

## AGENDA

### ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Mervyn Dymally, Chair

TUESDAY, APRIL 19, 2005  
STATE CAPITOL, ROOM 444  
10:00 AM-12 NOON

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#### ITEMS TO BE HEARD

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## ITEMS TO BE HEARD

### 6110 DEPARTMENT OF EDUCATION

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#### ISSUE 1: CONTROL SECTION -- FORMER MEGA-ITEM

The issue for the subcommittee to consider is the proposed continuation of the control section regarding the former “mega-item” categorical flexibility, which allows school districts to transfer funding between different unrelated categorical programs.

#### BACKGROUND:

**Governor’s proposal.** The Governor proposes to continue last year’s control section regarding the former “mega-item.” That section allows school districts to transfer up to 10% of the funding from any one categorical program into another categorical program, as long as the total increase to any one program does not exceed 15% of the base of the receiving program. The programs that are subject to these eligibility provisions are the following:

- Home to School Transportation
- Educational Services for Foster Youth
- Specialized Secondary Programs
- Gifted and Talented Education Program
- Economic Impact Aid
- American Indian Education
- Agricultural Vocational Educational Incentive Program
- Educational Technology Program
- Various Staff Development Programs
- Child Nutrition Programs
- Teacher Dismissal Apportionments
- Year-Round School Grant Programs

**COMMENTS:**

Last year, the Legislature adopted legislation to provide school districts with significant new flexibility in how they can spend categorical funds (see issue 1). Prior to that legislation, the mega-item flexibility was the only source of funding flexibility for school districts. Now that the state has provided more flexibility, is there a need to continue the existing mega-item flexibility? The existing mega-item flexibility allows school districts to transfer funds between programs that have completely different purposes. Is this type of flexibility consistent with the type of flexibility that was provided in last year's categorical reform bill, which combined similar programs and provided funding flexibility between similar types of programs?

**ISSUE 2: GOVERNOR'S PROPOSED REDUCTIONS: HEALTHY START**

The issues for the subcommittee to consider are:

- The Governor's proposal to eliminate local assistance funding for the Healthy Start grant program.
- An April letter by the administration proposing to eliminate funding for CDE's technical assistance related to the program.

**BACKGROUND:**

**Governor's January 10 proposal related to grant funding.** The Governor does not propose any funding for the Healthy Start grant program, which provides competitive grants to school sites to provide support to families of children attending the school. Specifically, each Healthy Start site provides comprehensive school-integrated services and activities to meet the desired results that are locally identified. Last year the Governor similarly proposed deleting funding for the program. Last year the subcommittee restored \$2 million in funding for this program for new grants, and the Governor sustained this restoration. The funding was one-time Proposition 98 reversion account funds.

**Governor's April letter regarding state operations.** While the January 10 budget continued funding for the positions in CDE that support and administer this program, the Governor has submitted an April letter proposing to eliminate \$449,000 in funding for the technical assistance that CDE provides. The letter states that the funding "is no longer necessary due to phasing out of the Healthy Start program." The Governor's proposal would leave \$250,000 for administration of the program, but specify that this funding is to "assist in phasing out and concluding the Healthy Start program." Staff notes that while the Governor is proposing to phase out the program, in the past the subcommittee has indicated an interest in continuing the program, and the Legislature has not passed any statute or other resolution indicating its willingness to phase out the program.

**Background on program.** The Healthy Start program was initiated in 1991 by then-Governor Pete Wilson. The purpose of the program is to establish local systems of comprehensive school-community integrated services that meet the needs of the children and families attending the school. Services are determined locally based on the community's needs, but may include tutoring, adult education, parenting education, nutrition education services, information regarding health program eligibility, and other services intended to help families support their children in their educational needs. Limited-term grants are provided to help schools and other family-serving agencies to streamline and integrate their programs to make them more effective and accessible to families at the school site.

Grantees receive \$400,000 operational grants. These grantees have between three and five years to spend their grant money, after which time they are required to sustain their operations by obtaining funding on their own to continue their programs. The program also provides \$50,000 two-year planning grants to prospective participants.

According to CDE, since its inception, Healthy Start has provided 823 planning grants and 647 operational grants, benefiting more than 2 million children and their families throughout California. While most of these grants have expired, many Healthy Start sites continue to operate with local support from the school district and community.

