

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Mervyn Dymally, Chair

TUESDAY, APRIL 26, 2005
STATE CAPITOL, ROOM 444
10:00 AM-12 NOON

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ITEMS TO BE HEARD

0954 SCHOLARSHARE INVESTMENT BOARD

ISSUE 1: STATE OPERATIONS (ADMINISTRATIVE BUDGET)

The issues for the subcommittee to consider are:

- The Governor's proposed administrative budget for the Scholarship Investment Board, which includes no major changes from last year's budget.

BACKGROUND:

Governor's proposal. The Governor does not include any major changes to the administrative budget of this board, which is funded roughly equally with General Fund and funds from the Scholarshare Administrative Fund. The following table describes the Governor's budget proposal compared to previous years.

Administrative funding for the Scholarshare Investment Board (\$ in thousands)

	2003-04	2004-05	2005-06*
General Fund	\$1,052	\$1,092	\$1,100
Scholarshare Administrative Fund	477	983	1,006
Total	\$1,529	\$2,075	\$2,106

* As proposed in Governor's January 10 budget.

Background on Board. The Scholarshare Investment Board administers three scholarship programs:

1. The Golden State Scholarshare College Savings Trust Program (Scholarshare) -- a state-sponsored college savings program set up to help families save for higher education costs.
2. The Governor's Scholarship Program -- This program has been sunsetted, but used to provide \$1000 awards to students who scored in the top 5-10% of achievement on statewide achievement tests), and
3. The California Memorial Scholarship Program -- provides scholarships to surviving dependents of California residents killed in the September 11, 2001 terrorist attacks. The funds for the scholarships are funded by voluntary donations made by California vehicle owners who purchase the California Memorial License plate.

COMMENTS:

The second scholarship program noted above (The Governor's Scholarship Program) was initiated by former Governor Gray Davis and provided merit-based scholarships to students who scored among the highest on state standardized achievement tests. The Legislature deleted funding for the scholarship several years ago, due to budget constraints. It subsequently passed legislation that limited awards to students who earned certain scores on standardized tests in the years 2000, 2001 and 2002.

To staff's knowledge, there are no major changes proposed to this budget, and no one has raised any issues with this budget.

6110 DEPARTMENT OF EDUCATION**ISSUE 1: 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 Underperforming 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 2: ACCOUNTABILITY PROGRAMS (II/USP, HIGH PRIORITY SCHOOLS GRANT PROGRAM)

The issue for the subcommittee to consider is the Governor's proposed funding level for the Immediate Intervention in Underperforming Schools Program and the High Priority Schools Grant Program.

BACKGROUND:

Governor's proposal. The Governor proposes a total funding level of \$7.5 million for the Immediate Intervention in Underperforming Schools Program (II/USP). This is a decrease of approximately \$45 million, due to a number of schools that are phasing out of the program. As noted above in Item 1, the Williams Settlement requires that any decrease from this program be provided as an augmentation to the High Priority Grant program. The Governor proposes a total funding level of \$238.7 million for the High Priority Grant program, including the \$45 million increase from the II/USP program.

Background on II/USP program. The II/USP program was created as part of the state's 1999 landmark accountability legislation, which also created the Academic Performance Index (API). The II/USP allowed schools in the lowest five deciles to apply for grant funding to improve their performance. In exchange, grant recipients could be subject to state interventions if they did not make significant progress toward their goals in two years. (If participating schools made significant progress after two years they may receive an additional year of funding.) Several years ago, the Legislature ceased to fund new schools in the II/USP program, due to the passage of the NCLB and the recognition that the II/USP program focuses on holding schools accountable for improvement, and the NCLB focuses on holding school districts accountable. Per the subcommittee's request, the following tables include information provided by CDE on the number of schools that have participated to date in II/USP.

