

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Mervyn Dymally, Chair

TUESDAY, MARCH 29, 2005
STATE CAPITOL, ROOM 444
10:00

ITEMS TO BE HEARD

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ITEMS TO BE HEARD

1920 STATE TEACHERS RETIREMENT SYSTEM

ISSUE 1: GOVERNOR'S PROPOSAL TO SHIFT TEACHER RETIREMENT COSTS TO SCHOOL DISTRICTS AND COMMUNITY COLLEGE DISTRICTS

The issues for the subcommittee to consider are:

- Should the state shift teacher retirement costs down to school districts and community colleges, as proposed by the Governor?
- What would the potential effects of the Governor's proposal be on school districts, community colleges and the state budget if the Legislature were to adopt it?

BACKGROUND:

Governor's proposal. The Governor proposes to shift part of the state's current payment into the State Teachers' Retirement System to school districts and community college districts. It also appears (details are unavailable) that he proposes to eliminate an existing requirement that the state pay a surcharge to STRS (equal to approximately 0.5% of teacher payroll) when there is an unfunded obligation or a normal cost deficit associated with benefits in effect on July 1, 1990. (This surcharge would be expected to be triggered for the 2004-05 fiscal year.) The Governor's proposals would not affect an existing state contribution for purchasing power benefits, equal to 2.5% of compensation. This state payment will contribute \$581 million in 2004-05.

The Governor's proposal would result in approximately \$469 million in General Fund savings (non-Proposition 98 savings), plus an additional \$92 million in savings from the elimination of the surcharge for unfunded obligation. However, these savings assume that the state would not be required to re-bench Proposition 98 upwards by the same amount, in which case the proposal would not result in any savings – see below.

The Governor's proposal would require a legislative change. The administration proposes trailer bill language to effect the change. If the Legislature does not adopt the proposed trailer bill language, the Governor's proposed shift will not take effect.

Current system. The state has made contributions to STRS since 1915, when the retirement system began. The current STRS system has two types of benefit programs: the defined benefit program and defined benefit supplement program. The types of benefits from each program, as well as the contributions for each, are detailed below. Currently, all full-time and most part-time educators employed by school districts and community colleges are members of the defined benefit and defined benefit supplement

program. The state contributes to the defined benefit program, but not the defined benefit supplement program.

Existing benefits and contributions to the State Teacher Retirement System
(Shading indicates contributions proposed for elimination by the Governor.)

	Defined Benefit Program	Defined Benefit Supplement Program – through 2010 (1)
General description of benefits	Provides monthly benefit to members at retirement or when disabled, (and to survivors of members who die) based on salary, age and years of service at retirement.	Provides supplemental benefit based on the amount contributed into the member's DBS account and interest credited to that account.
Member contribution	<ul style="list-style-type: none"> • 6% of compensation, through 2010. • 8%, beginning in 2011, returning to original amount. 	2% of compensation, through 2010, when program expires (1)
Employer contribution	8.25% of compensation	None (1)
State contribution	<ul style="list-style-type: none"> • 2.017% of compensation • 0.524% of compensation if there is an unfunded actuarial obligation or deficit associated with benefits in effect on 7/1/90. • 2.5% or compensation to protect pensions from inflation 	None

(1) Indicated contributions are for service credit up to one per school year. For the Defined Benefit Supplement Program, for service credit in excess of one per school year, the member contributes 8% of compensation for service credit in excess of one per school year, and the employer contributes 8% of compensation for service credit in excess of one per school year or for compensation paid for a limited period of time.

Funding shortfall. According to the LAO, a recent valuation showed a \$23 billion unfunded liability for the entire STRS system. STRS is currently considering options for addressing this shortfall. This unfunded liability could be exacerbated by the Governor's proposal to eliminate the 0.5% surcharge (the additional state contribution) that is triggered when there is an actuarial obligation or deficit associated with benefits in effect by July 1, 1990.

Local fiscal effect of Governor's proposal. School districts and community colleges argue that the Governor's proposal to shift the \$469 million contribution down to them will result in the need for them to make \$469 million worth of cuts in their already-tight budgets to pay for this contribution. The administration argues that the proposal allows local entities to re-negotiate their contracts to avoid the \$469 million in additional costs.