**Evaluation results.** The program has been evaluated twice and showed positive results related to education performance, behavior, overall health, and test scores. For example, the percentage of students receiving Healthy Start services who finished above the 25th percentile on the SAT9 for Total Reading was 6.5 times greater than for the rest of the pupils in the state. There were also statistically significant schoolwide improvements in Healthy Start sites related to parent participation, improvements in students' grade point averages and lower student mobility. The program has also been credited with leveraging private and public funds. Information requested of and provided by CDE suggests that for every state dollar provided, Healthy Start returns an estimated \$4 in otherwise untapped local, county and federal funds.

**History of funding.** Prior to 2002-03, the state provided \$39 million a year for this program, to fund planning and operational grants. Funding was dropped to \$2 million in 2002-03, due to overall budget constraints. The administration proposed deleting funding for this program in last year's and this year's budget. As noted above, the Legislature restored \$2 million for this program in last year's budget.

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| <b>COMMENTS:</b> |
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**Demand for program still exists.** According to information requested by staff, in the last round of funding CDE received 19 applications for operational grants and 22 applications for planning grants but was only able to fund 4 operational grants and 8 planning grants with the \$2 million that was provided.

**ISSUE 3: GOVERNOR'S PROPOSED REDUCTIONS: EARLY MENTAL HEALTH INITIATIVE (EMHI)**

The issue for the subcommittee to consider is the Governor's proposal to reduce funding for the Early Mental Health Initiative from \$10 million to \$5 million. (This program is funded with Proposition 98 funds through the Department of Mental Health.)

**BACKGROUND:**

**Governor's proposal.** The Governor's proposal is similar to his proposal last year, in which he proposed reducing funding for this program from \$10 million to \$5 million. The effect of the Governor's proposal would be to continue funding for existing grantees, but to eliminate any funding for new grantees. Existing grantees are receiving their first year of funding in the current year (2004-05). The Governor's proposed \$5 million would support the second year of their grant.

**Funding history.** Although the Governor proposed to reduce funding to \$5 million last year, the Legislature prevailed in restoring the funding level back to \$10 million. However, \$5 million of this amount was in one-time (Proposition 98 reversion account) funds. This program was originally funded at \$15 million annually. In the Budget Act of 2003, the program was reduced by one-third, by not renewing funding for the three-year grants that were up for renewal in the current year. Governor Davis initially proposed a complete elimination of the program, but the Legislature restored funding for the program.

**Background on program.** This program was authorized by Chapter 757, Statutes of 1991 (AB 1650). It is administered by the Department of Mental Health (using Proposition 98 money) and provides three-year grants to school districts with the following goals: a) to minimize the need for more intensive and costly services as students grow older and b) to increase the likelihood that students experiencing mild to moderate school adjustment difficulties will succeed in school. The program targets school-aged children between kindergarten and third grade.

EMHI grants implement researched-based program services. The key elements of the program include the provision of services that are school-based and low cost to appropriate students from low-income families or who are in out-of-home placement or who are at risk of out-of-home placement. EMHI uses a systematic selection process of students most likely to benefit from program participation. The program collaborates with county mental health departments while also utilizing alternative personnel, such as child aides, to provide direct services to identified students. EMHI also maintains a commitment to outcomes based practices through ongoing monitoring and evaluation of program services.

**Evaluation results.** An independent contractor completed a treatment-versus-control-group study for the Department of Mental Health in 2000. It compared students who participated in the program in the fall, who were more severely in need of services, with

other students who were waiting to start the program in the spring. The data demonstrated that the children who were served in EMHI in the fall showed improved scores on social competence and school adjustment by the end of their program in winter. The comparison group children, who were waiting to begin services, did not show comparable growth during the same time period, and in fact worsened in their social competency and school adjustment scores. The same independent contractor examined the maintenance of improvements among students over a two-year period following participation in EMHI-funded services. The data demonstrated a large improvement (14 percentile points) in social competence and school adjustment related behaviors between the baseline and year-one follow-up. Most, if not all, of these gains occurred during the approximately four-month period that participants received services. Equally important, the comparison between year 1 and year 2 follow-up data showed that these gains were maintained into the second year following services.

**COMMENTS:**

EMHI providers argue that the program is cost effective because it utilizes paraprofessionals as the primary services providers, at a cost of approximately \$600 per child. Services provided by professionals cost significantly more. Moreover, EMHI providers also argue that the program prevents serious, more-costly future problems.

**Issue shared with Subcommittee No. 1.** Given that this program is funded out of the Department of Mental Health, it will also be considered by Subcommittee No. 1, which intended to hear this issue yesterday, April 18, 2005. The issue is being heard by this subcommittee because it is supported with Proposition 98 funds.

