

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE****Assemblymember Susan Bonilla, Chair****TUESDAY, APRIL 10, 2012****9:00 AM - STATE CAPITOL ROOM 444**

ITEMS TO BE HEARD		
ITEM	DESCRIPTION	
6110	DEPARTMENT OF EDUCATION	2
ISSUE 1	STATE SPECIAL SCHOOLS: GOVERNOR'S 2012-13 PROPOSAL	2
6350	SCHOOL FACILITIES AID PROGRAM	7
ISSUE 1	GOVERNOR'S 2012-13 PROPOSAL	7
6360	COMMISSION ON TEACHER CREDENTIALING	11
ISSUE 1	GOVERNOR'S 2012-13 PROPOSAL	11

ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: STATE SPECIAL SCHOOLS: GOVERNOR'S 2012-13 BUDGET PROPOSAL

The issue for the Subcommittee to consider is the Governor's proposal to apply an unallocated reduction of \$1.8 million (Non-98 General Fund) to the state operations budget for the State Special Schools with the intent that these savings be achieved by reducing discretionary deferred maintenance projects.

PANELISTS

- Department of Finance
- California Department of Education
- Legislative Analyst's Office

BACKGROUND

The California Department of Education (CDE) administers the State Special Schools, which includes a total of six facilities under its jurisdiction -- three residential schools and three diagnostic centers. The residential schools include the Schools for the Deaf in Riverside and Fremont and the School for the Blind in Fremont. The state diagnostic centers are regionally located in Fresno, Fremont, and Los Angeles. These state facilities comprise a total of 960,000 gross square feet on 176 acres of land.

Students attending state schools are served in residential or day programs. The table below shows enrollment in the schools over the last five years.

State Special School Enrollments	2007-08	2008-09	2009-10	2010-11	2011-12
School for the Deaf, Riverside	443	412	424	408	420
School for the Deaf, Fremont	484	414	455	462	465
School for the Blind, Fremont	89	71	79	78	76
TOTAL	1,016	897	961	948	958

The three diagnostic centers administer assessments to approximately 1,500 students per year and provide training to 31,000 educators annually. Of the 1,500 annual assessments, approximately 250 take place at the three centers; the remaining 1,250 are considered "field" assessments, which take place within local education agencies.

Background on Funding. The three State Special Schools are funded through three separate items:

- 6110-005-0001 (Non-Proposition 98 General Fund), which includes all non instructional activities required for students such as food services staff, nursing staff, dormitory personnel, school counselors. It also includes funding for plant operations, business services, grounds keeping and janitorial functions.
- 6110-006-0001 (Proposition 98 Funds) includes all instructional staff and programs (e.g., teachers, teacher specialists, classroom teaching assistants), administrative staff overseeing instructional programs (e.g., supervising teachers), and personnel conducting student assessments (e.g., teacher specialists).
- 6110-161-0890 (Federal Special Education Funds) includes all student transportation costs related to transporting residential students from home to school and back each weekend. Use of federal funds for this purpose began in 2009-10.

Diagnostic Centers. The three Diagnostic Centers are funded entirely through item 6110-006-0001 (Proposition 98 funding). The diagnostic centers receive roughly \$12 million annually.

Local Educational Agency Payments. Education Code §59300 provides that the district of residence of the parent or guardian of any pupil attending a state-operated school – excluding day pupils – pay the school of attendance 10 percent of the excess annual cost of education of each pupil attending a state-operated school. The Governor’s budget proposes a total of \$6.4 million in reimbursements from local school districts to the state schools in 2012-13.

Prior year funding adjustments:

- 2008-09: The Governor's 2008-09 January Budget proposed to reduce the General Fund budget for the State Special Schools by a total of \$9.2 million, as a part of his Budget Balancing Reductions. This amount included a \$5.1 million reduction (10.9 percent) for Proposition 98 General Fund appropriations and \$4.2 million (10 percent) for Non-98 General Fund appropriations in 2008-09. The Legislature offset this reduction with \$8.9 million in one-time federal special education funding. (The following year, these one-time funds were replaced with ongoing General Fund and Proposition 98 funds).
- 2009-10: In 2009-10, the Legislature passed two budgets, one in February, and one in July. The State Special Schools saw a total reduction of \$6.5 million attributable to actions taken both in February and in July. Most of the reduction was connected to a cut to CDE personal services comparable to other state agencies that experienced furloughs, overtime reform, and elimination of two state holidays. According to CDE, \$2.7 million of this reduction was restored in 2010-11 and 2011-12.

- Operational Efficiency Reductions in 2011-12. CDE received an “operation efficiency” reduction of \$3.369 million pursuant to Control Section 3.91 of the 2011-12 Budget Act. Operational efficiency reductions were applied to all state agency budgets and constitute ongoing cuts. CDE was required to submit an operational efficiency reduction plan to the Department of Finance (DOF) to implement the reduction. CDE's plan included a \$1.5 million (non-Proposition 98 General Fund) reduction for the state schools in 2011-12. This equates to 45 percent of the total reduction taken by CDE for this purpose.