This would either reduce employees' take-home pay or reduce the level of their retirement benefits. There is some question whether this forced choice would be a violation of those employees' contractual rights.

State fiscal effect: Governor's proposal may require re-benching of Proposition 98. The LAO argues that the Governor's proposal would not result in any General Fund savings, because the state would have to re-bench the base Proposition 98 funding level upwards by \$469 million. Under current law, the state can only shift a responsibility that was originally designed as NOT the responsibility of school districts or community colleges (NOT a Proposition 98 expense) to those entities if it accordingly adjusts the Proposition 98 minimum guarantee. According to those provisions in law, since the state originally designated the state's STRS contributions as a non-Proposition 98 expense, it cannot now say that that same contribution is a Proposition 98 expense unless it makes a corresponding \$469 million upward adjustment in the total Proposition 98 minimum. This upward shift would cost \$469 million out of the General Fund, thereby erasing any General Fund savings from this proposal.

COMMENTS:

Governor also has a proposal to eliminated defined benefit programs. In addition to the above cost shift, the Governor proposes to eliminate defined benefit retirement programs for all public sector employees and replace them a different system. If his proposal is approved by the voters, the costs of ending the existing system could have large one-time costs up to an amount equal to the current value of the fund over the life of the close-out of the fund (approximately \$120 billion).

Additional LAO recommendations regarding restructure of state retirement system. The LAO argues that the existing retirement system for teachers dictates a strong role for the state, limited local flexibility to design retirement systems that meet local needs and limited responsibility. It argues that the Governor's proposal would not address these problems, and instead recommends that the Legislature adopt a system in which school districts and teachers assume responsibility for the entire cost of the system. It also recommends allowing local flexibility for districts to choose different retirement plans best suited to meet local needs.

Issue will be heard by Sub. #4. The STRS item, including this issue, will be heard in April by Assembly Budget Subcommittee No. 4.

6110 DEPARTMENT OF EDUCATION**ISSUE 1: FEDERAL EDUCATION FUNDS – OVERVIEW (INFORMATION ONLY)**

The issues for the subcommittee to consider are:

- Overall federal funding levels assumed in the Governor's budget.
- Amounts of carryover (one-time, unused funds) available and whether these amounts are avoidable or appropriate. If these amounts are avoidable and undesirable, what can the state do to avoid these amounts in the future?
- The proposed federal budget for the federal fiscal year 2006 and what this would mean for California.

BACKGROUND:

Overall funding levels assumed in the Governor's budget. The Governor's January 10 budget assumes that the state will receive approximately \$ 7 billion in federal K-12 education funds for expenditure in the 2005-06 fiscal year. In its Analysis of the Budget, the LAO estimates that the administration's January 10 figures are low by approximately \$125 million, because the federal budget was passed too late to include updated figures in the January 10 proposal. The administration states that it will readjust its estimates of federal fund upwards in the May Revise or before (through April DOF letters amending the January 10 budget proposal). The subcommittee will be able to review any new proposals, if any, for these funds at that time.

Carryover, unused funds. The federal government requires states to spend federal education funds within three years. If states do not spend allotted funds during this time period they must return these funds to the federal government. Although California has returned federal funds rarely in the past several years, in recent years it has had substantial amounts of unused federal funds that it has had to spend on one-time purposes in a short time frame. For example, last year the Legislature was not informed of available carryover from the federal after school (21st century) program until the spring, and it ended up providing \$25 million in carryover to after school providers for one-time uses. Because of the short timeframe for spending the funds, the administration and Legislature had a short amount of time to deliberate as to the best use of the funds.

Large amounts of carryover are undesirable, since they are only available for one-time expenditures and cannot be used for ongoing uses such as program expansions or ongoing improvements. They are also unexpected and must be spent in a short timeframe, so school districts have little opportunity to adequately plan to use these funds in the most effective manner. Carryover amounts that occur year after year are a

particularly inefficient use of funds because they represent a missed opportunity to provide school districts with ongoing funds that can be used for program expansions or improvements.