**ISSUE 4: GOVERNOR'S PROPOSED REDUCTIONS: ADVANCEMENT VIA INDIVIDUAL DETERMINATION**

The issue for the subcommittee to consider is the Governor's proposal to reduce funding for this program.

**BACKGROUND:**

**Governor's proposal.** The Governor proposes a total funding of \$8.2 million for this program. (The program is funded with non-Proposition 98 General Fund money.) This is a reduction of \$840,000 from last year's funding level of \$9 million. The administration proposes that that \$100,000 of this reduction be for AVID centers, which help train AVID teachers (for a total funding level of \$1.2 million), and the remaining \$740,000 in reduction be unallocated (the program can determine how to distribute the reduction.) The Governor is proposing this cut as part of a statewide General Fund (non-Proposition 98) expenditure reduction effort, in which all programs receive a 9.3% reduction in their General Fund appropriations. As part of its categorical reform proposal, the administration proposes to allow school districts to use funds from the newly created professional development block grant for AVID.

**Background on program.** The Advancement Via Individual Determination (AVID) program is designed to close the achievement gap and increase the college-attendance rate for students from low-income families. The program trains teachers to provide high-level, college preparation and AP coursework, and then supports AVID participants when they take these courses. The program's supporters state that AVID serves almost 92,000 students in more than 1,100 schools, and that 95% of AVID graduates report enrolling in college (77% in four-year institutions and 17% in community colleges).

**COMMENTS:**

**History of funding.** Last year the Governor's January 10 budget proposed a total funding level of \$10.3 million for this program. The Governor then proposed a reduction of \$1.3 million in the May Revise, to be deducted from the amount available for advanced placement teacher training or tutoring services. The Legislature ultimately rejected this cut, restoring the program to its original January 10 level. However, the Governor vetoed the \$1.3 million cut restoration, leaving funding at \$9 million. In defending his veto, the Governor cited existing funds available for other professional development programs.



**ISSUE 5: GOVERNOR'S PROPOSED REDUCTIONS: STUDENT COUNCIL FOR VOCATIONAL EDUCATION PROGRAM**

The issue for the subcommittee to consider is the Governor's proposal to reduce funding for the Student Council for Vocational Education program.

**BACKGROUND:**

**Governor's proposal.** The Governor proposes to reduce funding for the Student Council for Vocational Education program by \$48,000, leaving \$464,000 for the program. (The program is funded with non-Proposition 98 General Fund money.) The Governor is proposing this cut as part of a statewide General Fund (non-Proposition 98) expenditure reduction effort, in which all programs receive a 9.3% reduction in their General Fund appropriations. This program provides student leadership activities in vocational education programs, by providing support for the state's career technical education student organizations.

**COMMENTS:**

Last year, the administration proposed a similar \$33,000 reduction during the May Revise, to eliminate a contract CDE had with the California Association of Student Councils for vocational programs. The Legislature approved this cut during the May Revise.

**ISSUE 6: STATEWIDE INFORMATION TECHNOLOGY SYSTEMS: HIGH SPEED NETWORK**

The issues for the subcommittee to consider are:

- Whether to approve the Governor's proposal to fund this program at \$21 million in Proposition 98 funds.
- Various oversight issues raised by a recent audit/review of the program, including questions about cost-effectiveness and whether the state should attempt to realize savings from this program.

**BACKGROUND:**

**Governor's proposal.** The Governor proposes to fund this system at \$21 million in Proposition 98 funds, the same funding level proposed and approved in last year's budget. Last year was the first time this program was funded with a Proposition 98 appropriation. It had previously been supported through non-Proposition 98 General Fund appropriations to the University of California's budget (see comments).

**Background on program goals.** This program funds the creation and maintenance of a statewide high-speed, optical fiber internet network for K-12 education, which is part of a larger network that also serves private and public universities (Cal-REN 2). Currently, the program funds the maintenance of the network, including "nodes" which school districts must link up to in order to gain access to the network and use the high-speed internet service. The nodes are housed mostly at county offices of education, which have free access to the system. Since the inception of the program, the state has spent more than \$100 million to build the system. The majority of the infrastructure has been built and it has evolved into an existing network.

