not be used to offset General Fund spending.

ISSUE 2: GOVERNOR'S CHILDCARE REFORM PROPOSAL

The issue for the subcommittee to consider is the Governor's proposal to reform the state's childcare system, and program reductions that are associated with it.

BACKGROUND:

The Governor's budget reflects his proposal to reform the state's childcare system. To this end, the Governor's January budget includes approximately \$400 million in childcare reductions and revenue increases, which the Governor then proposes to re-invest in additional working poor childcare slots (including a \$30 million increase to the state's after school program). The proposed **reductions and revenue increases**, include the following.

- Reducing the maximum income that a family can earn in order to be eligible to receive subsidized childcare, from the current 75 percent of the state median income to a varied percentage based on cost of living (66 percent of SMI for the highest cost counties in the Bay Area), 63 percent for other high-cost counties and 60 percent for all other counties.
 - **Estimated savings** = \$133.7 million
 - **Number of children affected** = 20,928

- Reducing the maximum age for which a child is eligible to receive subsidized childcare, from the current age of 13, to 12.
 - **Estimated savings** = \$5.5 million
 - **Number of children affected** = 1143

- Reducing reimbursement rates to childcare providers, from the current level of 93 percent of the regional market rate (based on local survey data) to 75 percent of the regional market rate.
 - **Estimated savings** = \$75.5 million
 - **Number of children affected** = none (quality of care is affected), unless childcare providers decide to stop contracting with the state as a result of the lower reimbursement rates.

- Increasing fees that families pay, from the current policy where only families above a certain income level pay fees and pay one fee regardless of the cost of care or the number of children. The new policy would require all families (including the poorest) to pay a fee. The fees would be levied per child and would be increased gradually so that by a family's 7th year of receiving subsidized care, the fee would be proportional to family

income as a percentage of the state median income (eg., if income = 60 percent of SMI, fees = 60 percent of cost of care). Also, providers would be responsible for collecting fees (new requirement).

- **Estimated revenue** = \$186.7 million
- **Number of children affected** = none, unless providers stop contracting with the state due to the complexity of the fee model and their unwillingness/inability to administer it.

In addition to the above revenue-saving changes, the Governor's proposal **eliminates the Stage 3 set-aside** that provides subsidized childcare to former CalWORKs participants, by July 1, 2003. The Governor also proposes changing the priority system for working poor childcare, from the current system that gives first priority to children referred by child protective services and second priority to the lowest-income families on the waiting list. First priority would remain the same, but second priority would be to families in the lowest of a ten-tiered income range, who are working at least 32 hours a week and have children under five. In addition, the proposal would phase out the latchkey program, which serves school-age children.

Legislation would be required to implement the reform, but there is no such legislation before the Legislature at this time. The Department of Social Services has commissioned a stakeholders' group to solicit input on the Governor's childcare proposal. Based upon this feedback, the stakeholders' group is developing a proposal that the Department intends to issue during May Revise.

COMMENTS:

Various interest groups have expressed concern about the Governor's reform proposal. In addition, the federal TANF reauthorization may affect California's childcare system in the coming year, and it may therefore be premature to consider long-term reforms at this time.

Subcommittee #1's actions to restore childcare budget to current statute. The Assembly Budget Subcommittee #1 on Health and Human Services heard the Governor's proposed childcare reform and took the following corresponding actions to eliminate the changes associated with the Governor's proposed reform and restore the childcare budget to current statute, except for the restoration of the Stage 3 set-aside. (For those items within the purview of this subcommittee, Subcommittee #1 made recommendations to this subcommittee.)