2012-13 Proposed Funding. The Governor's Budget proposes total General Fund support of \$81.5 million for the three state special schools and diagnostic centers in 2012-13. Of this amount, \$48.3 million is provided in Proposition 98 General Fund and \$33.3 million is provided by Non-98 General Fund. The state schools are also projected to receive \$3.9 million in federal transportation funds. The Governor's Budget also reflects an estimated \$6.4 million in reimbursements from local school districts to the state schools. There are currently a total of 1,008.4 authorized positions for the special schools and diagnostic centers.

State Special Schools - Summary of State Funding						
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Proposed 2012-2013
Non-Proposition 98 GF (005)	\$38,081,000	\$34,640,000	\$34,334,000	\$34,983,000	\$34,527,000	\$33,259,000
		3,842,000				
Proposition 98 GF (006)	45,759,000	41,462,000	44,138,000	46,105,000	47,496,000	48,228,000
		5,063,000				
Student Transportation (008)	2,506,000					
Public Transportation Acct. (008)		4,068,000				
IDEA (Transportation) (161)			3,894,000	3,894,000	3,894,000	3,894,000
Reimbursements	6,073,000	6,210,000	6,390,000	6,375,000	6,385,000	6,411,000
Total Governors Budget	\$92,419,000	\$95,285,000	\$88,756,000	\$91,357,000	\$92,302,000	\$91,792,000
Positions	1,008.4	1,008.4	1,008.4	1,008.4	1,008.4	1,008.4

Source: CDE

GOVERNOR'S PROPOSAL

Proposed 2012-13 unallocated reduction. The Governor proposes a reduction of \$1.8 million (Non-98 General Fund) to the state operations budget for the State Special Schools in 2012-13. Budget bill language states, to the extent possible, the \$1.8 million in savings should be achieved by reducing discretionary deferred maintenance projects. Since the budget does not require the reduction be made to maintenance projects, the reduction in effect is an unallocated reduction. The Governor's proposal is intended to achieve General Fund savings. The Governor's proposal would reduce funding for the three residential state schools located in Fremont and Riverside and does not affect the three state diagnostic centers.

LAO RECOMMENDATIONS

The LAO recommends adoption of the Governor's \$1.8 million reduction to State Special Schools. Given the reductions that school districts have taken over the past five years, there is a rationale for making comparable reductions to the State Special Schools budget. The LAO would have concerns, however, with the reduction being implemented entirely on the schools' deferred maintenance budget. In the long run, this could result in higher state costs if repairs become more expensive repairs or the facility needs to be replaced.

STAFF COMMENTS

- **Impact of Combined Cuts on Total Budget for State Schools.** The \$1.5 million operational efficiency reduction in 2011-12, together with the Governor's proposed \$1.8 million reduction in 2012-13, brings total Non-98 General Fund cuts to \$3.3 million. When calculated as a part of total Proposition 98 and Non-98 General Fund, this \$3.3 million reduction translates to a 4 percent reduction for the state schools in 2012-13. In comparison, according to DOF, local education agencies are facing ongoing reductions of 9.2 percent for their basic revenue limit apportionments.
- **Preliminary Plan for Implementing Governor's Proposed Reductions.** The CDE State Special Schools Division has not developed a final, specific plan for implementing the Governor's \$1.8 million unallocated reduction, and development of such a plan will take additional time. However, the State Special Schools Division has identified a general, preliminary plan for implementing the Governor's cuts based on input from each of the three schools. This preliminary plan includes:
 - \$900,000 in savings from postponement of deferred maintenance projects slated for 2012-13.
 - \$900,000 in reductions for student services at each of the three schools, including consolidation of residential dorms; and reduction of summer school programs, counseling services, assessment services, maintenance/groundskeeping/custodial services, and security services.

Staff Recommendations:

1. Request the State Special Schools develop a specific implementation plan for achieving the Governor's \$1.8 million reduction and submit that plan to the Subcommittee by April 30, 2012. The plan should identify any savings for "discretionary" deferred maintenance projects, per the Governor's Budget language, and if necessary, other savings necessary to achieve the full \$1.8 million proposed by the Governor.
2. Request CDE explore possible savings options for the State Special Schools that do not affect the instruction and support for students attending the State Special Schools, including:
 - Identification of available federal special education carryover funds that could be used to backfill the Governor's proposed reductions in 2012-13.
 - Assessment of local educational agency reimbursements for pupils attending the State Special Schools and options for increasing those charges.
 - Evaluation of alternative savings for the state diagnostic centers, including an increase in the charges to local educational agencies for providing these state assessments.
 - Review of state laws and policies to explore consolidating state funding for the State Special Schools within Proposition 98 and eliminating Non-98 General Funds.

6350 SCHOOL FACILITIES AID PROGRAM

ISSUE 1: 2012-13 GOVERNOR'S BUDGET PROPOSAL

The issue for the Subcommittee to consider is the Governor's proposed trailer bill language to: 1) regulate remaining bond authority; 2) prohibit continued funding for Overcrowded Relief Grants (ORG) program; and, 3) Shift funds from the ORG to New Construction grants.