High-speed internet is intended to provide faster, more reliable service than traditional internet. Speed and reliability are not as crucial for everyday applications, such as e-mail and webpages, but become more important for more complex applications, large databases, or activities such as videoconferencing. (The audit/review notes that at the beginning of 2004-05 the K-12 community collectively withdrew from participating in the shared video services infrastructure.)

**Program history, governance.** While Proposition 98 funding for this program was only initiated last year, 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, Corporation for Education Network Initiatives in California (CENIC), to develop and administer the network. However, when the administration proposed shifting the cost of the K-12 portion of the program from UC's budget to Proposition 98 funds last year, 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.

**Oversight issues raised by the audit/review.** Last year, in response to the Governor's proposal, the LAO raised concerns about the lack of detail and justification provided in support of the \$21 million. It also raised doubts about the need for and the cost-effectiveness of high-speed internet access, due to the lack of available software requiring it and the limited applications available to school districts. In response to these concerns and others raised, last year the Legislature and the administration approved budget bill language accompanying the \$21 million for this program. The language requires statute to govern the funding, beginning in 2005-06, and requires the lead agency administering the program to 1) contract for a financial audit and review of the program, due March 1, 2005 and 2) provide a status report on proposed activities, revenues, savings and other information. The financial audit/review was completed by March 1 and had the following findings:

- Project/financial management did not meet industry standards. CENIC did not use industry-standard project management practices while it developed and managed the network. For example, it did not have a service level agreement with network users, and did not track or analyze network traffic or usage. It also had a lack of internal controls and inadequate separation of duties regarding the use of its funds.
- Dispute over whether the state owns the network. From 2000-01 through 2003-04, the Legislature appropriated \$92.6 million for this project. While there is normally a presumption that assets acquired with state funds become assets of the state, CENIC viewed its responsibilities to the K-12 community as those of a service contract. It therefore believes the High Speed Network assets (valued at \$22.3 million) belong to CENIC and not the K-12 community or the state.
- Existing capacity currently underutilized. The audit/report estimates that even at a 20 percent annual growth rate for seven years, 33 of the 58 counties would still be using less than 15 percent of the capacity for which CENIC has contracted. Moreover, many districts and schools maintain low connectivity speeds that diminish their ability to access the applications and potential benefits of the high-speed network. Under these trends, it may take a while for districts to fully utilize what the state is currently paying to maintain. Also, the future cost-effectiveness of this system depends on whether there are advances in technology that make the current system obsolete.
- Unused funds available. CENIC transferred cash assets to itself from previous years' state appropriations, for the High Speed Network and these funds may be available for future uses of the program. These include: \$1.5 million in interest and dividend earnings on unused High Speed Network funds, \$12.7 million in equipment replacement funds that have not yet been used for this purpose, and \$6 million that CENIC transferred to itself in 2002-03 as a prepayment for a five-

year access fee it was charging the High Speed Network for access to the larger shared network with higher education. In addition, there is \$6.6 million in e-rate and CTF funding that is available for the High Speed Network.

- Information not available to judge reasonableness of costs. CENIC maintains a non-disclosure agreement with one of the main vendors, which prohibits it from sharing data on the costs of the system. Therefore, the audit/review could not verify the reasonableness of the estimated costs used in the allocation methodology used to charge the different users.
- K-12 not represented on CENIC governing board. CENIC's board of directors includes representatives of public and private universities, but no representatives from K-12. In addition, the audit/review raises questions about whether the existing cost sharing is appropriate between K-12 and higher education, given that the higher education community uses the shared network significantly more than the K-12 community.

**Audit/review's recommendations.** The audit/review includes the following recommendations:

- State policy makers: Resolve whether the funding provided to CENIC was an appropriation or a payment for service, and thus whether the state owns the network. Determine whether the unused amounts are available for future uses. Empower a single entity to oversee responsibilities related to the content of what is provided over the High Speed Network.
- Imperial County Office of Education. Issue a request for proposals for a virtual private network (allow CENIC to bid, if it wants) to determine whether K-12 should continue with CENIC or pursue a virtual private network. In the meantime, collaborate with CENIC to better define responsibilities and expectations.
- CENIC. Improve financial and project management. Improve monitoring of utilization and costs incurred, to ensure that costs are being appropriately distributed to users.

**COMMENTS:**

The contractor that conducted the audit/review (MGT), as well as the lead agency administering the project (Imperial County Office of Education), shall present their findings to the subcommittee at today's hearing.