Proposed changes to restore the childcare budget to current state (\$ in millions)

Childcare mode	Governor's Budget	Proposed Change	Revised Amount
CalWORKs Stage 1	\$ 472	\$ 50	\$ 522
CalWORKs Stage 2	\$ 592	\$ 133	\$ 725
CalWORKs Reserve	\$ 165	\$ -	\$ 165
CalWORKs Stage 3	\$ 81	\$ 306	\$ 387
APP Regular	\$ 626	\$ (418)	\$ 208
General Childcare	\$ 536	\$ 69	\$ 604
After School	\$ 163	\$ (30)	\$ 133
Total	\$ 2,634	\$ 110	\$ 2,744

(Note: The proposed change for Stage 3 includes the cost of restoring the Stage 3 set-aside, which Subcommittee #1 did not take action on.)

Options for restoring the Stage 3 set-aside. DOF estimates that it will cost approximately \$110 million to restore this in the budget year. The LAO provides the following options to pay for this restoration:

1. **Newly Identified Available Funding (\$51.2 Million).** This is funding available from carryover and federal sources that is not included in the Governor's budget. The \$52.1 million total consists of the following:
 - \$26.4 million in one-time Proposition 98 savings due to childcare and state preschool providers not expanding services in the current year as rapidly as had been expected.
 - \$17.9 million in "unanticipated" federal funds (one-time) made available in the current year that must be spent on childcare.
 - \$4.2 million in non-CalWORKs childcare funds carried over from 2000-01.
 - \$2.7 million in CalWORKs carryover (\$1.3 million Proposition 98 and \$1.4 million federal funds) from 2000-01.
2. **Reducing Program Expansion, Preschool (\$24.8 Million).** The Governor's budget includes a total of \$308 million General Fund (Proposition 98) for state preschool programs. Of this amount, SDE plans to initiate a request for applications process in order to award \$14.8 million for additional state preschool slots in the budget year. This was funding that SDE was unable to distribute in an initial request for applications last year. In addition, the Childcare Facilities Revolving Fund administered by SDE currently includes a balance of \$10 million that is being set aside for state preschool facilities to serve additional students.
3. **Discontinuing CalWORKs Center-Based Pilot Program (\$10 Million).** This funding dates to the 1999-00 Budget Act, when the Legislature provided the funding for SDE to develop a pilot program allowing CalWORKs families to receive care in childcare centers under contract with SDE. Due to contracting and attendance-tracking difficulties, SDE staff recently indicated that it does not regard program implementation as feasible.
4. **Approve Governor's Proposal to Eliminate Childcare Eligibility for "Grandfathered" Families (\$24 Million Savings).** This proposal would eliminate childcare eligibility for families whose incomes exceed the current maximum of 75 percent of the state median income (SMI), but are under 100 percent. These families were grandfathered into the existing system in 1997, when the state lowered the eligibility from 100 percent to 75 percent of SMI. The estimated savings from this proposal may be high. The subcommittee may wish to phase in the proposal, but this would result in less savings during the first year of implementation.
5. **Approve Governor's Proposal to Eliminate Childcare Eligibility for 13-Year Olds (\$5.5 Million Savings).** The Governor's budget proposes to eliminate childcare services for 13-year olds, for annual savings of \$5.5 million. The administration argues that no other state provides subsidized care to 13-year old children, mainly because federal funds can only be spent on childcare for children age 12 or below. As an alternative, school-aged children may obtain free childcare through after school programs operated by school districts. The

6. Legislature could choose to phase in this proposal, although this would result in less savings during the first year.

The LAO also recommends using federal funds instead of state funds for the proposed expansion of after school programs, for a savings of \$37.4 million, as discussed below.

ISSUE 3: FUNDING FOR CHILDCARE REFORM STUDY

The issue for the subcommittee to consider is a proposal to continue funding for data collection related to the Governor's childcare reform efforts.

BACKGROUND:

The Governor's budget proposes \$300,000 for continuing data analysis associated with the administration's childcare reform proposals. This is the same funding level provided for the past two years, and has been provided from the \$20 million the Legislature set aside several years ago to create a statewide childcare data collection system. For the past two years, the state and Consumer Affairs Agency has contracted with the Results Group to run cost models related to the Governor's childcare reform proposal. (There is no statewide childcare data system that provides the necessary information to estimate the costs of reforms.) A DOF letter dated March 29, proposes that the funding be transferred from SDE's budget to the Department of Social Services. (The January budget originally proposed that the funding be transferred to the Secretary of State and Consumer Affairs.)

