

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Julia Brownley, Chair

TUESDAY, APRIL 17, 2007
STATE CAPITOL, ROOM 444
10:00 AM

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ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: STATEWIDE DATA SYSTEMS -- CALIFORNIA LONGITUDINAL PUPIL ACHIEVEMENT DATA SYSTEM (CALPADS) AND CALIFORNIA SCHOOL INFORMATION SERVICES PROGRAM (CSIS)

The issues for the subcommittee to consider are:

- The Governor's proposed funding level for CALPADS and CSIS.
- An update by CDE on the development of this new CALPADS system.
- A proposal by CDE to provide funding to school districts to collect quality data that will be used in the new CALPADS data system.

BACKGROUND:

Governor's budget. The Governor's budget proposes a total of \$2.7 million in state and federal funds to support the state-level activities related to the development of the California Longitudinal Pupil Achievement Data System (CALPADS), and \$5 million to support the California School Information Services Program (CSIS). The CALPADS statewide system was initiated via legislation in 2002 and is still being developed, but once completed will provide individual student data over time (longitudinal), in compliance with federal law. CALPADS is also expected to provide more accurate information on dropout rates. The CSIS system predates CALPADS but it an important part of it because it manages the individual student identifiers necessary for CALPADS. CSIS is a voluntary program in which districts receive incentive funding and technical assistance to improve their data systems and transfer student records electronically between districts. Eventually the two systems are expected to be integrated.

The Governor's proposed funding level and sources for CALPADS are contained in the table below.

Fund	Provision	Dollars	Positions	Description
6110-001-0001	19	\$945,000	1	To support project management, project oversight and systems integration contracts
6110-001-0890	17	\$881,000		To support project management, project oversight and systems integration contracts
6110-001-0890	18	\$781,000		To support systems integration (funding source is Statewide Longitudinal Data System Grant).
6110-001-0890	29	\$56,000	1	½ position to support CALPADS
TOTAL		\$2,663,000	2	

Background on CALPADS. SB 1453 (Alpert) of 2002 was approved by the Legislature to create the CALPADS system. It requires the development of an information technology system to track individual student progress over time, with the following goals:

- To provide school districts and CDE access to data necessary to comply with the federal reporting requirements under NCLB (which requires reporting of dropout and graduation rates).
- To provide a better means of evaluating educational progress and investments over time.
- To provide local education agencies information that can be used to improve pupil achievement.
- To provide an efficient, flexible and secure means of maintaining longitudinal statewide pupil level data.
- To promote good data management practices regarding student data.

Under the terms of SB 1453, CALPADS "shall be developed and implemented in accordance with all state rules and regulations governing information technology projects." Accordingly, CDE was required to submit a feasibility study review (FSR) to the Department of Finance for approval. Under state rules and regulations, CDE must competitively bid for the development of CALPADS.

Background on CSIS. CSIS was initiated several years ago. It is a voluntary program. Districts that choose to participate receive incentive funding and technical assistance for the following goals: a) to build local capacity to use information systems to inform education decisions, b) to enable districts to transfer student records between each other and higher education institutions (i.e., if a student moves to a new district) and c) to assist districts in electronically transmitting state-required reports to CDE. Many districts participate in the program. CSIS is managed by the Fiscal Crisis and Management and Assistance Team (FCMAT), currently housed at Kern County Office of Education.

In addition, CSIS is charged with managing the process of districts' development and maintenance of the individual student identifiers (student i.d. numbers) that are an integral part of the development of CALPADS. To date, almost all students in the state have been assigned student identifiers. Districts must now maintain these.

Last year's funding to improve districts readiness for CALPADS implementation. Last year's budget provided \$29.5 million for a new "CSIS-lite" program to help non-CSIS districts and some charter schools become ready for CALPADS implementation (\$20 million from the Educational Telecommunications Fund and \$9.5 million in one-time Proposition 98 funds). The program is voluntary, and the more than 1000 districts and independently-reporting charters that are not currently participating in CSIS are eligible to participate. The program provides funding and some technical assistance to provide them with the main improvements in information technology systems that are usually associated with participation in CSIS. This proposal was developed by the administration, in consultation with CDE and the LAO. Last year's budget also provided approximately \$1.5 million for CSIS to implement the new proposal.