PANELISTS

- Department of Finance
- Office of Public School Construction
- California Department of Education
- Legislative Analyst's Office

BACKGROUND

There are three statewide general obligation bond acts – as approved by state voters – that have remaining funds for K-12 school facilities. In total, \$1.159 billion remains available for school facilities from these bond acts. The following table displays total funds authorized for each of these three bond acts, as well as amounts expended and amounts remaining as of March 2012.

State Approved Bond Acts	Amount Authorized	Amount Expended (Includes Unfunded Approvals)	Amount Remaining
Prop 1D (2006)	\$7,357,500,000	\$6,617,800,000	\$934,500,000
Prop 55 (2004)	10,022,500,000	9,845,100,000	177,400,000
Prop 47 (2002)	11,400,000,000	11,352,800,000	47,200,000
TOTAL	\$28,780,000,000	\$27,815,700,000	\$1,159,100,000

Proposition 1D. AB 127 (Nuñez and Perata), the Kindergarten-University Public Education Facilities Bond Act of 2006 authorized Proposition 1D, a statewide general obligation bond proposal for \$10.4 billion. Proposition 1D, approved by the voters in November 2006, provided \$7.3 billion for K-12 education facilities and allocated specified amounts from the sale of these bonds for modernization, new construction, charter schools, career technical education facilities, joint use projects for new construction on severely overcrowded schoolsites, and high performance incentive grants to promote energy efficient designs and materials. In addition, portions of the amounts allocated for new construction and modernization were authorized for purposes of funding smaller learning communities and high schools and for seismic retrofit projects.

The State Allocation Board has summarized the available bond authority of Proposition 1D funds – as of March 28, 2012 -- in the table below. A total of \$934.5 million in Proposition 1D funds remain available for school facilities.

	Amount Authorized	Amount Expended (Includes Unfunded Approvals)	Amount Remaining
New Construction	\$1,900,000,000	\$1,874,800,000	\$25,200,000
Seismic Repair			\$194,800,000
Modernization	3,300,000,000	2,904,100,000	395,900,000
Career Technical Education	500,000,000	496,700,000	3,300,000
High Performance Schools	100,000,000	40,100,000	59,900,000
Overcrowding Relief Grants	1,000,000,000	745,200,000	254,800,000
Charter Schools	500,000,000	500,000,000	--
Joint Use	57,500,000	56,900,000	600,000
Total	\$7,357,500,000	\$6,617,800,000	\$934,500,000

Proposition 1D authorized the Legislature to adjust the amounts expended for each of the programs above, but prohibited the increase or decrease of the total amount to be expended pursuant to the Proposition. Adjustment of the funding requires legislative enactment of statute, which is consistent with, and furthers the purposes of, Proposition 1D by a two-thirds vote of each house. In addition, amounts may be adjusted via a voter approved statute (EC §101012).

Overcrowded Relief Grant (ORG) Program. Proposition 1D established the ORG Program within the School Facility Program and provided \$1 billion for school districts with overcrowded school sites to build new permanent facilities. As with other new construction projects, districts are required to match the state's contribution toward the project costs (fifty percent). To be eligible for a relief grant, districts must have at least one overcrowded school (defined as at least 175 percent of the state recommended pupil density). The size of the relief grant is based on the number of pupils in portable classrooms at eligible schools. As a condition of receiving a relief grant, school districts are required to replace portable classrooms with new permanent classrooms, remove portable classrooms from overcrowded schools, and reduce the total number of portable classrooms in the district. (EC§17079-17079.30).

GOVERNOR'S PROPOSAL

The Governor's 2012-13 Budget proposes to make statutory changes in the budget trailer bill related to the state School Facilities Program as follows:

1. **Regulation of remaining bond authority.** Require the State Allocation Board (SAB), upon enactment of the Budget Act of 2012, to apportion up to \$8.5 million for new construction projects, and up to \$9 million for modernization projects, per month at a board meeting. This provision shall not apply to new construction and modernization projects that receive unfunded approval by the board before enactment of the Budget Act of 2012.

2. **Prohibition of Funding for Overcrowding Relief Grants.** Prohibit the SAB from approving any projects pursuant to the Overcrowding Relief Grant program on or after June 30, 2012.
3. **Shift ORG funds to New Construction.** Transfers \$251.25 million from ORG to New Construction. More specifically, this proposal adjusts the amounts allocated under Proposition 1D by:
 - a. Reducing the amount authorized for ORG from \$1.0 billion to \$748.75 million.
 - b. Increasing the amount authorized for New Construction from \$1.9 billion to \$2.15 billion.

Per the Administration, these proposed actions will delay local authority to impose a Level III developer fee while continuing construction of new classrooms using bond proceeds, fee revenues, and local funds.