COMMENTS:

The Governor has used this funding to run cost models related to his childcare reform proposal, but given the Legislature's questions about the proposal, is there a need to continue funding for this data collection in the budget year? Moreover, the data collection has been limited to the options put forth by the administration. Legislative staff has had limited access to the contractor, and has therefore been unable to request that the contractor provide cost estimates of variations of or alternatives to the administration's proposals.

ISSUE 4: CHILDCARE DATA COLLECTION SYSTEM
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The issue for the subcommittee to consider is SDE's progress in developing a statewide childcare data collection system.

BACKGROUND:

The Governor's budget carries over unused funding from a \$22 million set-aside created five years ago to create a statewide childcare data collection system. The 1997-98 budget provided this one-time federal funding for SDE to develop a childcare data collection and analysis system that would provide basic information for state policymakers and help SDE comply with federal reporting requirements. Currently, there is no statewide data system to provide basic aggregate information about the state's \$3 billion childcare system, such as the number and ages of children currently funded, by geographic location and income. As a result, the administration had to request funding in the budget to have a contractor collect basic data that it could use to develop various reform options. This data, however, has limited uses, because it reflects one point in time. (The budget funded the contractor's costs out of the funding pot reserved for the childcare data collection system.)

At the start of this proposal, SDE had proposed the development of an interim data collection process to automate its efforts to collect data to comply with federal reporting requirements. It then proposed to transition this interim system to a more comprehensive system originally envisioned by the Legislature when it set aside the federal funding.

SDE's progress to date. Last year, the subcommittee heard updates from SDE regarding its progress in implementing the interim system and the comprehensive system. Due to concerns about its progress, the subcommittee adopted supplemental report language, requiring SDE to report on its progress on the following timeline:

	<u>Task</u>	<u>Dates</u>
Milestone I	Contract for Project Manager	7/01/01 to 9/30/01
Milestone II	Develop the Feasibility Study Report (FSR)	10/01/01 to 7/31/02
Milestone III	DOIT and DOF/TIRU Approval of the FSR	08/01/02 to 12/31/02
Milestone IV	Develop the Data Collection System	01/01/03 to 12/31/03

To date, SDE has met and even exceeded the timeline benchmarks it proposed last year. For example, it completed the feasibility study report and sent it to DOF and TIRU for approval, nearly four months ahead of schedule. In addition, it has convened the data collection taskforce, as required by budget control language, to solicit suggestions regarding what data elements should be included in the comprehensive system. The supplemental report language and SDE's responses are included in attachment I.

COMMENTS:

Base funding. SDE is requesting that it receive a base funding level in the budget year, to allow it continue to develop the comprehensive system. Although the budget contains funding for the development of the system, budget control language requires SDE to submit expenditure plans every few months to DOF for approval. SDE argues that uncertainty about the approval

of its plans has meant that it does not have a predictable, stable stream of funding with which to fund contractors involved in the development of the system.

Use of system for compliance purposes. DOF proposes budget control language that would specify a number of data elements for the comprehensive system and specifies that the measures be used to ensure compliance. DOF indicates its intent to utilize the system to detect fraud, yet staff notes that fraud detection was not part of the legislative intent in developing the system. Staff also notes that the use of the system for fraud detection may require a number of technical additions to the system that may delay its implementation, and SDE may face legal impediments that would prevent it from collecting the information that would allow the system to be used for fraud detection and compliance. Given the urgent need for basic information about the state's childcare system, staff accordingly recommends deletion of the proposed language, as follows, to allow implementation of the system to move forward as planned, in an expeditious fashion.