COMMENTS:

Update on implementation from CDE. The target date for implementation of CALPADS is 2009. CDE will provide an update on the development and implementation of the CALPADS system at today's hearing. Of note, this past fall of 2006, for the first time all school districts, county offices of education and independently-reporting charter schools were required to submit and "certify" data submissions containing individual student identifiers and basic student data for enrolled students. Most districts were able to comply with the requirement. The enrollment data from the submission will now serve as the official enrollment counts used for a variety of state funding purposes. As implementation continues, districts will be required to submit more student and class data tied to the individual student identifiers.

Below are various future benchmarks related to the implementation schedule of CALPADS.

- CDE completes request for proposals and releases it – Fall 2006
- Draft bids due to CDE – Fall, 2007
- Final bids due to CDE – March, 2007
- Special Project Report written and submitted to DOF for approval – June 2007 (This reflects any changes in the project that have been identified since DOF's approval of the feasibility study report.)
- Selected vendor begins work – summer/fall 2007
- CALPADS ready for statewide implementation – 2009

As for previous benchmarks that CDE has already met, it submitted a feasibility study report to DOF for review in August of 2004, which is required for all statewide information technology projects. DOF approved the FSR in October, 2005.

CDE proposal for district support of data collection. CDE is sponsoring a proposal to provide funding to school districts, county offices of education and direct-funded charter schools to support their costs of collecting quality data for the CALPADS system. The proposal would provide \$5 per pupil to participants to support staff, hardware and software applications, training, and other activities related to collecting and maintaining high-quality data for the use of the CALPADs system. Language for the proposal is contained in AB 1656 (Feuer and DeSaulnier). The statewide costs of CDE's proposal is \$32.5 million (ongoing cost.) CDE notes that the feasibility study report found that poor quality data submitted by local educational agencies is a high impact risk to CALPADS. Under current practice, districts not participating in CSIS receive funding of 25 cents a pupil to support the maintenance of the individual student identifiers.

CALPADS – types of data, no longitudinal achievement data? As the development and implementation of CALPADS continues, the types of data that districts will be required to submit for CALPADS on each student will increase to eventually include data regarding student demographics, expulsions, suspensions, program participation, highly qualified teachers, class schedules, and course completion. School districts already collect this data and submit reports to CDE, but on an aggregate level. It is also expected that CALPADS will contain achievement data, which will be submitted by test vendors. However, the LAO notes that because the state's testing system does not provide testing data that shows year-to-year growth, CALPADS will not be able to provide longitudinal achievement data that is statistically valid and reliable. In this year's Analysis and in previous years, the LAO has recommended that the Legislature require CDE to do some version of vertical scaling (or a statistical approximation) for the state's testing system, so that it would yield data that shows student progress from year to year. The current testing data does not show this. The subcommittee heard this issue at last week's hearing on testing.

ISSUE 2: STATEWIDE DATA SYSTEMS – CALIFORNIA LONGITUDINAL TEACHER INTEGRATED DATA EDUCATION SYSTEM (CALTIDES)

The issues for the subcommittee to consider are:

- The Governor's proposed funding level for this program.
- An update by CDE on the implementation of this system.

BACKGROUND:

Governor's budget. The Governor's budget proposes \$1.14 million in federal Title II funds to support the California Longitudinal Teacher Integrated Data Education System (CalTIDES). The funding goes both to CDE and the Commission on Teacher Credentialing (CTC), to continue development of the system, which was created to provide state-level information on teacher assignment and credentials. Last year's budget provided a total of \$938,000 in one-time federal Title II funds for CalTIDES development, including \$686,000 for CDE to support project management, request for proposals and project oversight contracts and \$252,000 for CTC to support 2.5 positions.

Background on program. Last year the Legislature approved SB 1614 (Simitian), Chapter 840, which requires CDE, in collaboration with CTC, to contract for the development of a teacher data system, the purpose of which is to provide data that can be used to evaluate the effectiveness of professional development and teacher preparation programs and improve the monitoring of teacher assignments. The data system would utilize existing teacher databases and requires CTC to establish "non-personally identifiable" teacher identification numbers for all public school teachers.

Status of project. The 2005-06 budget contained a \$350,000 appropriation for CDE to contract for a feasibility study review (FSR) for a new teacher data system. It also required CDE to convene a working group including DOF, LAO and other interested parties. The FSR was approved by DOF in March, 2006. CDE is developing the request for proposals that will go out to vendors. The original timeline for the project estimates that the system will be ready for implementation by 2010.