High amounts of carryover in some programs may be related to the fact that they are new programs, and it often takes a while to start a new program. However, some carryover may be due to restrictions the state places on some funds, which make it difficult for locals to earn or spend the funds, and may also make the funds undesirable to apply for. That is, while some carryover is unavoidable, some carryover may be preventable and avoidable by changing program requirements related to funding, or improving how the program is administered.

COMMENTS:

CDE will make a brief presentation on President Bush's proposed budget for the 2006 fiscal year, and what it means for federal education funding for California.

ISSUE 2: FEDERAL FUNDS: NO CHILD LEFT BEHIND ACT TITLE I

The issues for the subcommittee to consider are:

- A general update by CDE on the accountability provisions of the No Child Left Behind Act, and what its implementation means for California schools in the next several years.
- An update by CDE on how California is implementing the law – specifically on a recently-negotiated settlement with the federal government regarding the definition that will be used to identify districts not meeting federal requirements ("program improvement school/districts.") The definition of PI Schools has not changed.
- How can we spend Title I “set aside” funds for school improvement in a manner to avoid large amounts of carryover, but still ensure that there is enough for all needy schools?

BACKGROUND:

No Child Left Behind Act – accountability provisions. The federal No Child Left Behind Act was approved in 2001 by the federal government. In order for states to accept Title I funding, they must implement the accountability provisions of the act, which require that all states

- (1) Establish state standards,
- (2) Test their students' progress toward those standards,
- (3) Establish a static performance goal according to those standards,
- (4) Ensure that all students meet that goal in twelve years (all students must be proficient in English language arts and mathematics by school year 2013-14.),
- (5) Establish a timeline that specifies the adequate yearly progress (AYP) that schools and school districts must make in order to meet that ten-year goal and
- (6) Identify schools and districts that are not making adequate yearly progress toward that ten-year goals.

(Only schools and school districts accepting Title I funding are subject to requirements and sanctions of program improvement if they fail to make adequate yearly progress.)

The passage of the No Child Left Behind Act was accompanied by a restructuring of a number of federal funding programs, as well as a substantial increase in federal Title I funds, which is provided to schools to improve the learning of economically disadvantaged students. The passage of the No Child Left Behind Act was also accompanied by increases in federal funding for other purposes, such as professional development.

California's implementation, recent negotiations with the federal government. Prior to the passage of the No Child Left Behind Act, California had already implemented many provisions. It had already adopted state standards, a state testing

system and it adopted its own accountability system, the Public Schools Accountability Act, in 1999. That system established the Academic Performance Index (API), to measure the achievement of schools' students. A school's API can range from 200 to 1000 and considers schools' test scores and the test scores of sub-groups of those schools. California also established a goal that all schools have an API of 800, and annual goals that schools make annual progress equal to 5% of the difference between their baseline API and the statewide goal of 800.

With the passage of the No Child Left Behind Act, the State Board of Education chose to adopt the performance level of "proficient" as the target for all students to meet by 2013-014. While NCLB requires all students to reach proficiency by 2013-14, every state adopts its own definition of proficiency. (California has five levels of performance: far below basic, below basic, basic, proficient and advanced.) It also chose to gradually phase in the requirement, so that the increase in the percentage of students expected to meet this proficient level increase only slightly through 2006-07, and then accelerates dramatically through 2013-14. Appendix A contains a graph demonstrating how adequate yearly progress is defined for elementary and middle schools for English/ Language Arts.

In choosing a methodology to identify school districts not making progress toward state goals, the State Superintendent of Public Instruction and the State Board of Education proposed a system that combined the attributes of the state system and the federal requirements. Specifically, they proposed that if even if a school district failed to meet adequate yearly progress, but its socio-economically disadvantaged students has an API of 560 or higher, the district would not be labeled as program improvement. The federal government rejected this proposal. However, CDE, State Board, and the Governor were able to negotiate for some flexibility, although the flexibility does not include the use of the state API. The negotiated definition would specify that even if a school district failed to meet adequate yearly progress in either English Language Arts or Math, if it made adequate yearly progress in grades 2-5, grades 6-8 or grade 10, it would not be labeled program improvement. This same flexibility has been granted to 6 other states.