II/USP Cohort 1 Schools*

03 Decile Rank	Number of Schools	Total Implementation Funds	Number Exited	Number Under Watch	Number State Monitored	Total State Monitoring Funds
1	99	\$59,947,172	79	6	14	\$5,836,650
2	91	\$42,762,438	78	2	11	\$4,576,300
3	79	\$32,260,073	64	9	6	\$3,245,450
4	82	\$31,590,810	67	3	12	\$4,039,500
5	36	\$13,746,372	33	1	2	\$1,678,150
6	21	\$5,786,782	17	1	3	\$816,750
7	6	\$1,274,416	6	0	0	\$0
8	1	\$150,000	0	0	1	\$148,500
9	1	\$233,600	1	0	0	\$0
No Rank	2	\$1,026,400	0	0	2	\$581,800
Closed	11	\$3,141,440	N/A	N/A	2	\$175,000
Totals	429	\$191,919,503	345	22	53	\$21,098,100

*Two schools merged to become one.

II/USP Cohort 2 Schools

03 Decile Rank	Number of Schools	Total Implementation Funds	Number Exited	Number Under Watch	Number State Monitored	Total State Monitoring Funds
1	110	\$82,387,552	64	25	21	\$5,180,700
2	84	\$38,858,080	53	16	15	\$2,901,000
3	81	\$30,306,800	44	23	14	\$4,075,450
4	70	\$19,848,000	42	11	17	\$4,022,300
5	38	\$8,378,160	23	8	7	\$1,432,250
6	25	\$6,111,360	18	2	5	\$899,350
7	4	\$435,800	3	0	1	\$121,050
No Rank	6	\$4,519,600	0	1	5	\$2,136,450
Closed	12	\$4,602,240	N/A	N/A	N/A	\$0
Totals	430	\$195,447,592	247	86	85	\$20,768,550

II/USP Cohort 3 Schools:**

03 Decile Rank	Number of Schools	Total Implementation Funds	Number Exited	Number Under Watch	Number State Monitored	Total State Monitoring Funds
1	107	\$95,818,960	12	95		\$0
2	93	\$54,162,320	33	58	2	\$654,335
3	71	\$33,912,560	17	53	1	\$213,315
4	58	\$27,939,520	16	42		\$0
5	50	\$17,165,800	14	36		\$0
6	20	\$8,958,800	3	17		\$0
7	4	\$2,737,920	2	2		\$0
8	2	\$497,200	1	1		\$0
No Rank	12	\$11,633,280	6	0	6	\$2,477,882
Closed	12	\$2,683,040	N/A	N/A	N/A	\$0
Totals	429	\$255,509,400	104	304	9	\$3,345,532

**Two schools merged to become one.

Note: Total Implementation Funds includes II/USP, HPSGP, and CSR funds.

Note: State-Monitored totals include schools being brought to the March State Board meeting.

Background on HP program. The High Priority Schools Grant program was created in 2001 to address the special challenges of turning around the lowest-performing schools. Eligible schools may apply for grant funding of \$400 per pupil. In exchange, participants may be subject to state interventions if they do not make significant progress toward state goals in three years. The program establishes highest priority for schools in decile 1, second priority for schools in decile 2, third priority for schools in decile 3, etc. To date, the program has provided grants to 351 schools. Per the subcommittee's request, the following table includes information on the number of schools that have participated to date in the HP program.

High Priority Schools Grant Program

03 Decile Rank	Number of Schools	Total Implementation Funds	Made Growth Targets Both Years	Made Growth 1 of 2 Years	Did Not Make Targets Either Implementation Year	Net Gain of Minimum 3 Points Over 2 Years	Net Gain of Minimum 2 Points Over 2 Years
1	207	\$240,582,720	100	93	14	203	204
2	97	\$115,852,160	41	55	1	97	97
3	25	\$29,248,320	12	13	0	25	25
4	6	\$6,230,720	4	2	0	6	6
No Rank	15	\$19,592,080	0	0	15	3	3
Closed	1	\$16,800	N/A	N/A	N/A	N/A	N/A
Totals	351	\$411,522,800	157	163	30	334	335

COMMENTS:

CDE will be available at today's hearing to answer any questions about the above information.

LAO recommendation. The LAO notes that the state does not have exit criteria for the HP program, and recommends that the Legislature establish these exit criteria before it provides more grants through the program.