STAFF COMMENTS

Trigger for Level III Developer Fees When Bond Funds Depleted. Current statute (Government Code) authorizes three levels of developer fees that may be levied by school districts, as follows:

- ✓ Level I fees are assessed if the district conducts a Justification Study that establishes the connection between the development coming into the district and the assessment of fees to pay for the cost of the facilities needed to house future students.
- ✓ Level II fees are assessed if a district makes a timely application to the State Allocation Board for new construction funding, conducts a School Facility Needs Analysis, and satisfies at least two of the requirements listed in Government Code Section 65995.5(b)(3).
- ✓ Level III fees are assessed when State bond funds are exhausted and schools district may impose a developer's fee up to 100 percent of the School Facility Program new construction project cost. In order to implement Level III developer fees the State Allocation Board must make a declaration of a "lack of funds" to provide apportionments to school facilities projects.

According to the Office of Public School Construction (OPSC), as of April 2012, \$93.1 million remains in new construction bond authority and \$395.9 million remains in modernization authority. Based upon a typical processing timeline of applications and the average monthly drawdown on authority, OPSC estimates that new construction funds will be depleted by April 2012 and modernization funds would be depleted by October 2012.

According to the Administration, the Governor's proposals are intended to maintain the viability of the school construction program by: (1) transferring funds from Overcrowded Relief Grants to new construction to reflect existing demand; and, (2) metering the allocation of new construction funds to keep the program going through 2014. According to the Administration, another benefit would be the avoidance of the trigger of Level III developer fees during this period.

State Allocation Board Recommendations. The New Construction Subcommittee and the SAB provided the following recommendations regarding the Governor's school facilities proposals:

- **Overcrowded Relief Grant Transfer.** Most of the New Construction Subcommittee members and the SAB do not support the transfer of these funds to New Construction. Many support the continuance of the ORG program as well as future funding cycles. This proposal would end the ORG program.
- **Metering of Remaining Bond Authority.** The concept of metering the remaining bond authority through 2014 is supported by the New Construction Subcommittee. However, the SAB does not support this proposal. Despite concerns that the program will end soon, it is not certain when bond sales will be completely sold. While some members expressed concerns about the future of OPSC once bond authority is exhausted, others pointed out that even when bond authority is completely exhausted, staff will be needed to close out projects and complete closeout audits. Additionally, concerns were raised around the uncertainty that districts would face when projects are slowed down.
- **Suspension of Level III Developer Fees.** Both the New Construction Subcommittee and the SAB support suspension of Level III developer fees until December of 2014.

Pending Legislation. AB 1903 (Buchanan), pending in the Assembly Education Committee, proposes to suspend the portion of the Government Code that triggers Level III developer fees. This suspension would be in place through December 2014.

6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 1: 2012-13 GOVERNOR'S BUDGET PROPOSAL

The issues for the Subcommittee to consider are the Governor's proposals to address a projected operating shortfall of \$5 million within the Commission on Teacher Credentialing (CTC) budget. Specifically, the Governor proposes the following: (1) An increase in the teacher credentialing fees from \$55 to \$70, which restores fees to statutorily authorized levels and increases revenues by \$3 million; (2) An increase in exam fees to generate \$500,000 in additional revenues; (3) A reduction of state operations expenditures by \$1.5 million through the elimination of 17 staff positions; and, (4) An immediate \$1.5 million loan in 2011-12 from the Test Development and Administration Account to the Teacher Credentials Fund.

PANELISTS

- Commission on Teacher Credentialing
- Department of Finance
- Legislative Analyst's Office

BACKGROUND

The CTC was created in 1970 to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC issues permits and credentials to classroom teachers, student services specialists, school administrators, and child care instructors and administrators. The CTC currently processes roughly 215,000 applications annually for nearly 200 different types of documents. The CTC also administers three local assistance programs: Alternative Certification, the Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring. These programs are funded with Proposition 98 General Funds and federal reimbursements from the California Department of Education. The Alternative Certification and Paraprofessional Teacher Training programs are currently included in the K-12 categorical flexibility program that allows districts to use these funds for any educational purpose. The CTC does not receive any General Fund support for administration of these programs.

In addition to setting teaching standards and processing credentials, the CTC performs accreditation reviews of teacher preparation programs. The CTC is responsible for accrediting 261 approved sponsors of educator preparation programs, including public and private institutions of higher education and local educational agencies in California.

The CTC is also required to review and take appropriate action on misconduct cases involving credential holders and applicants resulting from criminal charges, reports of misconduct by local educational agencies, and misconduct disclosed on applications.

State Operations. The CTC is a “special fund” agency whose state operations are supported by two special funds -- the Test Development and Administration Account (0408) and the Teacher Credentials Fund (0407). Of the CTC’s \$18.8 million state operations budget in 2011-12, about 76 percent is supported by credential fees, which are a revenue source for the Teacher Credentials Fund; the remaining 24 percent is supported by educator exam fees, which fund the Test Development and Administration Account.

Teacher Credentials Fund (Credential Fees). The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. The current credential fee is \$55, which is set in the annual budget, although statute authorizes a credential fee of up to \$70 (EC §44235). Current law also requires, as a part of the annual budget review process, the DOF to recommend to the Legislature an appropriate credential fee sufficient to generate revenues necessary to support the operating budget of the Commission plus a prudent reserve of not more than 10 percent.