Under the negotiated definition, 150 school districts have been identified as program improvement districts. This is an improvement on the 303 school districts that would be identified under the regular definition of program improvement (failing to make adequate yearly progress in either English/ Language Arts or math two years in a row, or failing to test 95% of the students). However, it is significantly more than the 14 districts that were initially identified as program improvement under the original definition adopted by the State Board of Education and CDE but rejected by the federal government.

What does "program improvement" status trigger for schools? Under the No Child Left Behind Act, schools and school districts receiving federal Title I funds must ensure that a greater percentage of their students meet the performance target each year – this is adequate yearly progress toward the state's goal. Schools and districts that do not meet adequate yearly progress toward the state's goal for two years in a row in the same subject area are labeled as "program improvement." In addition, if a school or district does not test at least 95% of its total student population (including special

education students), it can be identified as program improvement. The “program improvement” status triggers a number of requirements and sanctions on the school and district, which are detailed in the table below. To exit this status, program improvement schools must make annual yearly progress two years in a row. For schools already identified as “program improvement,” each year of failure to meet adequate yearly progress results in more sanctions. After four years of failure, a program improvement school enters into local corrective action. After another year of failing AYP, it must plan and subsequently implement some form of alternative governance.

Sanctions related to years a school is in Program Improvement

(Year 1 of program improvement is after a school has failed to meet adequate yearly progress two years in a row. In order to exit program improvement status, a school must meet adequate yearly progress two years in a row.)

Sanction	Year 1	Year 2	Year 3	Year 4	Year 5
District must notify school’s parents of program improvement status	√	√	√	√	√
District must offer parents option to transfer children to another school and pay for transportation costs.	√	√	√	√	√
School must revise its school improvement plan.	√	√	√	√	√
School must set aside 10% of its Title I grant for professional development.	√	√	√	√	√
District must offer supplemental services (tutoring) to school’s children and pay for it with Title I funds. District must use state-approved vendor for the tutoring.		√	√	√	√
District must do at least one of the following corrective actions : <ul style="list-style-type: none"> ▪ Replace school staff ▪ Impose new curriculum ▪ Decrease school’s management authority. ▪ Appoint outside expert to advise the school. ▪ Increase amount of instructional time. 			√	√	√
District must do one of the following things to restructure the school : Yr 4 is planning <ul style="list-style-type: none"> ▪ Replace staff. ▪ Reopen school as charter. ▪ Hire outside agency to operate school. ▪ Have the state manage the school. 				√	√

What does program improvement status trigger for school districts? School districts that are identified as program improvement face sanctions much sooner than program improvement schools. For those school districts that are identified as program improvement, if they do not meet adequate yearly progress for two years in a row, they are subject to corrective actions by the state. These state corrective actions may include instituting a new curriculum, replacing the staff, management of the district by an outside trustee or agency, fiscal penalties, or the restructuring of the district.

In addition, once a school district is identified as program improvement, it is not eligible to be a state-approved vendor of supplemental instruction, even for its own students. This prohibition occurs regardless of the quality of the supplemental instruction that a district offers. In the case of Los Angeles Unified, recently identified as a program improvement district, its supplemental instruction program has been nationally recognized as a model program. Yet, because the district has been identified as program improvement, it is no longer eligible to be a state-approved vendor to provide supplemental instruction to its own students or other districts. Potentially, this rule could reduce students' access to supplemental instruction, because of logistical challenges related to changing the vendor that provides supplemental instruction.

Set-aside available for school improvement. The federal law allows states to set aside four percent of their total Title I grant to help schools improve their performance. For California, this set-aside amounts to approximately \$70 million in ongoing funds. In addition, there is expected to be approximately \$16 million in carryover available for 2005-06, for a total amount of \$86 million available for expenditure in 2005-06. Last year, from these Title I set-aside amounts, the budget provided:

- \$12.5 million for the Statewide System of School System, including a one-time only \$2.5 million for 2003-04 reimbursements. (Regional consortia providing technical assistance to schools and districts in need of improvement.)
- \$8.6 million to support State Intervention and Assistance Teams (SAIT) that enter into contracts with Title I II/USP schools that have failed to make "significant growth" under PSAA.
- \$13.6 million to provide \$150 per pupil for schools to implement corrective actions resulting from their work with SAIT teams
- \$66.8 million for school districts identified as program improvement or that are at risk of program improvement, to help these districts work with external providers to perform assessments related to developing and implementing improvement plans.