**Implementing legislation.** Last year's budget bill language requires legislation to govern the program, beginning in the 2005-06 fiscal year. It requires the legislation to create a governance structure to oversee the program and that that structure a) develop a long-term plan for the project, b) provide ongoing cost oversight, including mechanisms to control costs and exposure, and c) provide technical oversight of the project. The administration is sponsoring AB 1228 (Daucher) to accomplish this. The bill is still in development, and currently contains intent language linked to last year's budget bill language.

**ISSUE 7: STATEWIDE INFORMATION TECHNOLOGY SYSTEMS: CALIFORNIA SCHOOL INFORMATION SERVICES (CSIS)**

The issues for the subcommittee to consider are:

- The Governor's proposed funding level for this program (\$8.1 million.)
- An update on the progress of the development of the system.

**BACKGROUND:**

**Governor's proposal.** The administration proposes a total of \$8.1 million in funding for the California School Information Services (CSIS), from different sources. These sources include Proposition 98 funding, as well as Educational Telecommunications Fund. The Governor's proposed total funding level is slightly higher than the amount of funding provided last year, of \$7.5 million. The Governor does not propose any funding for new school districts to become part of CSIS, but rather proposes \$2.9 million to continue funding for new participants who began participating in CSIS last year. Part of CSIS' funding includes \$1.3 million for CSIS to support the maintenance of individual student identifiers, which will become a crucial part of the CALPADS longitudinal database system (see Issue #8, below).

**Background on CSIS.** CSIS is a multi-year information technology project with three goals: 1) to build local capacity to use student information systems to inform education decisions; 2) to enable districts to electronically transfer student records between each other and to higher education institutions and 3) to assist districts in electronically transmitting state-required reports to CDE. CSIS is administered by the Fiscal Crisis Management Assistance Team (FCMAT). The project was initiated several years through budget bill language. Later, the Legislature adopted trailer bill language stating the goals of the program. It is a voluntary program in which districts receive incentive funding and technical assistance to participate. A number of districts participate in CSIS, and FCMAT notes that it has a number of districts in the pipeline to participate fully. There are also a number of districts that do not participate in CSIS. According to the administration, the state has spent a total of almost \$63 million to date on the development of CSIS.

**COMMENTS:**

FCMAT indicates that it will be available at today's hearing to provide an update on the progress of the development of the system.

The administration indicates that there may be possible changes to the proposed funding level for this program in the May Revise.

**ISSUE 8: STATEWIDE INFORMATION TECHNOLOGY SYSTEMS: CALIFORNIA LONGITUDINAL PUPIL ACHIEVEMENT DATA SYSTEM (CALPADS)**

The issues for the subcommittee to consider are:

- The Governor's proposed funding level for this program.
- An update on the progress of the development of the system.

**BACKGROUND:**

**Governor's proposal.** The Governor's budget proposes \$688,000 in federal Title VI money for the development of the California Longitudinal Pupil Achievement Data System (CALPADS). This level of funding is roughly the same amount provided last year for the project. The proposed level is for the costs of CDE's contracts with private vendors to manage the project and develop the feasibility study review, which is required under state information technology procurement requirements. In addition, the Governor proposes \$1.3 million for the maintenance of individual student identifiers. This amount is part of CSIS' budget (see Issue #7 above), as CSIS is charged with issuing and helping to maintain the identifiers. The proposed funding level for the maintenance of the identifiers is lower than the \$2.3 million provided last year for this, because last year the state provided some one-time funding for districts to issue identifiers to their existing students.

**Background on program.** 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, in compliance with No Child Left Behind (NCLB) Act requirements. Specifically, it establishes 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.

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 must submit a feasibility study review (FSR) to the Department of Finance, to assess the technical feasibility of such a project. That FSR must be approved by DOF before the project moves forward. Under state rules and regulations, CDE must competitively bid for the development of CALPADS.

**Current status of the project.** A longitudinal database system requires individual student identifiers that are given to each student enrolled in the public K-12 system. Last year, districts were provided some incentive funding to create these identifiers and set up systems to maintain them over time. As for the development of the entire system, last fall, CDE submitted an FSR for the development of the system to DOF for review. DOF had several questions of CDE regarding the FSR. These included questions about: a) whether the project intended to include more than the information required by NCLB, b) where the system should be housed, c) the project's impact on existing programs and systems, including CSIS and d) the project's approach to ensure that it is well managed according to industry standards. CDE responded to these questions and submitted a revised FSR recently.