Proposed Language:

~~The State Department of Education shall ensure that any long-term data collection system adopted by the department is able to collect the data specified by Provision 8(c)(6) of Item 6110-196-0001 of the Budget Act of 2000 (Ch. 52, Stats. 2000). Additionally, the State Department of Education shall ensure the data collection system will facilitate childcare reforms consistent with legislation adopted in the 2002 Legislative Session, including cumulative family time receiving subsidies, family fee and income verification, and other measures to ensure compliance.~~

ISSUE 5: AFTER SCHOOL PROGRAMS -- STATE FUNDING

The issue for the subcommittee to consider is the proposed funding level for the After School and Safe Neighborhoods Program.

BACKGROUND:

The Governor's budget proposes an increase of \$67.5 million over the revised current year funding level for the California Before and After School Learning and Safe Neighborhoods Partnerships Program. The proposed increase would bring total funding for the program to \$162.8 million. The \$67.5 million increase has three components:

1. \$30 million paid for from savings linked to the Governor's childcare reform proposal.
2. \$22.5 million as the annualized cost of a \$7.5 million increase provided in the current year to pay for three months of grants. Staff notes that this funding has already been committed in the budget year for multi-year implementation grants that were awarded earlier this year.
3. \$15 million for expansion of the program, above the amounts proposed above.

The budget also proposes control language that would give priority to middle schools to receive funding. This language was also contained in last year's budget.

Last year's budget contained a \$29.7 million increase for the program, \$14.9 million of which was designated for a new before school component. In his November current-year revisions, the Governor proposed to delay implementation in the current year, for one-time savings of the same amount. However, the Legislature decided to delay implementation only until March of this year, necessitating 3 months of funding in the current year, for a cost of \$7.5 million in the current year.

This program was initiated in 1998 to provide much needed after school care programs to students. The program was initiated partly out of concern over high juvenile crime rates between the hours of 3:00 and 6:00 PM, and the linkage between these rates and the lack of supervision of school-age children during these hours. The program provides competitive grants to schools that partner with communities to provide literacy and academic enrichment support and safe, constructive alternatives for students in kindergarten through ninth grade. A preliminary evaluation of the program indicates that student participation in these programs can have positive impacts on student achievement, attendance, attitudes and behavior.

COMMENTS:

LAO recommendation. The LAO recommends the use of \$41.5 million in new federal 21st Century After School funds, instead of Proposition 98, to expand the state program. It accordingly recommends that the Legislature distribute the federal funding in a manner similar to the state program, for example, with the same funding rates.

Proposal for high-school program. After-school advocates propose to set aside \$5 million of the proposed increase for a pilot program to provide after school programs at high schools. (The current program only serves children through grade nine.)

ISSUE 6: FEDERAL TITLE IV -- NEW 21ST CENTURY LEARNING CENTERS AFTER SCHOOL PROGRAM

The issue for the subcommittee to consider is new federal funding for after-school programs.

BACKGROUND:

California is expected to receive \$41 million in new funding for competitive after school grants under the 21st Century Learning Centers program. The 21st Century Learning Centers Program is an existing program that was formerly administered directly by the federal government. Many school districts in California have received grants directly from the federal government under this program, and those currently receiving grants will continue to receive funding until their grants expire. As of next year, states will now administer new grants.

State operations and state-level set-asides. The federal law allows states to use up to 2 percent of their state grants for state operations activities related to administering the grants. Given that this is a new program for SDE to administer, it will need additional support to adequately administer it. The federal law also allows states to spend up to 3 percent of their state grants for state-level activities, including evaluation, training and technical assistance.

COMMENTS:

Options for distribution of federal grants. The state has some discretion in how it distributes the federal grants. Under federal administration, the grants were fairly discretionary, but participating school districts had rigorous evaluation and outcome requirements. The state program, in contrast requires participants to "earn" funding based on the number of students that attend the programs, for a specified time slot in the afternoon. In determining how to distribute the funds, and the degree to which it wants to model the federal program after the state program, the state has some flexibility. It could design the federal grants to be fairly discretionary, as they were under the federal government's administration, or it could align the program to be more like the state program, which is more structured. Even if the state were to align the federal program closely to the state program, the federal program would contain at least one distinction from the state program: the federal program does not intend grant to be automatically renewable after they expire. It encourages recipients to seek other sources of funding after their grants expire.