The Governor's budget proposes similar amounts from the Title I set-aside for the above bullets, except that he proposes a significantly lower amount for the last category of funding. Last year, the state approved legislation, AB 2066 (Steinberg) specifying how this last category of funding was to be allocated among PI districts. Specifically, it provided \$50,000 per district and \$10,000 per school for PI districts to contract with external providers with providers, perform self-assessments, to develop and implement improvement plans that address the reasons the district was identified for program improvement. It also provided similar amounts to districts required to contract with a

school assistance and intervention team, which provide technical assistance to PI districts.

The funding amount established in AB 2066, however, assumed the federal government's adoption of CDE's original criteria for PI, which would have resulted in a much lower number of districts eligible for this funding. Given that the number of PI districts under the negotiated definition is much higher than anticipated, it is unclear whether the funding amounts in AB 2066 would lead to a rate of spending that would eventually exceed the total available. CDE is sponsoring AB 953 (Coto) as a vehicle to adjust the amount of resources available to PI districts, to account for the higher number of districts identified as PI.

COMMENTS:

Does the federal system discourage focus on the lowest-performing students?

The state's accountability system is a growth model that recognizes improvement in achievement, whereas the federal system is a static model that only recognizes the percentage of students that meet a certain achievement goal. There are questions as to whether the federal static model discourages school districts from focusing on improving the achievement of low-performing students, and instead gives them an incentive to try to focus on those students that are closest to the statewide achievement goal.

Will all schools in California eventually be on a path for corrective actions?

Currently there are 1626 schools identified as program improvement – more than 10% of the state's schools. The number of schools and districts identified for program improvement is expected to increase in the coming years. Given the significant jump in expectation for percent proficient, there is little likelihood that students will improve enough to avoid schools and districts falling under the criteria for program improvement.

Does No Child Left Behind punish states with high standards? California's academic content standards are among the highest in the nation, according to the Fordham Foundation and other organizations that monitor state standards. Statewide, between 21% and 25% (depending on grade level) of students in grades 2-10 met the "proficient" level that California has chosen for its state benchmark in English/ Language Arts. Is it feasible to expect all students in the state to meet this benchmark by 2013-2014, or will the vast majority of schools and districts eventually be identified as program improvement, and subsequently be subject to sanctions and interventions? What will this mean for the viability of the state's public school system?

Other states. How are other states implementing NCLB? Are they challenging the requirements, and with what success?

How should the state distribute Title I set-aside funds among PI districts? The subcommittee may wish to consider the following issues in determining whether to change the amounts in AB 2066 and how to allocate the Title I set-aside funds.

- Twenty-two school districts were identified as program improvement because they did not test 95% of their students. Should the state provide them with the

same amount of money and require the same self-assessment and corrective action work as other districts that were identified as PI because they did not make adequate yearly progress?

- Should the state prioritize among PI districts and provide greater amounts to some because they failed to make adequate yearly progress among certain students, or in both English/ Language Arts and Math, or should it provide the same amount to all PI districts?
- How should the state coordinate the Title I set-aside funds with funds for the state accountability programs, such as the High Priority Grant program, which will expand under the terms of the Williams settlement?

ISSUE 3: FEDERAL FUNDS: 21ST CENTURY AFTER SCHOOL FUNDS

The issues for the subcommittee to consider are:

- How should the state spend approximately \$100 million in carryover (unused) funds from this program?
- What can and should the Legislature do to reduce the amount of carryover from this program every year, since the carryover represents an inefficient use of funds and a missed opportunity to better use ongoing funds to serve more children?

BACKGROUND:

Governor's budget. The Governor's budget anticipates that California will have approximately \$136 million in federal after school funds to spend. This does not appear to include any carryover, or unspent, funds from previous years. The administration does not yet have a proposal for the expenditure of the carryover funds, but may have a proposal in the May Revise. Last year's budget provided \$25 million in carryover to after school providers for one-time uses. The amount that California receives for the program has substantially increased every year, from a level of \$41 million two years ago, to its current level of \$136 million.