COMMENTS:

CDE will be available at today's hearing to provide an update on the implementation of the project.

ISSUE 3: STATEWIDE DATA SYSTEMS -- HIGH SPEED NETWORK

The issue for the subcommittee to consider is the Governor's proposed funding level for this program and the LAO's recommendations.

BACKGROUND:

Governor's budget. The Governor's budget proposes \$10.4 million ongoing Proposition 98 funds for the High Speed Network (HSN), a technology network serving K-12 education. According to DOF, there is also \$3 million in one-time funds left unspent in the budget but available for a proposal to refresh the equipment for the HSN, pending review and approval by DOF in the May Revision. (The funds are not appropriated anywhere or mentioned as set aside for this purpose, but DOF indicates this is their purpose.) This proposed Proposition 98 funding level is a substantial increase over last year's Proposition 98 funding level of \$4 million, which was funded with one-time funds. As in last year's budget, the Governor proposes to supplement the Proposition 98 funds with other funds, such as California Teleconnect Fund moneys and E-rate funds, for a total spending level of \$15.6 million. However, last year's budget presumed the availability of unexpended cash reserves and unused funds for equipment replacement. This year's budget does not presume the availability of those funds, which then requires a higher Proposition 98 funding level to keep spending at the same level as last year. The Governor also proposes to delete a control section that was included in last year's budget to address some problems identified in an earlier state audit of the High Speed Network. The control section required that the non-profit that runs the network a) ensure that any interest earned on state moneys be used for the network and not be redirected to other purposes, b) approve an agreement that specifies specific levels of service, c) establish a fair fee payment schedule, and d) provide financial information to the Legislature and the Governor.

Background on program. The High Speed Network is a network of node sites in all 58 counties through, which the majority of California's public K-12 education entities connect to each other. It is one of two components of the California Education Network (CEN), which provides advanced networking services to California's public education institutions. The other component of CEN is the California Research and Education Network (CalREN), which is a statewide high-speed, high-bandwidth network that connects the majority of higher education institutes in California to each other, the Internet, the federal Internet2 and other research entities around the country. The HSN also connects to CalREN, thereby allowing K-12 entities to connect to higher education institutes, the Internet, Internet2 and other research organizations. For students, faculty and staff, these networks provide services ranging from basic Internet connectivity to the advanced high speed networking needed for certain research activities. The HSN is partly funded with Proposition 98 funds, which are used to pay fees to CalREN on behalf of the K-12 system.

Program history, governance. The state began funding for this program in 2000-01, with a \$32 million appropriation to University of California. There was no legislation or budget bill language accompanying the new appropriation, only a line item within UC's budget. UC contracted with an independent non-profit, the Corporation for Education Network Initiatives (CENIC), to develop and administer the network. This non-profit had been created in 1997, when a consortium of higher education and research institutions, led by UC, combined their networking resources (funding, equipment, and expertise), to form the non-profit. Between 2000-01 and 2003-04, a total of \$92.6 million was appropriated to UC for this project. When the administration proposed shifting the cost of the K-12 portion of the program from UC's budget to Proposition 98 funds in 2004-05, the Legislature decided to provide the funds to CDE to contract with a local entity to administer the program. Through a competitive process, it selected Imperial County Office of Education to administer the program. Imperial COE now contracts with CENIC to provide services related to the program.

Results of the audit. Two years ago, members requested that the State Auditor determine whether the state would be efficiently using its resources by supporting the maintenance of the High-Speed Network. The audit was completed within a few months and released in January. The findings included:

Positives:

- The state spent less on building and operating the network by expanding the existing UC infrastructure than it would have spent for a separate network with comparable services. There is potential for growth, but the system is not overbuilt.
- The auditor's technical consultant found no compelling technical or financial reason to abandon the existing network. The network architecture is sound.

Concerns to address:

- From the beginning, state law has provided little or no guidance or oversight of the network. It is difficult to determine whether the network is meeting its goals, since these were never specified by the Legislature.
- Some issues have arisen with the managing non-profit's (CENIC's) fees and its use of High-Speed Network funds. (For example, CENIC earned \$1.5 million in interest from funds provided by UC for network services. Because CENIC sees itself as a service provider, it considers the \$1.5 million in interest earnings as available for activities other than those related to UC's contract. Also, almost \$7.2 million was transferred out of an account designated solely for the High-Speed Network into CENIC's general operations account.)