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| <b>COMMENTS:</b> |
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DOF indicates that it has just received the revised FSR from CDE and has not had time to do a thorough analysis of it. It advises that it will be unable to testify on the adequacy of the FSR at today's hearing, due to a lack of sufficient time to analyze the proposal.



**ISSUE 9: STATEWIDE INFORMATION TECHNOLOGY SYSTEMS: PROFESSIONAL DEVELOPMENT DATABASE**

The issue for the subcommittee to consider is a recommendation by LAO to create an integrated teacher-student data system.

**BACKGROUND:**

In its Analysis of the Budget, the LAO recommends the state develop an integrated teacher-student data system, in order to compare different professional development programs, assess their cost-effectiveness and make appropriate budget decisions. It specifies that the intent of the new system would not be to replace existing processes for local teacher evaluations, but rather to maximize the benefits of any potential categorical reform of K-12 professional development programs. It recommends that the Legislature require school districts, as a condition of receiving the new professional development block grant funds, to provide CDE with teacher-level data linked with students' test scores. Such a system would require the use of a unique identifier for each teacher.

**COMMENTS:**

The LAO notes that in September 2004, nine groups came together to express their interest in developing a reliable, comprehensive teacher data system. The groups included teacher organizations as well as higher education representatives.

**ISSUE 10: WILLIAMS SETTLEMENT FUNDING**

The issue for the subcommittee to consider is two budget proposals linked to last year's settlement of the Elizer Williams et. al. v. State of California.

**BACKGROUND:**

**Governor's proposal.** The Governor's budget proposes two augmentations in compliance with the terms of last year's Elizer Williams et. al. v. State of California settlement. Plaintiffs in that lawsuit argued that the state does not do enough to ensure that all students have access to a) adequate instructional materials, b) clean and sufficient facilities, and c) adequately trained teachers.

- **Emergency repairs program.** The first augmentation is \$100 million in one-time (reversion account) funds for an emergency facility repairs program, which was created by SB 6 (Alpert) of last year. That program reimburses the lowest performing third of all schools statewide for the costs of emergency repairs to their facilities, when those facilities are in a condition that poses a threat to the health and safety of pupils or staff at that school.

SB 6 established that each budget shall dedicate at least half of all Proposition 98 reversion account funds, or \$100 million, whichever is higher, for emergency facility repairs, until a total of \$800 million has been disbursed. (Proposition 98 reversion account funds are unexpended Proposition 98 funds from prior years. They are one-time.) The Governor's budget proposal of \$100 million from the Proposition 98 reversion account would represent 86 percent of the available funds in this account, as estimated in the January 10 budget.

- **Increase to High Priority Grant Program.** The second major augmentation in compliance with the Williams settlement is an increase of \$45.5 million for the High Priority Grant (HP) program, which provides improvement grants to the lowest performing schools in the state. The augmentation will allow new schools to enter the program. This is significant since a large number of new schools have not entered the program since the program's inception three years ago. The Williams settlement required that any savings from the phase-out of another state program for low-performing schools, the Immediate Intervention in Under-performing schools program (II/USP), be used to increase participation in the HP program. In accordance with the settlement, the \$45 million increase for HP comes from a savings of equal amount in the II/USP program, due to the expiration of some of the earlier grants in that program.

**COMMENTS:**

**Last year's funding related to the Williams lawsuit.** Last year's budget provided the following major augmentations in compliance with the Williams lawsuit:

- \$138 million in one-time funding for instructional materials for the lowest performing 20% of schools (schools in the lowest two deciles, using the Academic Performance Index). This amount was provided in addition to funding in the regular instructional materials program.
- \$25 million in one-time funds for eligible school districts to conduct one-time comprehensive needs assessments of school facilities.
- \$15 million to county offices of education to conduct school site visits to ensure that schools in the lowest three deciles are in compliance with the terms of the settlement (that these schools have adequate instructional materials, facilities, and credentialed teachers).

**ISSUE 11: INSTRUCTIONAL MATERIALS**

The issues for the subcommittee to consider are:

- The Governor's proposed funding level for this program, which is the same level provided last year (adjusted for growth and COLA), but does not continue the set-aside for English learner instructional materials.
- An update by CDE on the administration of a \$30 million set-aside provided last year for English learner instructional materials.