Large amounts of carryover. The LAO estimates that \$100 million of the available 2004-05 funds will not be spent in the current year. This is part of a trend for the past few years in which approximately half of each year's allocation has gone unspent. The LAO's table below demonstrates this phenomenon. The amount expected to be spent from 2004-05 from the table below represents an estimate from the CDE, which LAO believes to be high.

Figure 1			
21st Century Program Spending Lags Appropriations			
<i>(Dollars in Millions)</i>			
	2002-03	2003-04	2004-05
State appropriation	\$40.9	\$75.5	\$162.8
Spending (estimate)	17.1	41.3	119.8
Percent spent	42%	55%	74%

Program requirements. Federal 21st century funds are distributed as part of a program that is modeled after the state after school program, which includes a number of daily attendance requirements and funding caps. For example, programs receive \$5 per day per child that attends. Also, grants are capped, so that elementary schools with 600 or fewer students can only get reimbursed for serving about 83 students per year

(\$75,000), and middle schools with 900 or fewer students can only get reimbursed for serving about 111 students (\$100,000).

Federal law does not require the above program restrictions, so the state does not risk any loss in federal funding if it changes the program requirements to try to address the problem of ongoing carryover. In fact, California is the only state in the nation that reimburses its grantees based on attendance.

Options for reform. Below are options for changing the program to reduce unused funding, many of which are recommended by the LAO.

- **Provide block grants that are not based on program attendance.** This is similar to how other states administer the program and how the federal government administered the program when it provided direct grants to school districts, before it handed the program over to state administration in 2001. This option would include some state monitoring to ensure that programs are being run properly and according to enrollment goals stated in the grant applications.
- **Increase the daily rate above the current \$5 per day per child amount.** The LAO recommends we increase the rate to \$7.50 a day per child. This would be equal to the amount for the state program, which provides \$5 per day per child and requires a \$2.50 per day per child local match. The federal program prohibits a local match.
- **Increase the grant caps beyond the existing \$75,000 per elementary school with 600 or fewer students, and \$100,000 per middle school with 900 or fewer students.** This option would allow existing providers to receive funds for serving more students. The LAO recommends doubling the caps to \$150,000 per elementary school and \$200,000 per middle school.
- **Increase the unearned portion of the grant.** Current law allows 15% of the first year's grant to be "unearned," meaning that the provider does not have to earn that funding through student attendance. This allotment is intended to help with the start-up costs of a program. The state could extend this provision to every year of a grant, to recognize the fixed costs that a program still has to bear when a regularly-enrolled student unexpectedly does not attend the after school program for several days throughout the year. Alternatively, the LAO recommends that the state increase the unearned portion of just the first-year grants to 25% to recognize the high start-up costs associated with this program.
- **Create a new cohort.** The LAO recommends that the Legislature pass urgency legislation this spring to appropriate funding for a new cohort of schools, so that CDE could issue grants in the summer and provide schools an opportunity to earn an entire year's worth of attendance. This would be a departure from current practice, in which funding for the program is appropriated in the budget act every year.

- **Allow CDE to authorize spending in excess of the federal authority.** This option would assume that the funding will not be earned in any year of the grant.

COMMENTS:

SB 854 (Ashburn) makes several changes to the way the 21st Century after school funds are administered and provides some flexibility on the attendance provisions. SB 707 (Kehoe) changes some aspects of the state after school program. In particular, it specifies that 15% of the grant award in any one year can be unearned.

ISSUE 4: FEDERAL FUNDS: READING FIRST

The issues for the subcommittee to consider are:

- Should the Legislature approve the State Board's request to provide existing grantees with a fourth-year of funding? (Last year's budget requires legislative approval.)
- Do the State Board of Education and the Department of Education have a plan for how this funding will be distributed for the remaining years of the funding?
- Does that plan ensure that the state does not have large amounts of unused funds, or carryover, in the near future that it will either have to spend for one-time purposes or give back to the federal government?

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 proposals, 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 100 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 \$8000 per teacher allowed by the language that accompanied the one-time money.

Provide 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 extension of the grant period beyond three years. 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 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 4th year of grant funding to the first round of grantees:

- If the state provides a 4th 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 5th and 6th 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, how do the State Board and CDE plan to use the money?

COMMENTS:

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