In 1998-99, the credential fee was reduced in the Budget Act below statutory levels -- from \$70 to \$60 -- due to increases in the number of credential applications and resulting surpluses in the Teacher Credentials Fund. At this time, there was increased demand for teachers due to the new K-3 class size reduction program. The \$15 loss in fees since 2000-01 equates to an annual loss of approximately \$3 million for the CTC. (Every \$5 in fees equates to approximately \$1 million in revenues.)

In 2000-01, the fee was dropped further to \$55 and has remained at this level since then. The volume of credential applications grew substantially from 2000-01. However, as indicated by the chart below, applications began decreasing in 2007-08 as the State economy slowed. In 2011-12, the number of credential applications dropped below the 2000-01 level. The number of credential applications is projected to drop further in 2012-13.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 Est
Credential Applications Received	215,954	239,501	250,701	235,327	233,164	240,159	254,892	267,637	264,153	246,899	232,208	220,598	213,980
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,561	2,561	2,561	1,287	893	848	823
Total	223,819	247,419	255,845	238,154	235,566	242,159	257,453	270,198	266,714	248,186	233,101	221,446	214,803
Credential Processing Staff*	82.1	83.2	77.4	71.2	60.6	65.2	66.8	75.9	69.1	68.9	68.4	68.4	61.4
Credential Fees **	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$70

*Certification Assignment and Waivers Division Staff

**Individuals applying for a Certification of Clearance and then a first time Credential only pay one fee for the two documents, based on the current credential fee, i.e., \$55 credential fee, \$27.50 for Certificate of Clearance, \$27.50 First Time Credential, then at 5 year renewal pay the full fee of \$55.

Test Development and Administration Account (Exam Fees). The Test Development Administration Account is generated by various fees for exams administered by the CTC such as the California Basic Educational Skills Test (CBEST), the Reading Instruction Competence Assessment (RICA), and the California Subject Examination for Teachers (CSET), the California Teachers of English Learners (CTEL), and the California Preliminary Administrative Credential Examination (CPACE).

The CTC has statutory authority for reviewing and approving the examination fee structure, as needed, to ensure that the examination program is self-supporting (EC § 44235.1). To determine fees for these testing programs, CTC staff projects the number of exams – based upon the most recent actual figures - and compares these figures with projected examination program costs.

In recent years, the number of examinations have been falling for the exam program overall. The CTC projects continuing declines in the number examinees for the exam program.

The CTC has made a number of adjustments in recent years based upon the demand for the various exams, as indicated by the table below. In 2005-06, the CTC raised fees by \$6 for all exams, except the CBEST. (Prior to this, fees had not been increased since 2001-02.) However, in 2007-08, the CTC reduced fees for most exams.

Summary of Fee Adjustments					
Candidate Fee	2005-06	2007-08	2011-12	Proposed 2012-13	Change
CBEST					
<i>CBEST – Paper Based Test</i>	--	-\$10.00	--	--	-\$10.00
<i>CBEST – Computer Based Test</i>	--	--	-\$4.00	+\$1.00	-\$3.00
RICA					
<i>RICA – Written Examination</i>	+\$6.00	-\$10.00	+\$35.00	+\$6.00	+\$37.00
<i>RICA – Video Performance Assessment</i>	+\$6.00	-\$10.00	--	+\$41.00	+\$37.00
CTEL	--		-\$65.00	+\$22.00	-\$43.00
CSET	+\$6.00	-\$12.00	-\$12.00	+\$9.00	-\$9.00
<i>CPACE (Replaces the SLLA)</i>	--	--	-\$102.00	+\$44.00	-\$58.00

Source: Commission on Teacher Credentialing.

In January 2011, the CTC reviewed and approved changes in the exam fee structure, which resulted in fee adjustments (increases and decreases) that went into effect in 2011-12.

At its March 2012 meeting, the CTC reviewed and approved fee increases for all of its major exams to take effect in 2012-13. These fee increases achieve the \$500,000 in revenues from the Test Development and Administration Account proposed by the Governor in 2012-13.

Current Condition of Special Funds. The Teacher Credential Fund has been experiencing a loss of revenues since 2007-08, which has contributed to a widening gap between annual revenues from credentials and expenditures for credential activities. The CTC estimates a five percent decrease in revenues for the Teacher Credential Fund in 2011-12 and an additional reduction of three percent in 2012-13. The Test Development and Administration Account has also experienced declines in revenues in recent years, but has had healthy balances to cover expenditures. Continuing revenue declines for CTC's special funds, with some increased expenditure costs, resulted in a budget shortfall of \$2.3 million in 2011-12. The CTC estimates a special fund shortfall of \$5 million in 2012-13.

Current Year Fund Transfer. As a result of a current operating deficit in the Teacher Credentials Fund, in February 2012, the CTC submitted a request to the DOF to transfer \$2.3 million from the Test Development and Administration Account to the Teacher Credentials Fund in 2011-12. The budget act provides authority for fund transfers from the Test Development and Administration Account to the Teacher Credentials Fund when insufficient funds are available – pending approval by the DOF. On March 15, 2012, the DOF notified the Joint Legislative Budget Committee of its intent to approve a fund transfer of \$1.5 million within thirty days. The Governor's latest budget proposal lowered the loan amount to \$1.5 million, in part, due to a reduction in expenditures from an additional \$550,000 in salary savings in 2011-12.