ISSUE 3: UPDATE ON NO CHILD LEFT BEHIND IMPLEMENTATION

The subcommittee heard the issue of the implementation of the federal No Child Left Behind Act at a March 29 hearing earlier this year. The follow-up issue for the subcommittee to consider is information requested by the subcommittee regarding ways to seek changes to the law or flexibility within the law. Specifically,

- Information from CDE on a) the status of the 143 recently-identified “program improvement” school districts and their funding, and b) flexibility it plans to seek from the federal U.S. Department of Education.
- A final report by the National Council of State Legislatures Task Force on NCLB, including recommendations on implementing the law and future changes to the law.

BACKGROUND:

Recent federal government announcements. Recently, the Secretary of the U.S. Department of Education, Margaret Spellings, stated her willingness to provide some flexibility to states in implementing the law, including granting waivers and possibly allowing states to use a growth model to measure progress. Specifically, Secretary Spellings indicated a willingness to triple the number of special education students that could be exempt from regular testing – up to 3 percent. CDE expects further guidance to be issued by the U.S. Department of Education in coming months.

CDE presentation on request for flexibility. CDE will present some options on flexibility California may seek from the federal government in implementing NCLB. Specifically, it proposes to use a growth model (using the API) to determine annual yearly progress toward state goals, instead of the status model outlined in NCLB.¹ If the federal government were to grant this flexibility, CDE would propose modifications to the state’s current accountability system, and it proposes a variety of modification options. In addition, CDE calls for a re-definition of the relationship between the federal government and the states, as recommended by the NCSL report (see below).

National Conference of State Legislatures report on implementing NCLB. In March 2004, the Executive Committee of the National Conference of State Legislatures created a bipartisan task force of state legislators and legislative staff and asked them to focus on the following question: “How can we effect improvements to the NCLB law through additional congressional or administrative actions?” The executive summary of the task force’s report is in Appendix A. Highlights of the report include:

¹ “Growth model” versus “status model.” “Growth model” refers to an accountability system that measures the academic success of the district or school on the basis of how much student achievement improves. It recognizes that not all participants start at the same place. A “status model” requires that all school districts meet minimum targets at the same time, regardless of where they start out.

- **Questionable constitutional underpinnings.** The task force found that NCLB puts the 10th amendment (which reserves powers to the states) against the spending clause of Article 1 (which allows the federal government to attach conditions to grants it provides to states). Specifically, the task force found that NCLB's use of coercion (and not financial inducements) to attain state participation does not meet the legal test under which the spending clause can trump the states' rights amendment.
- **Recommend redefinition of state-federal partnership.** The task force recommended attention to the part of NCLB that gives the U.S. Secretary of Education broad discretion to waive requirements of the law. Specifically, it recommends that the Department of Education develop a transparent process for considering waiver applications, and that it recognize the diversity among states and shift its focus from compliance with processes and requirements to outcomes and results.
- **Allow growth model, non-standardized test measures.** The task force criticized the status model required by NCLB, by finding, that it creates too many ways to fail and therefore spreads resources too thinly and reduces the chance that schools that are truly in need of improvement can be helped. It accordingly recommends allowing states to use a growth model instead of the NCLB's status model, and allowing states to use multiple measures of student achievement in addition to results on standardized tests.

COMMENTS:

Staff notes that in recent weeks a number of groups have taken steps to sue the federal government over implementation of the No Child Left Behind Act. One of the grounds for the lawsuits is related to claims that funding is insufficient to comply with the law. In addition, Connecticut is suing over the requirement that students be tested every year. Under its pre-existing accountability system, it tests children every two years. It argues that testing children every year would require it to re-create its entire testing system, without any gains in knowledge of how students are doing.

ISSUE 4: 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. Assuming an English learner population of 1.3 million students, the \$30 million is approximately \$23 per English learner. 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:

Update by CDE on progress of program, demand by districts. 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.