- The current agreement between Imperial County Office of Education and the nonprofit that currently operates the network (CENIC) could be strengthened to better protect the state's interest. Specifically, its agreements lack detailed service-level agreements, which does not ensure that it retains ownership of tangible assets, and do not ensure that interest earned on advance payments made to the non-profit or funds held by the non-profit on its behalf accrue to the benefit of the High-Speed Network.
- Ownership of the network is still uncertain. Despite the fact the state appropriated more than \$93 million to UC for the development of the High-Speed Network, ownership of the network is unclear, and all education entities that use the network currently contract with CENIC, the non-profit that operates the network, under terms that it establishes.

Auditor recommendations:

- Enact legislation to prescribe the goals and outcomes of the network.
- Ensure that the Imperial County Office of Education improves its agreements with CENIC to include service-level agreements (which are considered a standard part of contracts with information technology providers) and obtain lower fees for commodity internet service.
- Ensure that the Imperial County Office of Education amends its agreement with CENIC to stipulate the allowable uses of any interest earned from state funds that are provided to CENIC for the network.
- Direct the Imperial County Office of Education to transfer ownership of tangible, nonshared assets to the state.
- Ensure that the Imperial County Office of Education develop a method to measure the success of the network.

More oversight in 2006-07 budget. Last year the Legislature responded to the audit findings by adopting, AB 1228 (Daucher), which establishes the goals, administration and contract requirements for the HSN. The budget also contained a control section intended to address some of the audit findings. The LAO has included the following summary of the control section, which the administration does not propose to continue in the 2007-08 budget.

2006-07 Budget Act Control Language

Section 24.55 of the 2006-07 Budget Act, placed the following requirements on the Corporation for Education Network Initiatives in California (CENIC) and the Imperial County of Education:

- Ensure that any interest earned on state monies held by CENIC accrues to the segment providing the excess monies and is used to operate the California Research and Education Network (CalREN) for that segment.
- Create a service level agreement (SLA) for CalREN and the High Speed Network (HSN).
- Establish fee payment schedules that do not require prepayment.
- Submit a report to the Legislature and the Governor by December 1, 2006, with the following:
 - Information on revenues and expenses over \$100,000 in 2005-06.
 - A financial accounting of all primarily state-funded assets for CalREN and HSN.
 - The SLA for CENIC.
 - A list of all prepayments made in 2005-06 and the first quarter of 2006-07 and an explanation of savings resulting from each.
 - Fees charged by CENIC to all private and out-of-state educational institutes using CalREN.
 - Revised budget for 2006-07 for CalREN and the HSN.

LAO recommendations. The LAO notes that the 2005 BSA audit found that the network was sound, but lacked important contractual and accountability measures. The LAO further notes that actions taken in recent years have improved the transparency, particularly of the K-12 High Speed Network. As presented below, the LAO recommends continued funding for the K-12 High Speed Network. The LAO also recommends legislation to extend accountability measures enacted for the K-12 High Speed Network to the higher education systems.

- **Provide \$12.6 Million for the High Speed Network (HSN).** Recommend Legislature provide \$12.6 million Proposition 98 for the HSN project. This would include \$10 million in ongoing Proposition 98 funding and \$2.6 million in one-time Proposition 98 funds. The ongoing funds would support a baseline budget. The \$2.6 million in one-time funds would support the first phase of a two-year technology refresh plan. Once completed, the refresh plan would increase network capacity, replace aging equipment, upgrade technology and improve performance monitoring.

- **Enact Legislation to Further Protect State Interests.** Recommend Legislature enact legislation requiring contracts between higher education and the Corporation for Education Network Initiatives in California (CENIC) include the contractual provisions required in Chapter 552 for the K-12 system. This is in reference to the bill that was approved in response to the audit findings, but the bill only affected K-12. LAO is recommended that the bill be expanded to higher education.
- **Request CENIC Provide Asset and Fee Information As Required in the 2006-07 Budget Act.** Recommend Legislature require CENIC to provide previously requested information, by April 1, 2007, on its assets and fee structure. This information was required in last year's control section but as of January, CENIC had not complied.