GOVERNOR'S PROPOSAL

The Governor's Budget proposes \$45.4 million for the total CTC's budget in 2012-13, providing an overall decrease of \$819,000. Specifically, the Governor proposes funding of \$14.7 million from the Teacher Credentials Fund and \$4.2 million from the Test Development and Administration Account in 2012-13. The Governor proposes to reduce authorized positions for CTC from 165.4 in 2011-12 to 148.4 in 2012-13, a reduction of 17 positions (10.3 percent). The Governor proposes to continue \$26.2 million from the General Fund (Proposition 98) and \$308,000 in Reimbursements from the CDE to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program.

Summary of Expenditures				
(Dollars in Thousands)				
	2011-12	2012-13	\$ Change	% Change
General Fund, Proposition 98	\$26,191	\$26,191	\$0	0.0
Teacher Credentials Fund	15,022	14,650	-372	-2.4
Test Development & Adm. Account	4,654	4,207	-447	-9.6
Federal Trust Fund	--	--	--	--
Reimbursements	308	308	0	0.0
Total	\$46,175	\$45,356	-\$819	-1.8
Full -Time Positions	157.1	141.0	-16.1	-10.2
Authorized Positions	165.4	148.4	-17.0	-10.3

Proposal to address \$5 million deficit in 2012-13. The Governor proposes the following actions to address a projected operating deficit of \$5 million for the CTC in 2012-13:

1. **Budget Year Credentialing Fee Increases.** Consistent with current statute, the Governor proposes budget bill language that authorizes the Commission to charge up to \$70 for the issuance or renewal of a teaching credential in 2012-13. This increases the teacher credentialing fees by \$15 -- from \$55 to \$70 -- to generate \$3.0 million in additional revenue for the Teacher Credential Fund (TCF). The Governor’s proposal continues the existing credential fee structure, which would charge the full \$70 fee to all credential renewals and some first time credentials, but would charge a half-fee of \$35 for the Certificate of Credential and first time credentials for new teachers.

2. **Budget Year Exam Fee Increases.** The Governor proposes to increase testing fees in 2012-13 to generate \$500,000 of additional revenue for the Test Development and Administration Account. Consistent with its statutory authority, the CTC recently approved fee increases for educator exams to achieve the \$500,000 in additional revenues proposed by the Governor in 2012-13.

Candidate Fee	Current Fee 2011-12	Proposed Fee Structure 2012-13
CBEST		
<i>CBEST – Paper Based Test</i>	\$41.00	\$41.00
<i>CBEST – Computer Based Test</i>	\$101.00	\$102.00
RICA		
<i>RICA – Written Examination</i>	\$165.00 ^{1/}	\$171.00
<i>RICA – Video Performance Assessment</i>	\$130.00	\$171.00
CTEL	\$238.00	\$260.00
CSET	\$198.00	\$207.00
<i>CPACE (Replaces the SLLA)</i>	\$383.00 ^{2/}	\$427.00

^{1/}The increase in the examination is the result of the transition of this examination to a computer based examination only. The service fee charged to the candidate to administer this on-demand exam is similar to the fee charged for the CBEST computer based examination.

^{2/} The Commission did not receive any funds from the SLLA administered by the Educational Testing Services.

3. **Budget Year Staff Reductions and other savings.** The Governor proposes a total of \$1.5 million in savings through staffing reductions and contract cost savings. Specifically, the Governor proposes to eliminate a total of 17 positions within three of CTC’s four agency divisions in 2012-13, as described in the table below, for a savings of \$1.0 million. The Governor does not propose to eliminate any positions within the Division of Professional Practices, which is charged with review, investigation, and discipline of teacher misconduct. The CTC currently has approximately 22.5 vacant positions. The Governor’s proposal would eliminate 13 of these vacant positions (retaining 5.5 vacant positions – of these positions 3 positions have been redirected to address the workload in the Division of Professional Practices), and eliminate four (filled) other positions to align reductions with CTC workload.

Division/Position	Total Positions
Administrative Division:	1.0
Office Assistant – General	(1.0)
Certification, Assignment & Waivers Division	7.0
Associate Governmental Program Analyst	(2.0)
Staff Services Analyst – General	(1.0)
Office Technician Typing	(1.0)
Office Assistant – General	(3.0)
Professional Services Division:	9.0
Consultant – Teacher Preparation	(4.0)
Staff Services Analyst – General	(1.0)
Office Assistant – General	(4.0)

The Governor also proposes to capture \$500,000 in savings resulting from information technology contract costs specific to 2011-12 activities that will not continue into 2012-13. Additionally, the Governor proposes budget bill language requiring the CTC work with the State Board of Education to identify ways to streamline the teacher preparation and credentialing process.