English learner population substantial; questions about system's success in serving them. English learners make up more than 20% of the state's K-12 population in the public schools. In grades K-3, English learners account for 40% of the student population. In many schools, English learners form the majority of the population. As a group, their success in meeting state standards and mastering English has important implications for a) the state's ability to meet federal No Child Left Behind Act requirements, and b) the future productivity of the state's overall workforce.

In a report last year, the LAO found that, as a group, English learners seemed to be behind state expectations in mastering state standards. The report raised questions about the effectiveness of state policy on English learners. Several years ago, the state's voters approved Proposition 227, which requires that students be placed in structured immersion programs (English only), with a goal that they acquire English in a year and move on to mainstream programs. Apart from Proposition 227, the state has no official adopted policy on English learners, aside from its plan to implement Title III of the federal NCLB. (The state was required to submit a plan as a condition of receiving Title III funds, which go to help support English learners.) Does the state need such a policy to guide districts? Do schools need additional financial support to help them support English learners and close the achievement gap? Do teachers need targeted professional development to help them address the specific needs of English learners? Do schools need targeted support or assistance to help them improve their instructional effectiveness?

ISSUE 5: 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 districts 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 90th 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.

COMMENTS:

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

ISSUE 6: TESTING PROGRAMS

The issues for the subcommittee to consider are the Governor's proposed funding level for testing programs and an update by CDE on the administration of the primary language test.

BACKGROUND:

Governor's proposal. The Governor proposes a total of \$116.7 million in combined state and federal funds for the state's testing programs: the STAR, the STAR primary language test, the California English Language Development Test, the High School Exit Exam, the California Alternate Performance Assessment and the California High School Proficiency Exam. Funding level for the different programs is summarized below.

**State and federal funding for state's testing programs:
2004-05 and 2005-06 (proposed)**

Program	2004-05			2005-06 (proposed)			change (totals)
	state	fed.	total	state	fed.	total	
STAR program	\$53.8	\$8.5	\$62.4	\$63.9	\$2.2	66.1	6 %
STAR test development	1.4	0.5	1.9	1.4	0.5	1.9	0 %
STAR primary language test development (a)		3.0	3.0		3.0	3.0	0 %
California English Language Development Test (CELDT)	11.4	10.2	21.6	11.4	10.2	21.6	0 %
CELDT vertical scaling (b)		0.3	0.3		0.3	0.3	0 %
High School Exit Exam	10.4	7.9	18.3	6.8	8.1	14.9	-18.5%
High School Exit Exam workbooks		2.5	2.5		2.5	2.5	0 %
HSEE: evaluation of instruction (c)		0.5	0.5		0.3	0.3	-47.6%
California Alternate Performance Assessment		2.2	2.2		2.2	2.2	0 %
California High School Proficiency Exam	1.0		1.0	1.0		1.0	0 %
Assessment Review and Reporting (d)	2.3	0.6	2.9	2.3	0.6	2.9	0 %
TOTAL	80.4	36.2	\$116.6	86.8	29.9	\$116.7	0.12%

Note: Figures may not add, due to rounding.

(a) For the development of primary language tests aligned to state content standards, in grade order starting with the second grade.

(b) To create a more accurate system of holding schools accountable for improving English proficiency among English learners.

(c) To determine the progress of middle and high schools in implementing instruction aligned to the standards covered in the High School Exit Exam.

(d) Providing local education agencies information regarding federal requirements associated with assessments.

As shown in the above table, the state's testing systems are supported with state funds and federal No Child Left Behind Act (Title VI) funds. (The above table does not include CDE's costs of administering and developing the different testing programs.) The Governor's proposed total funding level represents a slight increase over last year's funding level for the state's systems. It also represents a slight increase in state funding of about \$6 million, with a corresponding decrease in federal funding. This is because in previous years, the state had extra unused federal funds that it had to spend. Those unused funds have been expended, and the amount proposed in the Governor's budget reflects the amount of funding California is expected to receive in any regular year from the federal government for this purpose.

High School Exit Exam. Under current law, students will be required to pass the High School Exit Exam in order to obtain a high school diploma, beginning in the 2005-06 academic year. The amounts proposed in the Governor's budget reflect the cost of developing and administering the test to students who will be subject to the future requirement, and are taking it early to try to pass it or assess their probability of passing it.