COMMENTS:

Prior funding levels for the program. Two years ago, the budget did not contain funding for the program, and instead the program was maintained using prior-year savings that had gone unspent. In last year's budget, the Governor initially did not propose any funding for the High Speed Network, but included language specifying that budget decisions for the program would be made pending results of an audit from the State Auditor that was requested by the Joint Legislative Audit Committee. Ultimately, the budget contained \$4 million in one-time Proposition 98 funds for the program as well as California Teleconnect Fund moneys and E-rate funds. Last year's budget also presumed the availability of unexpended cash reserves and unused funds for equipment replacement.

**ISSUE 4: STATEWIDE DATA SYSTEMS -- GOVERNOR'S NEW PROPOSAL:
CALIFORNIA PROGRAM IMPROVEMENT MANAGEMENT SYSTEM (CALPIMS)**

The issue for the subcommittee to consider is the Governor's proposal for a new Internet-based information technology management system intended to help low-performing schools improve.

BACKGROUND:

Governor's budget. The Governor proposes \$1 million in one-time funds for a new Internet-based information system to provide an intervention system for low-performing schools. Specifically, the language for the proposal specifies that the \$1 million would be allocated to a county office of education.

"To develop, implement and provide training in the use of an Internet-based information management system. The system shall provide a comprehensive, unified intervention program to improve the academic achievement of schools that are, or are likely to be, subject to state or federal intervention. Criteria for the selection of the county office of education shall be developed by the State Department of Education, in consultation with the Office of the Secretary for Education and the Department of Finance, and shall be subject to approval by the State Board of Education."

According to the administration, the proposal is modeled after a system developed by the San Diego County Office of Education, which put together the cost estimates for the proposal. Documents provided by the administration state that the system would align state and federal requirements, and would include a leadership advisory committee including the Governor's office, CDE, the California County Superintendents' Education Services Association and a lead county office of education. According to the administration's documents, the goal of the system is to deliver an intervention framework and support a system-wide, results-oriented culture that directs change at the district, school and community levels. The Governor's budget summary states its intent that the system help these schools' staff: a) better use testing data to design interventions, b) access up-to-date information on federal and state accountability programs, c) use tools and research to respond to these requirements, and d) create sustainable improvement plans.

COMMENTS:

This proposal appears to have major implications for the state's system of support and intervention for program improvement schools. All other pieces of that system have been approved via legislation. Shouldn't this proposal be proposed through a bill and considered through the regular process? How does this proposal fit with the other pieces of the system intended to provide support and intervention to low-performing schools?

Does this system have ongoing maintenance costs? If the Legislature were to approve this proposal, would the administration be proposing funds in next year's budget to support it?

ISSUE 5: STATEWIDE DATA SYSTEMS -- MICROSOFT SETTLEMENT FUNDING -- INFORMATION ONLY

The issue for the subcommittee to consider is the availability of \$400 million in funding for schools' information technology uses. The funding is part of a lawsuit settlement, and is not available for appropriation in the budget.

BACKGROUND:

Substantial resources. In fall of 2006, the Superintendent of Public Instruction announced the availability of more than \$400 million in funding for educational technology for California schools as a result of a settlement agreement between California consumers and Microsoft. The source of these funds for schools is unclaimed settlement funds for California consumers and businesses from a lawsuit settled in November, 2004. The unclaimed funds were then directed to K-12 schools for a grant program to support and implement education technology that fosters effective teaching and promotes student achievement in eligible schools. The total settlement amount represents a substantial increase for technology hardware and software purchases. The Legislature has no control over these funds.

Eligibility. Schools are eligible to receive vouchers if 40 percent of the attending students are eligible to receive free or reduced price meals. Schools within school districts or county offices of education, direct-funded charters and state special schools, are eligible to receive funding as long as they meet the poverty criteria above. The initial allocation of \$250 million provides approximately \$50 per student. This amount will be increased to reflect approximately \$150 million from the second allocation. LEAs were able to start submitting voucher claims on September 25, 2006. The application process for vouchers remains open until June 1, 2008. Vouchers must be redeemed by September 2012.

Requirement for Technology Plans: School districts are required to apply for vouchers on behalf of their eligible schools. All applicant districts must have a current, state-approved technology plan in order to be eligible for funding. State Special Schools, direct funded charter schools, and county offices of education are not required to have a state-approved plan.