**BACKGROUND:**

**Governor's proposal.** The Governor proposes a total funding level of \$380 million for the state instructional materials program, which provides funding to school districts to purchase standards-aligned materials. This is an increase of \$17 million over last year's funding level, and this increase pays for growth and COLA for the program. The Governor does not propose to continue the \$30 million set-aside for English learner instructional materials that was included in last year's budget. That is, the Governor proposes to convert this previous English learner set-aside into base funding for the instructional materials program. The effect of this proposal would be a \$30 million increase in funds available for standards-aligned instructional materials that are available to all students, and a \$30 million decrease (relative to last year) for instructional materials for English learners (see below).

**Background on last year's set-aside for English learner instructional materials.** Last year, the subcommittee advocated for some amount of funding to be provided to school districts to help them pay for instructional materials that support English learners in their efforts to learn English. The issue went to conference, with the final version of the budget containing provisional language to set aside \$30 million "on a one-time basis to provide supplemental instructional materials specifically for English learners" in grades K-12. School districts and county offices are eligible for up to \$25 per English learner, and may spend up to \$30 million for specified materials. The funding is available for two years.

The accompanying budget bill language specifies that "the purpose of these materials will be to accelerate pupils as rapidly as possible towards grade level proficiency," and that the "funds shall be used to purchase supplemental materials that are designed to help English learners become proficient in reading, writing and speaking English." That is, the funds are to purchase materials that *supplement* the regular standards-aligned instructional materials that districts can purchase through the regular instructional materials program.

The accompanying language also required that materials purchased with the set-aside be substantially correlated to the statewide content standards (Reading/Language Arts, math, science, etc.), as well to the English language development standards that are intended to guide English learners as they acquire English. It requires school districts and county offices to certify that materials they intend to purchase with these funds are substantially correlated with state standards, and submit this certification to CDE. The language also requires CDE to develop correlation matrices for districts and county offices to use in determining whether materials are correlated to the standards. It also requires publishers to submit standards maps to CDE and any requesting school district or county office of education, so that agencies can determine materials' correlation with standards. The language permits CDE to select panels of educators to verify the standards maps provided by the publishers and examine the materials for legal and social compliance. CDE must submit its verification results to the State Board of Education for approval, and the State Board must approve or disapprove the materials at the next regularly scheduled meeting after receipt of CDE's verification.

**COMMENTS:**

Last year's budget bill language required school districts and county offices to submit an intent to purchase by March 1 of this year. CDE reports that the vast majority of eligible school districts submitted intents to purchase. It indicates that it plans to complete its verification of publishers' standards map and their correlation with state standards through June, after which time it will present its results to the State Board of Education. CDE will give an update on the administration of this set-aside, to date, at today's hearing.

**ISSUE 12: FUNDING SCHOOL APPORTIONMENTS BASED ON ENROLLMENT**

The issue for the subcommittee to consider is whether to change the current system of providing general purpose funding to school districts, so that each districts' funding is based on the number of students enrolled, and not the average daily attendance.

**BACKGROUND:**

**Background on apportionments.** Approximately 2/3 of all funding school districts receive from the state is discretionary funding, meaning that there are no restrictions on how schools spend this money. The mechanism for providing this discretionary funding to school districts is apportionments. Under current law, the amount of funding each school district receives through apportionments is based on their average daily attendance multiplied by their revenue limit.

**Recent changes to the current system: SB 727 (Rosenthal).** Several years ago, the Legislature approved legislation that modified the way that school districts calculate average daily attendance for the apportionment formula. Prior to that legislation, school districts could count days in which students had excused absences (illness, doctor's appointments, etc.) as days of attendance. That is, school districts would not receive a fiscal penalty for days that students were absent due to a circumstance beyond the control of the district or student. SB 727 (Rosenthal) changed that by excluding excused absences from the attendance calculation, so that school districts no longer got paid for days in which students were absent due to illness or other reasons designated as "excused absences." To compensate for the loss in funding, the bill increased each school district's revenue limit based on the proportion of excused absences as a percentage of total average daily attendance (their excused absence rate).

**Criticisms of SB 727 (Rosenthal).** The declared purpose of SB 727 was to eliminate any fiscal incentive for school districts to retroactively obtain doctor's notes or parent's notes to change unexcused absences to excused absences. The bill's other declared purpose was to try to improve the attendance rate at schools, by providing schools with a fiscal incentive to increase students' attendance. However, many critics contend that some school districts will naturally have a higher attendance rate than others, based on the socioeconomic characteristics of the students attending the schools in the district. They contend that economically disadvantaged children may lack health care or have greater health problems (such as asthma), that will cause them to miss school more often than more well-off children. Therefore, excluding excused absences from the apportionment calculation has a disproportionately negative effect on school districts with high numbers of economically disadvantaged children.

