

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Mervyn Dymally, Chair

TUESDAY, MAY 17, 2005

STATE CAPITOL, ROOM

9:30AM

ITEMS TO BE HEARD

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6300 STATE CONTRIBUTIONS TO THE STATE TEACHERS' RETIREMENT SYSTEM

The issue for the subcommittee to consider is:

- Should the state shift teacher retirement costs down to school districts and community colleges, as proposed by the Governor? **The Governor sustained this January proposal in his May Revise.**

The subcommittee took action to reject the Governor's proposal at its April 12 hearing.

BACKGROUND:

The following is a copy of the agenda background write up from the March 29 and April 12 subcommittee hearings.

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% of 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 the 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's proposal would not lead to savings because of need to re-bench Proposition 98. Staff notes that the Governor's proposal would not lead to any savings, because it would necessitate a re-benching of the minimum Proposition 98 guarantee equal to the value of the savings. Under current law, if a program or purpose is shifted from the non-Proposition 98 General Fund side of the budget to the Proposition 98 side of the budget, the Legislature must increase the minimum Proposition 98 guarantee accordingly. This is meant to prevent manipulations of Proposition 98 in times of budget shortfalls. Currently, the state's \$469 million contribution is paid for out of non-Proposition 98 General Fund. Accordingly, because the Governor is shifting \$469 million worth of responsibility from the state to school districts, the state would have to increase the minimum Proposition 98 guarantee by \$469 million, and it would have to pay for that increase out of non-Proposition 98 General Fund revenues. This payment would eviscerate any savings from the proposal.

ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: STATE SPECIAL SCHOOLS

The issues for the subcommittee to consider are the Governor's January 10 proposal, April DOF adjustments, and May Revision proposals related to the state special schools, which service visually- and hearing-impaired students.

BACKGROUND:

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

1. **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. (Jan 10 proposal)
2. **Capital outlay for bus shelters.** An augmentation of \$470,000 General Fund to construct bus shelters for the California School for the Deaf and Blind in Fremont.
3. **Capital outlay for new career and technical education 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.
4. **Capital outlay: Cost revisions for the Multipurpose/Activity Center at the California School for the Deaf in Riverside.** Increase Item 6110-301-0660 by \$1,303,000 to reflect updated cost estimates for the construction phase of the Multipurpose/Activity Center project at the California School for the Deaf in Riverside. An increase to the construction appropriation is necessary because of elevated costs of construction materials (concrete and steel) and the necessity for increased site work discovered upon further inspection of the property. Also, add Item 6110-490 to reappropriate the existing construction funds for the Multipurpose/Activity Center project at the California School for the Deaf in Riverside. The project is seeking additional funds in the budget to complete construction, therefore, the project cannot proceed to bid and encumber the existing construction funds by June 30, 2005. (April DOF letter).

Amend provisional language to Item 6110-301-0660 as follows:

1. *The State Public Works Board may issue lease-revenue bonds, notes, or bond anticipation notes pursuant to Chapter 5 (commencing with Section 15830) of Part 10b of Division 3 of Title 2 of the Government Code to finance the design, construction, and equipping of the projects authorized by this item.*

3. *The State Public Works Board may authorize the augmentation of the cost of design, construction, and equipping of the projects scheduled in this item pursuant to the board's authority under Section 13332.11 of the Government Code. In addition, the State Public Works Board may authorize any additional amount necessary to establish a reasonable construction reserve and to pay the cost of financing, including the payment of interest during construction of the project, the costs of financing a debt service fund, and the cost of issuance of permanent financing for the project. This additional amount may include interest payable on any interim financing obtained.*

5. **Capital outlay: lease revenue bond debt service.** It is requested that Item 6110-002-0001 be decreased by \$91,000. Funds were set aside in the fall for the purpose of making Lease Revenue Bond debt service adjustments via Control Section 4.30, thus this is merely a technical change. (May Revision, Issue 101)
6. **Facilities leasing costs.** It is requested that the reimbursement authority for the special schools (6110-005-0001) be decreased by \$245,000 as there is no longer a need to lease certain facilities due to a transfer of property. (May Revision, Issue 059)
7. **Adjustments for teachers' bargained salary increases.** It is requested that Item 6110-006-0001 be increased by \$1,040,000 and reimbursements be increased by \$29,000 for the State Special Schools and Diagnostic Centers for the costs associated with the teacher and teacher specialist general salary increase implemented in the 2003-04 fiscal year due to a bargaining unit contract. (May Revision, Issue 057)

COMMENTS:

Staff notes that:

- All but #1 and #4 of the adjustments above are General Fund adjustments.