Potential uses for the vouchers. In order to receive vouchers from the settlement, eligible schools must have a current district technology plan that meet CDE criteria and has been approved through a state review process. According to CDE, vouchers will be issued in two categories:

- General purpose vouchers – allowable purchases include specific types of hardware, non-custom software for that hardware, evaluation tools, information technology services and professional development (the latter two must be obtained from approved providers)
- Software vouchers – allowable purchases include specific categories of software that are published or sold by any software provider.

CDE's responsibilities. CDE is responsible for issuing the request for applications, reviewing applicants for eligibility and monitoring the program. A Settlement Claims Administrator, selected by the Court, will be responsible for issuing the vouchers.

COMMENTS:

The Department of Education will provide an update on the allocation of these settlement funds to schools in California.

As noted above, the Legislature has no control over these funds. However, it is important for the subcommittee to note the availability of these funds for school districts, as it makes budget decisions regarding state funding for information technology purposes.

ISSUE 6: CHARTER SCHOOL CATEGORICAL BLOCK GRANT

The issue for the subcommittee to consider is a proposed increase of \$24.5 million to the charter school categorical block grant; due to legislation passed two years ago, that requires an increase in the funding rate for this program.

BACKGROUND:

Governor's proposal. The Governor proposes an increase of \$24.5 million for the charter school categorical block grant, for a total proposed funding level of \$139.7 million. This program has been in existence for several years and was created to provide charter schools with an amount of categorical funding similar to what non-charter schools receive. This augmentation funds an increase in the funding rate, to \$500 per charter-school ADA. The increase is required by Chapter 359, Statutes of 2005, (AB 740 (Huff), which included reforms to the formula for calculating the categorical block grant. The Governor's proposed increase is on top of \$14 million to fund a growth in enrollment in charter schools, for a total increase to this program of \$38.6 million. Last year's budget included an increase of \$33 million for this block grant, to fund an increase in the rate to \$400 per charter-school ADA.

Background on program. The charter school categorical block grant is intended to provide charter schools with an amount of categorical funding similar to what non-charter schools receive. It was created several year ago to address an inequity in funding between charter schools and non-charter schools, due to the fact that charter schools' exemption from the state Education Code prevents them from applying for or receiving funds from various categorical programs (such as instructional materials). The old formula for the block grant contained a complicated formula that considered the budgeted levels of various categorical programs. Due to the complexity of the formula and continuous discrepancies between advocates and DOF on the formula, two years ago the Legislature adopted AB 720 (Huff) to simplify the formula. The table below summarizes the block grant amount per charter school ADA under the old formula, and the target amounts that are specified under the new law.

COMMENTS:

New formula provided substantial increase. Staff notes that the new formula provides for a substantial increase over the previous formula. As shown in the table below, the new formula accounts for a doubling of the amount per-ADA over a two-year period compared to the old formula.

Charter school categorical block grant: amounts provided per charter school ADA under the old formula and the new bill

Calculation under the old formula (1)	Target rates specified in Chapter 359/2005.	
	2006-07	2007-08
2005-06		
\$267	\$400	\$500

(1) Technically, the formula was suspended in 2005-06. The amount listed is the amount calculated in 2004-05, adjusted for COLA.

ISSUE 7: CHARTER SCHOOL FACILITIES GRANT PROGRAM

The issue for the subcommittee to consider is a proposed increase of \$44 million for the charter school facility grant program, to change the program from a reimbursement program to a program that provides funds in the year that charters incur their leasing expenses.

BACKGROUND:

Governor's budget. The Governor proposes \$43.9 million in one-time funds for the Charter School Facility Grant Program, which provides funding to charter schools in low-income areas, to pay for leasing costs when these charter schools are unable to secure non-leased buildings. This is an increase of \$34.9 million over last year's funding level of \$9 million, which was also funded from one-time funds. The Governor proposes to change the way this program operates, so that eligible schools receive money during the year they incur the costs. Currently, the program reimburses eligible charter schools for prior-year costs. The Governor proposes that \$20 million of the proposed amount go toward reimbursement of participants' costs in 2006-07 and \$23.9 million for 2007-08 costs.