SDE proposal for distribution. SDE proposes a distribution method for the federal program that combines the structure of the state program (where participants must earn funding based on student participation) and the flexibility of the federal program. The proposal would provide participants with a maximum flexible sub-grant of \$25,000, \$5,000 of which would be for evaluation and the remainder of which could be used for transportation, and equitable access. The remainder of the grant would have to be earned (based on student attendance), similar to the state program, with a higher rate than the state plan to reflect the lack of a local match in the federal program. (The state program requires a local 50 percent match, and provides a rate of \$5 per student per day.)

LAO recommendation. The LAO recommends that the federal program be implemented as much as possible in accordance with the state program, for example, by providing the same reimbursement rate as the state program.

SDE state operations. SDE is requesting \$1 million in state operations support to perform the additional workload associated with the new program. It also proposes \$1 million to provide technical assistance at the level currently provided to state grantees, and to conduct a statewide evaluation of the program. (Technical assistance for this program will be integrated with technical assistance for the state program, which is provided through regional technical assistance centers.)

ISSUE 7: PRESCHOOL EDUCATION PROJECTS

The issue for the subcommittee to consider is a request to add Sacramento to the list of sites that benefit from preschool education projects.

BACKGROUND:

The Governor's budget proposes language that would allocate \$425,000 to preschool education projects operated by public television stations in a number of municipalities across the state. This language has been in the budget for several years. Advocates from Sacramento ask that Sacramento be added to the list of municipalities that benefit from this funding. They assert that the other municipalities currently listed are amenable to distributing the existing funding with an additional city.

ISSUE 8: ADULT AND VOCATIONAL EDUCATION

The issues for the subcommittee to consider are: 1) options for the subcommittee in considering whether to restore the Governor's proposed cut to adult education funding for CalWORKs participants and 2) the status of a proposal by the Governor to reform workforce training programs, including adult and vocational education programs

BACKGROUND:

Adult education and ROC/P's for CalWORKs participants. The Governor's budget proposes to eliminate \$36 million in Proposition 98 funding for adult education and regional occupational centers and programs (ROC/P's) to serve CalWORKs recipients, leaving \$9.9 million in federal funds to allow adult education programs and ROC/P's to serve CalWORKs participants above their enrollment caps. The subcommittee heard this issue at its March 19 hearing and asked SDE to return with information regarding unused funding in the program. The funding proposed to be cut dates back to the inception of the CalWORKs program, and has two components:

- \$26 million to allow adult education programs and ROC/P's to serve CalWORKs participants without having to displace regular clients served within their enrollment caps. Only adult education programs and ROC/P's that meet or exceed their enrollment caps receive this funding.
- \$10 million for instructional and training supportive services for CalWORKs participants attending adult education programs and ROC/P's. These services are provided through an inter-agency agreement between the Department of Social Services and SDE.

The administration proposes to delete this funding because it is no longer needed to meet the state's CalWORKs maintenance of effort requirement under federal law. The administration argues that the above set-asides were originally created, in part, to help the state meet this requirement, and that other increases in CalWORKs mean that the adult education and ROC/P set-asides are no longer needed for this purpose. It also argues that CalWORKs recipients can still receive services from adult education programs and ROC/P's, as long as these programs serve them within their existing enrollment caps. The administration also argues that CalWORKs recipients can access education programs provided by the counties, and that there has been unused funding in this program in recent years (see comments below).