Special Fund Condition Reflecting the Governor’s Budget Proposals. The CTC has prepared a Fund Condition Summary that reflects both updated revenue projections and the Governor’s 2012-13 budget proposals, which have the effect of increasing fee revenues and reducing expenditures. For the Teacher Credentials Fund, CTC projects a negative fund balance of \$235,000 in 2012-13 and \$501,000 in 2013-14. For the Test Development and Administration Account, the CTC projects healthy fund balances of \$1.9 million in both 2012-13 and 2013-14.

TEACHER CREDENTIALS FUND (TCF) FUND CONDITIONS (As of March 15, 2012)				
	2010-11 (Actual)	2011-12 ^{2/3/} (Estimated)	2012-13 ^{2/3/} (Proposed)	2013-14 ^{2/3/} (Proposed)
Beginning Balance	\$3,380,000	\$1,347,000	\$31,000	-\$235,000
Revenues	12,344,000	11,724,000	14,404,000	14,404,000
TDAA Transfer	0	1,500,000		0
Expenditures/ Appropriation	-14,377,000	-15,090,000	-14,670,000	-14,670,000
Ending Balance	<u>\$1,347,000</u>	<u>\$31,000</u>	<u>-\$235,000</u>	<u>-\$501,000^{1/}</u>
Reserve %	9.4%	0.2%	-1.6%	-3.4%

^{1/} This assumes the Commission fully expends all resources each fiscal year. Historically, this has not occurred.

^{2/} Assumes a 5% decrease in credential revenue from FY 2010-11, based on 2nd quarter data from Certification, Assignment and Waivers Division. FY 2012-13 assumes a 3% decrease in credential revenue from FY 2011-12.

^{3/} FY 2011-12 reflects a Credential Fee (Renewals) of \$55 and First Time Credential and Certificate of Clearance at \$27.50. FY 2012-13 reflects a Credential Fee of \$70 and First Time Credential and Certificate of Clearance at \$35.

TEST DEVELOPMENT AND ADMINISTRATION ACCOUNT (TDAA)				
	2010-11 (Actual)	2011-12 (Estimated)	2012-13 ^{1/} (Proposed)	2013-14 ^{1/} (Proposed)
Beginning Balance	\$5,270,000	\$4,705,000	\$2,741,000	\$2,739,000
Revenues	4,245,000	4,211,000	4,211,000	4,211,000
TCF Transfer	0	-1,500,000	0	0
Expenditures/ Appropriation	-4,810,000	-4,675,000	-4,213,000	-4,213,000
Ending Balance	<u>\$4,705,000</u>	<u>\$2,741,000</u>	<u>\$2,739,000</u>	<u>\$2,737,000</u>
Reserve %	97.8%	58.6%	65.0%	65.0%

^{1/} This reflects an increase of \$500,000 in TDAA examination revenues that is proposed in the 2012-13 Governor's Budget.

LAO RECOMMENDATIONS

The Legislative Analyst's Office recommends the Subcommittee address the 2012-13 shortfall by adopting Governor's proposals to: 1) increase credentialing and tests fees; and, 2) make a \$1.5 million reduction by defunding 17 positions and achieving one-time operational savings. Further, they recommend modifying the transfer to the Teacher Credentials Fund (TCF) by an additional \$250,000 for the budget year. The LAO also recommends directing CTC to explore additional options for raising revenue from alternative fund sources and achieving greater efficiencies.

STAFF COMMENTS

Governor's proposed budget does not fully address special fund imbalance. The TCF has a structural imbalance and operating deficit due to the lack of fund reserves. The Governor's proposed \$15 fee increase in 2012-13 and proposed transfer of \$1.5 million from the Test Development and Administration Account in 2011-12 address current and budget year cash shortfalls, but do not provide prudent reserves for the fund. Per the Governor's proposal, the TCF would end the year with a negative reserve in 2012-13. In addition, the Governor's proposed fee increase does not address a projected fund imbalance of \$235,000 in 2013-14.

In contrast, the Test Development and Administration Account has very healthy reserves, even with the originally proposed \$2.3 million fund transfer to the TCF in 2011-12. Per the Governor's proposals, the Test Development and Administration Account would end the 2012-13 year with a 46 percent reserve. The Administration notes that this fund imbalance could be addressed through budget bill language that allows the DOF to authorize a fund transfer from the Test Development and Administration Account due to an operating deficit in the Teacher Credentials Fund. The DOF must notify the Joint Legislative Budget Committee of its intent to authorize the fund transfer.

CTC Concerned about Impact of Governor's Proposed Staff Reductions on Core Functions. On November 3, 2011, the Commission adopted the following principles to guide budget development in 2012-13:

- Maintain the core essential functions of the agency with no additional reductions.
- Establish credential fees that ensure the fiscal solvency of the agency, not to exceed \$100.
- Minimize the fiscal impact to first time teachers.
- Assess the viability of charging late fees for expired credential documents and charging teacher preparation programs sponsors for accreditation responsibilities above the traditional accreditation system activities.
- Minimize the fiscal impact to new educators, taking required exams, by having the credential fees subsidize partially the examination system expenses.