Background on program. The Charter School Facilities Grant Program reimburses selected charter schools for the costs of renting and leasing classroom buildings. It was created in 2001 by SB 740 (O'Connell) as part of a package of reforms to increase accountability and lower funding for non-classroom-based charter schools. Those reforms also created this program to reimburse charters serving economically disadvantaged children for their facilities' costs. To participate, a charter must either:

- 1) Located within the attendance area of an elementary school serving 70+ percent students who qualify for free or reduced-priced lunches, and the school site gives a preference in admissions to pupils who are currently enrolled in that public elementary school and to pupils who reside in the elementary school attendance area where the charter school site is located, and/or
- 2) Have 70+ percent of its students eligible for free or reduced-priced lunches.

Eligible charter schools may receive \$750 per student ADA or 75 percent of annual their annual facility rental or leasing costs, whichever is lower. If funds appropriated through the budget act are not sufficient to cover these authorized levels, funds are pro-rated to charter schools to reflect available funds.

The original legislation contained intent language that the program be funded at the level of \$10 million a year each for the 2001-02, 2002-03, and 2003-04 years.

History of funding. Although the original legislation for the program continued intent language that the program be funded for three years at \$10 million a year, the Legislature has provided a total of \$38.7 million over the past five years, as shown in the following table:

State expenditures for the Charter School Facility Grant Program (in millions)

	2002-03	2003-04	2004-05	2005-06	2006-07	TOTAL
Expenditure levels	\$5.3**	\$7.7	\$7.7	\$9.0	\$9.0	\$38.7

* \$10 million appropriated in 2001-02 was later eliminated as a result of mid-year cuts and program reversions.

** \$4.7 million in unexpended 2002-03 funds were reverted in June 2004.

COMMENTS:

Bond funds for charter schools. Staff notes the availability of bond funds for charter schools to build schools, instead of leasing space, which this program pays for.

Last year's budget. Last year, the Governor's January 10 budget did not include funding for this program, but the Governor later added \$9 million in the May Revise, which the Legislature ultimately approved and included in the final budget.

LAO options: At staff's request, the LAO has identified several options for considering the Governor's 2007-08 budget proposal, as follows:

1. No funding. SB 740 stated legislative intent to provide \$10 million per year for three years -- 2001-02, 2002-03, and 2003-04. The state provided funding, on a reimbursement basis, for those three years as well as for 2004-05 and 2005-06. In total, the state has spent \$38.7 million on the program. The Legislature has met its expressed statutory obligation in SB 740.
2. Maintain funding at the existing level budgeted in 2006-07 (\$9 million), adjusted for charter school growth to equal approximately \$10.5 million. This would result in awards being pro-rated downward to approximately 50 to 55 percent of eligible charter school facility reimbursements.
3. Augment funding in 2007-08 by \$7.3 million to provide a total of \$16.3 million. At this level, eligible reimbursements would be fully funded per SB 740, which sets funding at \$750 per student or 75 percent of total facility expenditures submitted, whichever is less.

4. Augment funding in 2007-08 to stop the practice of forward funding the program. This would require changes in the payment schedule to either: (a) provide reimbursements at the end of each year or several times each year, or (b) make advance allocations at beginning of year that would be reconciled at the end of each year. No rationale has yet been given for such a change. Costs could be estimated for the budget year using current year charter school ADA figures, adjusted by the latest charter school growth figures.

ISSUE 8: SPECIAL EDUCATION

The issue for the subcommittee to consider is the Governor's proposed spending level for this program.

BACKGROUND:

Governor's budget. The Governor's budget proposes a total combined state and federal funding level of \$4.3 billion for special education: \$3.14 billion (about three-fourths of the total) in Proposition 98 funds and \$1.15 billion in federal funds. On the Proposition 98 side, the proposed funding level reflects some savings due to declining growth and an increase of \$133 million to provide a COLA for the state-funded portion of the program. This is consistent with the COLA formula in current law, which calculates the COLA for special education funding based on the state-funded part of special education funding. On the federal side, the proposed funding level assumes a slight increase in federal special education funds (about \$3 million, or less than 1 percent).