COMMENTS:

Primary language test. State law requires English learners who have been enrolled in school for less than 12 months to take a primary language test in their native language, if one is available, in addition to taking the standards-aligned STAR. Last year the Legislature obtained \$3 million in Title III money to develop a standards-aligned primary language test in reading/language arts and math. Prior to this, the state had had a primary language test in Spanish, but it was not aligned to state content standards, and thus provided little useful information to help teachers assess students' achievement on state standards. The new standards-aligned primary language test will be developed by grade level, based on available funding, beginning in grade 2. CDE will be available at today's hearing to provide an update on its development of the standards-aligned primary language test.

ISSUE 7: CDE STATE OPERATIONS ISSUES

The issues for the subcommittee to consider are various proposals by the Governor to adjust CDE's state operations, as well as an issue raised by CDE.

BACKGROUND:

Governor's proposal. The Governor proposes the following changes to CDE's state operations:

1. A total \$433,000 General Fund reduction from the expiration of 4.7 limited-term positions (proposed in Jan 10 budget)
2. \$102,000 in General Fund and \$68,000 in federal reimbursements to extend two limited-term positions for the Career Technical Education Accountability System (Jan 10 and April DOF letter)
3. \$232,000 in federal special education funds and \$600,000 in reimbursement from fees (the fees are charged to non-public licensed children's institutions) for increased monitoring of non-public, non-sectarian schools and licensed children's institutions per AB 1858 of last year. (5.7 positions) (Jan 10)
4. \$242,000 in federal charter school funds to make three limited-term staff positions permanent in the charter schools division (Jan 10)
5. \$68,000 in federal funds to provide an additional staff position to support local education agency financial reporting (Jan 10)
6. \$100,000 in federal Title III funds and one position to support additional workload for the California English Language Development Test. According to the administration, this position will coordinate and provide psychometric and statistical assistance to district staff implementing the CELDT and ensure compliance with NCLB requirements. (April DOF letter)
7. \$200,000 in federal Title I funds and two positions to process and monitor statewide assessment data for determining school and district adequate yearly progress and program improvement status. (April DOF letter)

8. Provide carryover authority for the principal apportionment system re-write, to allow CDE to spend \$143,000 in unexpended funds to provide staff training and maintenance of the new system. The administration also proposes language that would allow CDE to use any unexpended funds previously provided for the Principal Apportionment System through 2006-07 for a contract for staff training and maintenance of the system. (April DOF letter)
9. Increase reimbursement authority by \$50,000 and convert one limited-term position to permanent to provide ongoing state operations support for the School Facilities Program. The position is funded through fees charged to school districts for approval of new school sites and review of building plans. (April DOF letter)

COMMENTS:

CDE issues. According to CDE, it is now required to purchase office supplies through a statewide contract that the Department of General Services negotiated for all state agencies according to a statewide initiative that is intended to reduce negotiating costs by having DGS negotiate on behalf of all agencies for certain contracts. CDE states that it spends more on office supplies under the new contract negotiated by DGS than under its old contract.

ISSUE 8: APRIL DOF LETTER ISSUES – MISCELLANEOUS FEDERAL FUNDS ADJUSTMENTS

The issues for the subcommittee to consider are various technical adjustments to align federal appropriations with available federal funds.

BACKGROUND:

Governor's proposal. In an April DOF letter, the administration proposes to align a number of federal funds appropriations with available federal funds, as follows:

- Federal Learn and Serve American Funding – Reduce by \$283,000 to approximately \$2 million, to reflect the amount of funding expected from the federal budget for this program.
- Neglected and Delinquent Children Program – Reduce by \$109,000 to approximately \$3.2 million, to reflect the amount of funding expected from the federal budget for this program.
- Title V Innovative Programs – Reduce by \$10.2 million to approximately \$21.3 million, to reflect the amount of funding expected from the federal budget for this program. According to the administration, these grant funds are provided to school districts to develop and implement innovative education programs intended to improve school, student and teacher performance, including professional development activities.
- Title I Migrant Education – Reduce by \$217,000 to \$125.3 million, to reflect the amount of funding expected from the federal budget for this program.
- Title III funding for the Education of Limited English Proficient Program – Reduce by \$6.6 million to \$148.4 million, to reflect the amount of funding expected from the federal budget for this program. These funds are provided to school districts to support English learners in meeting state standards and mastering English.
- Reading First program – Reduce by \$778,000 to \$143.9 million, to reflect the amount of funding expected from the federal budget for this program.
- Rural/Low-Income School Program – Reduce by \$1,333,000 to \$1.4 million, to reflect the amount of funding expected from the federal budget for this program.
- Education Technology Program – Reduce by \$26.6 million to \$64.6 million, to reflect the amount of funding expected from the federal budget for this program. The reduction is equally distributed between formula grants and competitive grants, due to federal requirements that funding be distributed 50/50 between these two types of grants.

- Safe and Drug Free Schools and Communities Program – Reduce by \$10.3 million to \$41 million, to reflect a \$10.8 million decrease in the federal fund, plus the availability of \$500,000 in one-time carryover (unused funds).
- Mathematics and Science Partnership Grant Program – Increase by \$3,896,000 to \$24.3 million, to reflect the amount of funding expected from the federal budget for this program. The administration indicates that the additional funds will be used consistent with the current policy for the funds, in which the funds go for competitive grants to institutes of higher education and low-performing schools to provide staff development and curriculum support for mathematics and science teachers.
- Improving Teacher Quality Local Grant Program – Reduce by \$1,488,000 to \$322 million, to reflect the amount of funding expected from the federal budget for this program. These funds are also referred to as "Title II" funds and are provided to school districts for professional development, class size reduction, or other activities related to improve teachers' training and effectiveness.

COMMENTS:

The above adjustments proposed by the Governor are technical in nature, and are intended to align appropriations with updated information on the amount of federal money that will be available for each program. According to the administration, none of the above proposals reflect any policy changes in how the federal funds are used or distributed.

ISSUE 9: STATE SPECIAL SCHOOLS

The issues for the subcommittee to consider are:

- Various increases proposed by the Governor for the state special schools programs, which serve visually and hearing-impaired children in residential facilities in Riverside and Fremont.
- CDE's findings regarding two sources of deficiencies and its effects on the schools.

BACKGROUND:

Governor's proposal. The Governor proposes the following augmentations to the state special schools:

- **Transportation costs.** An augmentation of \$963,000 in federal special education funds for additional transportation costs in state special schools. The administration notes that federal law requires that the state provide these students with transportation to and from their home. Since these schools are residential facilities, many students have homes in a different city than the schools.
- **Capital outlay for bus shelters.** An augmentation of \$47,000 General Fund to construct bus shelters for the California School for the Deaf and Blind in Fremont.
- **Capital outlay for new complex.** \$16.5 million in lease revenue bond funding to construct a new career and technical education complex at the California School for the Deaf in Riverside.

COMMENTS:

LAO has not raised any issues with the two capital outlay proposals.

Deficiencies: CDE states that the state special schools are experiencing two deficiencies which are putting pressure on existing resources for the schools:

- 1) A deficiency related to transportation costs, which the state is required to fund for these students. In recent years, transportation costs have escalated, in part due to increased insurance costs. State appropriations for transportation costs have not kept up with increased costs.

- 2) A deficiency related to wage increases that were negotiated two years ago by the bargaining unit that represents special schools teachers, CYA teachers and teachers in state development centers. According to CDE, it never received an increase to pay for the wage increases, and CDE has been funding the increases with other funds, necessitating the deferral of building maintenance and other projects. CDE estimates the value of this deficiency at a little over \$1 million in the budget year.

ISSUE 10: SUNNYVALE DESEGREGATION

The issue for the subcommittee to consider is the Governor's proposal to provide a total sum of \$6.4 million in one-time funds to Sunnyvale School District to pay for amounts the state owes it for desegregation claims covering the years 1983-84 through 1991-92.