- Adjustment #7 above addresses the concern that CDE had raised during the subcommittee hearings, that the administration had never funded the salary increases that were bargained in 2003-04. According to CDE, the above adjustment addresses the problem.

ISSUE 2: FEDERAL TECHNICAL ADJUSTMENTS

The issues for the subcommittee to consider are a number of technical adjustments proposed in May Revise, all related to new estimates of the amount of federal education money the state will receive.

BACKGROUND:

The May Revise proposes a number of technical changes related to revised estimates of the amount of federal education money the state will receive.

1. Local Assistance, Comprehensive School Reform Program, 6110-123-0890, (Issue 162)

It is requested that this item be decreased by \$10,051,000 to make it consistent with available federal Comprehensive School Reform grant funds for 2005-06. These funds are used by schools to implement research-based strategies to increase pupil achievement.

2. State operations, Education Technology (Issue 663) —It is requested that Item 6110-001-0890 be reduced by \$354,000 to reflect a decrease in federal funding for the Education Technology Program. It is also requested that the 3.0 expiring limited term positions proposed for permanent extension in the Governor's Budget be modified to continue for a 2-year limited term only to conform to the reduction in funding.

It is further requested that Provision 8 of Item 6110-001-0890 be amended as follows:

8. Of the funds appropriated in this item, \$2,159,000 \$1,805,000 shall be used for administration of the Enhancing Education Through Technology Grant Program.

Of this amount:

(a) \$580,000 \$408,000 is available only for contracted technical support and evaluation services.

3. Local Assistance, Education Technology Program (Issue 664)

It is requested that item 6110-180-0890 be decreased by an additional \$823,000 from the amount requested in the April Finance letter to reflect a decrease in federal funding for the Education Technology Program. The federal budget proposes to eliminate state grants for Education Technology by 2006-07. The April Finance letter proposed a \$26.6 million reduction, due to this amount of reduction in the federal grant. The May Revision proposal would bring the total reduction to this item, relative to the January 10 proposal, to \$27.4 million.

It is further requested that Provisions 1, 2, and 3 of this item be amended as follows and that Provision 4 of this item be deleted:

1. *Of the funds appropriated in this item, \$44,373,000 \$31,140,000 is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program.*
2. *Of the funds appropriated in this item, \$44,372,000 \$31,140,000 is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of Division 3 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program—including the eligibility criteria established in federal law to target local education agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal School Improvement or demonstrating substantial technology needs. ~~Under no circumstances shall the legislation designate specific local education agencies as subgrant recipients.~~*
3. *Of the funds appropriated in this item, \$2,096,000 \$1,473,000 is available for the California Technology Assistance Project (CTAP) to provide federally required technical assistance and to help districts apply for and take full advantage of the federal Enhancing Education Through Technology grants.*
4. ~~*Of the funds appropriated in this item, \$300,000 is available for the Technology Information Center for Administrative Leadership to assist districts and site administrators in improving the use of technology in teaching, learning, and school administration.*~~

COMMENTS:

Staff notes that the above adjustments align expenditure authority with the amount of federal education money the state is expected to receive. The only minor policy issue is the administration's proposal to eliminate the \$300,000 appropriation for the Technology Information Center for Administrative Leadership, due to the \$27.4 million reduction in the amount of federal funds the state is expected to receive in federal education technology money.

ISSUE 3: MISCELLANEOUS TECHNICAL STATE OPERATIONS AND OTHER ADJUSTMENTS

The issue for the subcommittee to consider are technical adjustments proposed by the Governor in his April DOF letters.