Workforce training reform proposal. The Governor's budget summary cites a four-pronged reform of California's workforce development system, including a) the consolidation of all existing apprenticeship programs (including those administered by SDE) under the Department of Industrial Relations, and b) consolidation of all vocational and adult education programs under the community college system. The Governor's office now states that it does not intend to divert any adult or vocational education funding to community colleges. The task force charged with developing the proposal is still soliciting input from the public, and plans to have final recommendations at the end of April. DOF will be available at today's hearing to answer any questions about the progress of the workforce's proposal.

COMMENTS:

Unused funding from adult education CalWORKs. SDE has indicated the following unused funding from the \$26 million add-on that allows adult education programs and ROC/P's to enroll CalWORKs participants above their enrollment caps: 1) \$17 million in unused funding from the 1999-2000 fiscal year (which the Governor's budget captures as savings) and 2) \$13 million in unused funding from the 2000-01 fiscal year (which the Governor's proposed budget does not capture in savings). Despite the fact that funding has gone unused in prior years, SDE believes that adult education and ROC/P's may fully utilize this funding in the current and budget years because of the bad economy and the resulting increase in the CalWORKs population. SDE indicates that providers used all of the \$10 million provided for supportive services and it recommends restoring this entire amount of the Governor's proposed cut. If the subcommittee desires to restore all or a portion of the Governor's proposed reductions, it can use some of the one-time unused funding identified from the 2000-01 fiscal year to do this.

In addition, SDE has identified \$28 million in unused funding from base adult education funding from the 2000-01 fiscal year, which the Governor's proposed budget does not capture in savings. In addition, the subcommittee can use this funding to restore all or a portion of the Governor's proposed cut, as well for other K-12 purposes.

Addressing maintenance-of-effort issue. If the subcommittee chooses to restore part or all of the proposed cut, the restoration may still count against the state's maintenance-of-effort spending, over which the Governor has indicated an unwillingness to spend above the minimum amount required. The subcommittee may wish to defer to Subcommittee #1 on this matter, as it is considering this issue.

Redistribution of unused adult education funding from base program. Last year, the subcommittee appropriated unused funding from base adult education programs (non-CalWORKs) to programs that continuously exceed their enrollment caps and are in bad need of expansion funding. Unfortunately, the Governor vetoed this language, citing the fact that SDE has the authority to distribute any unused funding to school districts in need of expansion funds. SDE does not believe it has this authority. In response to this discrepancy, the subcommittee obtained a Legislative Counsel opinion that indicates that current statute does not give SDE the authority to redistribute unused funds to districts with higher need. The Legislature is currently considering legislation (SB 192 (Karnette)) that would give SDE the authority to redistribute unused base funding to districts that can demonstrate a need for additional funding.

ISSUE 9: ADULT EDUCATION CITIZENSHIP FUNDING

The issues for the subcommittee to consider is the Governor's proposal to delete a current set-aside for adult education citizenship courses and other budget items related to adult education citizenship.

BACKGROUND:

Adult education citizenship courses. The Governor's budget proposes the following changes related to funding for citizenship and naturalization education:

- The budget proposes to delete an existing set-aside for citizenship courses. The set-aside was initiated by the Legislature several years ago and has been in the annual budget since then. The set-aside provides \$12.6 million in federal adult education funding for English-as-a-Second-Language/citizenship courses. SDE has been unable to distribute all of this funding in recent years, and it believes that this is because the demand for citizenship courses has declined. However, the decrease in demand for these courses coincided with changes that SDE made in its state plan for the federal money, reducing the funding level for ESL-citizenship courses. (ESL-citizenship courses were previously funded at a higher rate, and the plan proposed to fund ESL-citizenship courses at the same level as other courses.) Because SDE was unable to distribute this funding, it submitted a section 28 letter last October, proposing to redirect \$10 million in unused funding from the set-aside to English-as-a-Second Language courses. (The state is expected to receive an additional \$4 million in the budget year in federal adult education funding. This amount is not included in the Governor's January budget.)
- The budget contains \$20.8 million in federal English Language/Civics funding, which is new federal funding the federal government started providing two years ago to fund activities related to citizenship, civic participation and English literacy. This amount is the same amount provided in last year's budget act. SDE indicates that some of this funding supports citizenship education. During last year's budget process, DOF proposed to provide SDE with federal funding to support two redirected positions to administer this program, and the final budget contained an additional position that the Legislature provided for administration. SDE indicated that this staffing level was insufficient to properly administer the funds, and was concerned that it would have to send the funds back. The Governor's budget proposes a total of 5 positions to administer the program.
- The budget contains \$2 million for a naturalization program administered by the Department of Community Services and Development (under the purview of Subcommittee #1). This level is a reduction of \$5 million from the funding level provided in last year's budget, and a \$2.9 million reduction from the level provided after the current-year reductions in SB 1xxx (Peace).