BACKGROUND:

Governor's proposal. The Governor proposes to provide Sunnyvale School District with a total of \$6,385,000 in one-time Proposition 98 reversion account funds for desegregation claims owed through fiscal year 1991-92. While the Governor originally proposed \$4.9 million for this purpose in his January 10 budget, he later increased the amount to \$6.4 million in an April DOF letter amending his budget proposal. In his April DOF letter, the Governor also proposes adding that this amount shall be reverted to the General Fund if a similar appropriation is included in a Victims Compensation and Government Claims Board Claims Bill for the same purpose during the 2005-06 legislative session. The administration indicates that the additional language is to prevent an accidental double-payment, in the event there is a claims bill that includes this same appropriation.

Background on issue. According to the administration, the state owes Sunnyvale School District approximately \$6.4 million for desegregation claims it filed from 1983-84 through 1991-92. Before 1992, school districts could receive reimbursement from the state for costs of court-ordered and voluntarily-initiated desegregation programs, based on cost claims they filed with the State Controller's Office. Between 1983-84 and 1991-92, the State Controller's Office reduced Sunnyvale's claims for what it determined were non-reimbursable activities. Sunnyvale filed a lawsuit over those reductions plus interest. It also filed a claim with the Government Claims Board, which took action in February in agreement with the district. Sunnyvale School District and the Government Claims Board came to an agreement that if the total owed to the district was included in a claims bill or the budget bill, the accumulation of interest would cease.

COMMENTS:

Staff notes that the proposed \$6.4 million to Sunnyvale would not affect the amount that the district receives under the Targeted Instructional Improvement Block Grant (TIIG). (The TIIG program was created when amounts under the voluntary and court-ordered desegregation programs were block granted to school districts.)

6125 EDUCATION AUDIT APPEALS PANEL

ISSUE 1: EDUCATION AUDIT APPEALS PANEL

The issues for the subcommittee to consider are the Governor's proposed budget for this entity, which includes a 2% unallocated reduction.

BACKGROUND:

Governor's budget. The Governor's budget includes a total funding level of \$1.3 million. This level includes a \$20,000 (2%) unallocated reduction, as part of the Governor's attempt to reduce General Fund spending in all areas of the budget. There are no other major changes to the panel's budget, as proposed by the Governor in his January 10 budget.

Background on panel. According to the Governor's budget summary, "the Education Audit Appeals Panel approves the annual guide for audits of K-12 education entities, and independently resolves any disputes arising from those audits. These activities set clear expectations for the management of education funding, and allow both the state and local schools to avoid lengthy and expensive litigation over disputed funding."

COMMENTS:

To staff's knowledge, there are no major changes proposed to this budget, and no one has raised any issues with this budget.

6255 CALIFORNIA STATE SUMMER SCHOOL FOR THE ARTS

ISSUE 1: OVERALL BUDGET

The issues for the subcommittee to consider is the Governor's proposed budget for the California State Summer School for the Arts.

BACKGROUND:

Governor's proposal. The administration proposes no major changes to this program, with the exception of a \$12,000 unallocated reduction, which is equal to about 2% of the program's General Fund support. However, the Governor is proposing a net increase of General Fund support for this program of \$29,000. The Governor's proposal, as well as prior year funding, is summarized in the table below.

Funding for California State Summer School for the Arts (\$ in thousands)

	2003-04	2004-05	2005-06
General Fund	\$ 756	\$ 764	\$ 793
Special Deposit Fund	886	1,080	1,134
Total Funding	\$1,642	\$1,844	\$1,927

Background on program. According to the Governor's budget summary, "this program provides a four-week residential summer instruction program in Animation, Creative Writing, Dance, Film/Video, Music, Theatre Arts and Visual Arts. Funds support the competitive selection of applicant high school students, contracts with arts faculty instructors, course equipment and materials, rental of classroom and residential space, and program staff costs."

COMMENTS:

To staff's knowledge, there are no major changes proposed to this budget, and no one has raised any issues with this budget.