**Effects of equalization?** In past years, the Legislature has provided several rounds of revenue limit equalization, which attempts to bring all school districts' revenue limits up to the 90<sup>th</sup> percentile by type and size of districts, over time. Currently, differences between revenue limits reflect a) historic differences and b) the different adjustments that were made to revenue limits under SB 727 -- adjustments that were greater for school districts with higher excused absence rates and lower for districts with lower excused absence rates. If one assumes that higher excused absence rates are correlated with higher numbers of economically disadvantaged students, those past equalization attempts benefited school districts with lower SB 727 adjustments (due to lower excused absence rates) and lower numbers of economically disadvantaged students.

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AB 1377 (Dymally), AB 607 (Goldberg) and AB 60 (Nunez) all attempt to change the system for calculating apportionments to an enrollment-based system.

**ISSUE 13: FEDERAL READING FIRST FUNDS**

The issues for the subcommittee to consider are:

- What is the State Board of Education's and the Department of Education's plan for how this funding will be distributed for the remaining years of the funding (2005-06 through 2007-08)?
- Does that plan ensure that the state will use all available resources wisely and fairly to serve as many eligible districts as possible? Does it ensure that the state will not have large amounts of unused funds that it will either have to spend for one-time purposes or give back to the federal government?
- Should the Legislature approve the State Board's request to provide round-one grantees with a fourth-year of funding? (Last year's budget requires legislative approval/ legislation.)

**BACKGROUND:**

**Governor's budget.** The Governor's budget assumes that there will be approximately \$145 million in ongoing federal Reading First funds available to spend. This is roughly the same amount available last year. Last year, there was approximately \$29.6 million in one-time carryover funds that the administration proposed to be spent on a one-time basis to help existing grantees lower the number of special education referrals based on reading below grade-level. The Legislature adopted the proposal, with some modifications. The Governor does not propose to continue this program in the budget year.

**Program components.** Federal Reading First funds are provided to states to improve the reading instruction of their schools and the reading achievement of their students. According to California's implementation, eligible school districts may receive three-year grants up to \$6,500 per teacher in kindergarten through grade 3. The funding can be used for purchasing reading materials, participating in state-approved professional development in reading and language arts, hiring reading coaches and reading assessments. In order to receive funding, districts must purchase standards-aligned textbooks for English/ Language Arts and agree to participate in the state program.

To date, the State Board of Education has provided approximately 110 school districts with Reading First grants: 13 in the first round of funding, 60 in the second round and 37 in the third round. According to CDE, 92 of the existing grantees applied for the one-time money provided last year to prevent special education placements. They all received the maximum \$8,000 per teacher allowed by the language that accompanied the one-time money.



**Last year's language requiring legislative approval for additional year of funding to existing grantees.** Last year's budget contained provisional language requiring the State Board of Education to seek legislative approval for any change to the Reading First program, including extending the grant period beyond three years. Under existing legislative rules, that approval usually takes the form of legislation. Upon a recommendation by CDE, the State Board of Education recommends extending the grant awards for the first cohort of grantees by providing them with a fourth year of funding. According to CDE, the fourth year of funding would be provided to those grantees that have demonstrated sufficient progress toward state goals. The State Board will develop and adopt this definition of sufficient progress at a future hearing.

Given the fact that funding for this program may expire in future years, and the intent to limit the amount of unused funding from the program, the subcommittee may wish to ask the following questions of CDE and the Board when it considers the request to provide a 4<sup>th</sup> year of grant funding to the first round of grantees:

- If the state provides a 4<sup>th</sup> year of funding to first-round grantees, what implications will that have on the availability of funding for new grants? Does it intend for second and third round grantees to receive a fourth year of funding and how much will this cost?
- Do CDE and the Board intend for the first round of grantees to later receive a 5<sup>th</sup> and 6<sup>th</sup> year of funding? If so, what implications does this have for the availability of funding for second and third round grantees to receive similar amounts of funding?
- Is there a demand for new grants? How much would be available for new grants under the above scenarios? If there is no demand for new grants as the program currently is structured, should the state modify the program requirements?

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**Program evaluation.** This program is currently being evaluated at the state level. CDE expects the evaluation to be available by 2006.

**SBE/ CDE expenditure plan.** At the request of staff and the LAO, last Friday, April 15, CDE sent an expenditure plan for the remaining Reading First funds to staff, DOF and the LAO.