BACKGROUND:

In an April letter, the administration proposed the following technical adjustments:

1. **State Operations, Donated Food Revolving Fund (April, Issue 651)** – Increase item 6110-001-0687 by \$300,000 due to the authorization of a shipping fee increase by the United States Department of Agriculture. According to DOF, this additional revenue will be used to pay for shipping fees and to provide other food distribution services.
2. **Reduce Reimbursement Authority for the Child Nutrition Program. (April, Issue 652)** – Reduce reimbursement authority in Item 6110-203-0001 by \$2,652,000 and delete provision 3 of this item, per below, due to two adjustments:
 - a. According to DOF, approximately \$2 million of this authority was contingent on CDE receiving a \$2 million grant commencing in 2004-05 from the Vitamin Case Consumer Settlement Fund. CDE did not receive a grant award, thus this authority and the associated language is not necessary.
 - b. \$652,000 was originally authorized for the Linking Education Activity and Food (LEAF) pilot program, but since the program has been completed, this amount is no longer necessary.

COMMENTS:

Staff notes that the above adjustments appear technical. The subcommittee did not get a chance to hear these items in earlier hearings.

**ISSUE 4: STATE OPERATIONS ADJUSTMENT FOR MENTAL HEALTH,
PROPOSITION 63 IMPLEMENTATION**

The issue for the subcommittee to consider is an April DOF letter and May Revision proposal to provide positions to help school districts be a part of county plans to spend new revenues to provide mental health services, per Proposition 63, approved by the voters last year.

BACKGROUND:

The Governor proposes the following positions for CDE to assist school districts and county offices in coordinating with counties as they develop implementation plans for Proposition 63.

(April DOF letter, issue 053; May Revision, Issues 054, 090, 171). Provide increase of \$633,000 and position authority for 3 limited-term positions to develop and disseminate training for local education agencies to identify and provide appropriate response and support to students with severe mental health illness pursuant to Proposition 63. The positions will be supported with Proposition 63 funds. In addition, the May Revision proposes the following provisional language to accompany the positions.

X. Notwithstanding Government Code Section 19080.3, 3.0 positions are established for a three-year limited term expiring June 30, 2008 for the purpose of implementing the Mental Health Services Act.

COMMENTS:

The above provisional language notwithstanding a Government Code section regarding limited-term positions. Here is a copy of Government Code section 19080.3, referred to in the above provisional language proposed by DOF.

19080.3. Limited term appointments shall be made only for temporary staffing needs and shall not individually or consecutively exceed one year, provided that the board may authorize limited term appointments of up to a total of two years' duration when a permanent appointment would be likely to cause a layoff, demotion, or mandatory transfer requiring a change of residence upon the conclusion of the temporary staffing need. Limited term appointments may be extended within the time limits prescribed by this section without making an additional appointment.

ISSUE 5: DEFERRED MAINTENANCE – TECHNICAL ADJUSTMENT

The issue for the subcommittee to consider is a May Revision proposal to provide a minor increase to the state Deferred Maintenance program, in order to ensure that the program is fully funded.

BACKGROUND:

The Governor's May Revision proposes the following technical adjustment, in order to ensure that the program is fully funded:

6110-188-0001, Local Assistance, Increase State School Deferred Maintenance Program (Issue 603)

It is requested that this item be increased by \$522,000 to fully fund the State's share of the State School Deferred Maintenance Program.

COMMENTS:

The above augmentation is a Proposition 98 augmentation.

ISSUE 6: EMERY UNIFIED SCHOOL DISTRICT EMERGENCY LOAN – TECHNICAL ADJUSTMENT

The issue for the subcommittee to consider is a May Revision technical adjustment related to Emery Unified's Emergency Loan.

BACKGROUND:

The May Revision proposes the following technical adjustment related to Emery Unified's Emergency Loan, provided several years ago.

6110-629-0001 and 6110-497, Local Assistance, Emery Unified School District Emergency Loan (Issue 083)

It is requested that Non-Budget Act Item 6110-629-0001 be reduced by \$1.0 million and that language be added to Item 6110-497 to revert the unexpended balance of the emergency loan made to Emery Unified School District. Of the \$2,300,000 million emergency loan authorized by Chapter 135, Statutes of 2001, Emery Unified used only \$1.3 million. The authority for the remaining \$1,000,000 expired as of July 31, 2004.

It is requested that the following language be added:

*6110-497—Reversion, Department of Education. As of June 30, 2005, the balances specified below, of the appropriations provided in the following citations shall revert to the balance in the fund from which the appropriation were made:
0001 General Fund*

(1) \$1,000,000 or whatever greater or lesser amount reflects the unexpended funds as of July 31, 2004 from the appropriation made by Section 3 (a) of Chapter 135, Statutes of 2001.

COMMENTS:

Staff notes that this is a technical adjustment.