COMMENTS:

Assembly Subcommittee #1 is expected to consider the Governor's proposed cut to the naturalization program administered by the Department of Community Services and Development.

ISSUE 10: CHARTER SCHOOLS

The issues for the subcommittee to discuss are 1) the proposed funding level for charter schools, 2) various recommendations by the LAO regarding the direct funding model for charter schools, as well as 3) an update on information the subcommittee requested at a prior hearing.

BACKGROUND:

The Governor's proposed budget includes the following amounts related to charter schools:

- \$49.7 million in General Fund Proposition 98 funds for the charter school categorical block grant, a 20 percent increase over the current year. This funding is part of the direct funding model approved three years ago to help ensure that charter schools receive funding equal to that provided to non-charter schools. The proposed increase is an estimate of growth and COLA increases. The May Revision will update this figure.
- An increase of \$17.6 million in federal charter school funds, for a total funding level of \$30.2 million.
- \$820,000 in federal funds and three, 3-year limited-term positions to increase monitoring, review and technical assistance to charter schools.

Three years ago, the Legislature approved a direct funding model for charter schools to provide charter schools the same level of funding that non-charter schools receive. This funding model includes continuously apportioned revenue limit funding (similar to that received by school districts) and a categorical block grant that includes average funding for a number of categorical programs (without the programmatic requirements that non-charters must comply with). Charter schools may also apply directly to the state to receive funding from a number of categorical programs, and must comply with their related programmatic requirements. These programs are excluded from the calculation of the categorical block grant. While most categorical programs were originally included in the categorical block grant, the number of categorical programs now excluded from it is substantial.

COMMENTS:

LAO recommendation: The LAO recommends that the Legislature adopt statute to extend the revenue limit portion of the charter school direct funding model, given that it is scheduled to sunset July 1, 2002. Staff notes that the Legislature is currently considering legislation to extend the sunset.

In addition, the LAO recommends that the Legislature amend the statutory funding calculation for the charter school categorical block grant so that it reflects appropriation levels made in the final budget act instead of the Governor's May Revise. Current law requires DOF to calculate the growth rate for the categorical block grant every year at May Revise, which allows DOF to determine, for purposes of calculation, which programs are in the block grant and which

programs charter schools must apply for separately. The LAO provides the following reasons why the existing system is flawed:

1. The original reason for giving DOF the authority to calculate the growth rate was to provide an early calculation that would allow charter schools to plan their budgets. However, early has never calculated it earlier than July, negating the original benefit behind the statute.
2. The current statute gives DOF the authority to determine which categorical programs are excluded from the block grant (e.g., programs which charters must apply to directly), even if the Legislature disagrees.
3. DOF's May Revise calculation reflects proposed spending levels in the Governor's May Revise, and not final appropriations in the final budget act.
4. The May Revise calculation is difficult to verify.

The LAO accordingly recommends that the Legislature adopt language to require DOF to calculate the block grant growth rate based on the final adopted budget and accompanying trailer bills.

SB 955 update. At a prior hearing, the subcommittee requested information on the number of school districts affected by SB 955 (Alpert) of last year, which contains various provisions related to charter schools, including a requirement as to how much basic aid school districts must transfer to charter schools in support of students that reside in the basic aid district.