The Governor proposes to continue several funding pieces that have been in the budget in recent years, namely:

- **Mental health mandate (AB 3632).** The Governor's budget continues \$69 million in federal special education funds for counties to comply with a mandate requiring them to provide mental health services to special education students for whom mental health services are included in their individualized education plans. The budget similarly continues \$31 million in Proposition 98 funds to SELPA's to provide pre-referral services to special education students who may need more intensive mental health services. Both of these amounts were provided in the 2004-05, 2005-06 and 2006-07 budgets as well. In addition, the proposed budget continues \$52 million (General Fund) in the Department of Mental Health budget to reimburse counties for their costs of providing mental health services to special education students. This funding level was provided in last year's budget. The LAO estimates that counties will claim more than the amount provided in the Governor's budget.
- **Licensed children's institutions funding.** The Governor's budget contains funding for the new licensed children's institutions funding formula at roughly the same level as last year, at \$193 million. The new formula was contained in legislation that was approved three years ago.

In addition, the Governor proposes to continue a \$52.6 million increase that was provided two years ago above growth and COLA.

Background on program. The state's special education program provides supplemental funds to school districts to help pay for the additional costs of serving special education students. It is supported with both state (Proposition 98) funds and federal special education funds, which eventually get distributed to school districts based on their total average daily attendance.

Federal changes and last year's funding changes. Two years ago, the Legislature adopted legislation that changed the formula for calculating the special education COLA. The COLA rate is now based on the state-funded portion of special education only. The change in state law was in response to a change in federal law that disallowed a California practice of using federal funds to pay for state-guaranteed growth and inflation adjustments on the state or federal portion of the program. Current law allows the state to pass along any increases in federal funds to districts, which would provide a COLA-type increase in funding on the federal portion of the state's special education program. The state did this in the 2005-06 budget. However, the amount of federal funding for special education is not expected to increase dramatically this year.

COMMENTS:

Assembly Education Committee working group on special education. The Assembly Education Committee has convened a working group on special education issues, including fiscal issues. It will present its recommendations to the subcommittee at a future hearing.

Special education students and the CAHSEE. At a future hearing the subcommittee will hear budget and oversight issues related to the California High School Exit Exam (CAHSEE.) Of note, only 48 percent of students in the class of 2006 passed the CAHSEE, compared to over 90 percent of the overall population. Even though special education students were not required to pass the exam to obtain a diploma in 2006, this statistic is important and raises questions.

ISSUE 9: STATE SPECIAL SCHOOLS

The issues for the subcommittee to consider are:

- The Governor's January 10 proposals for these schools
- The Governor's April DOF letter amendments in the proposed funding levels for these schools.

BACKGROUND:

The Governor's budget proposes a total funding level of approximately \$98 million for the state's special schools, which include the California School for the Blind in Fremont, the California School for the Deaf in Fremont and the California School for the Deaf in Riverside. (All schools are administered by the California Department of Education.) His January 10 proposed budget includes the following augmentations for capital outlay projects at the California School for the Deaf in Riverside. All projects will be funded with lease revenue bonds and subject to the Field Act.

- \$2.3 million for design, construction and equipment for a 16,775 multi-purpose activity room. The lowest responsive bid received for the project last year was 20 percent above project funding; the proposed increase will pay for the overage. The facility will be used for elementary and middle school activities during the day and for recreational activities for dormitory students.
- \$3.8 million for design and construction of a career technical education complex. The project will provide for the demolition of the existing 52-year-old vocational education building and construction or a replacement complex that will include a classroom/administrative building, a shop building, a greenhouse, a service yard and parking lot.
- \$10.4 million for preliminary plans, design, construction and equipment of six support cores for academic areas, three additional classrooms and the construction of a new early childhood education bus loop. The project also includes renovations of some older buildings and installation of new hot water boilers.

April technical amendments. In an April letter, amending the Governor's January 10 budget, DOF proposes the following adjustments:

- Make a correction to a technical error in the January 10 budget, whereby \$420,000 was inadvertently placed in the wrong item for increased utility costs for the California School for the Deaf at Riverside. DOF accordingly proposes that \$420,000 be shifted from item 6110-001-0001 to item 6110-005-0001, and that the language "Of the funds appropriated in this item, \$420,000 is for funding increased utility costs at the California School for the Deaf, Riverside," be moved from item 6110-001-0001 to 6110-005-0001. (issue 953)
- Appropriate \$275,000 to cover increased Unemployment Insurance costs related to increased claims and contract costs. DOF states that these increased benefits and claims result primarily from seasonal (school year) staffing issues. (issue 955)

COMMENTS:

Parents of some students who attend state special schools may attend today's hearing and testify.