The CTC believes the elimination of 17 positions is significant and jeopardizes the Commission's ability to sustain several core functions. According to the Commission, it will have difficulty in maintaining all existing operations or take on any new work. While there has been a decline in credential applications, according to CTC "most" of the agency's statutory workload is not sensitive to volume applications. For example, while the number of students in teacher credentialing programs has declined, the number of programs has remained constant. The CTC is still responsible for accrediting 261 sponsors of educator preparation, and these numbers continue to increase slowly.

OTHER WORKLOAD ISSUES

CTC continues to address Bureau of State Audit (BSA) findings. On April 7, 2011, the California State Auditor issued a report entitled "*Despite Delays in Discipline of Teacher Misconduct, the Division of Professional Practices has not Developed an Adequate Strategy or Implemented Processes That Will Safeguard Against Future Backlogs*".

The Division of Professional Practices conducts investigations of misconduct on behalf of the Committee of Credentials – a commission appointed body. The committee meets monthly to review allegations of misconduct and, when appropriate, recommends that the commission discipline credential holders or applicants, including revoking or denying credentials when the committee determines holders or applicants are unfit for the duties authorized by the credential.

Key findings from the audit include the following:

1. As of the summer of 2009, according to the commission's management, the Division of Professional Practices had accumulated a backlog of 12,600 unprocessed reports of arrest and prosecution (RAP sheets)—almost three times a typical annual workload.
2. The large backlog of unprocessed reports appears to have significantly delayed processing of alleged misconduct by the Division of Professional Practices and potentially allowed educators of questionable character to retain a credential.
3. The Division of Professional Practices has not effectively processed all the reports of arrest and prosecution that it receives. A review of randomly selected reports could not be located within the CTC's database. Further, the division processes reports it no longer needs.
4. To streamline the committee's processing of pending cases, the Division of Professional Practices uses its discretion to close cases, or not open cases for which it believes the committee would choose not to recommend disciplinary action against the credential holder. However, the BSA did not believe the committee can lawfully delegate this discretion to the division.

5. The Division of Professional Practices lacks comprehensive written procedures for reviewing reported misconduct and the database it uses for tracking cases of reported misconduct does not always contain complete and accurate information.
6. Familial relationships among commission employees may have a negative impact on employees' perceptions and without a complete set of approved and consistently applied hiring practices, the CTC is vulnerable to allegations of unfair hiring and employment practices.

The BSA Audit made numerous recommendations to the CTC including that it develop and formalize comprehensive procedures for reviews of misconduct and for hiring and employment practices to ensure consistency. The Audit also recommended that the CTC provide training and oversight to ensure that case information on its database is complete, accurate, and consistent. Moreover, the BSA Audit provided specific recommendations for the CTC to revisit its processes for overseeing investigations to adequately address the weaknesses in its processing of reports of misconduct and reduce the time elapsed to perform critical steps in the review process.

The CTC has submitted the 60 day and 6 month reports to the BSA, as well as attended an informational hearing with the JLAC committee to provide an update to members on the progress of addressing the findings from the report. In addition, the CTC has met with the BSA to provide an update on the progress of addressing the findings from the audit. CTC is expected to provide a one-year report to the BSA on April 6, 2012. CTC will provide a summary of the report at the hearing. Some of the progress made by CTC includes:

- **Backlog of RAPs addressed.** As noted above, the BSA Audit found that the Division of Professional Practices had a cumulative backlog of approximately 12,600 unprocessed reports in the summer of 2009 – largely Reports of Arrest and Prosecution (RAP) from the California Department of Justice. According to CTC, this cumulative backlog of RAPs was completely addressed and there is no outstanding backlog of these RAP documents.
- **Teacher misconduct reports.** With regard to teacher misconduct reports, the CTC reports that all current teacher misconduct reports are in process within statutory guidelines. Currently, the CTC has 3,157 open cases. Of the open cases, staff identified 53 to close. An additional 74 cases involve criminal diversion and the case is being tracked through the criminal diversion process. Of the open cases, 392 are being tracked through the criminal justice system to see if a criminal conviction will result in the mandatory revocation of all credential. (Mandatory revocation offenses include sex offenses, drug offenses and some serious and violent felonies.) For 1,610 of the cases, CTC staff is in the process of collecting information and preparing documentation to submit a case to the Committee of Credentials. (The Committee determines whether there is probable cause to take a disciplinary action against a license.) Another 668 cases are in some stage of review by the Committee. And 360 cases have completed the proceedings before the Committee and are before the CTC for a final action, or are on appeal, on probation, or on a mental health suspension.

The Governor does not propose any staffing changes to the Division of Professional Practices to assure the CTC can continue to stay current with all discipline cases. Additionally, the CTC took action at its March 2012 meeting to streamline CTC actions on single alcohol offenses. This action will reportedly result in an approximately 28 percent reduction in the Consent Calendar considered by the Committee of Credentials.

New Misconduct Reports from LAUSD. In response to recent misconduct cases in the Los Angeles Unified School District (LAUSD), the CTC sent a letter to the district reminding them of their obligation to report misconduct cases to the Commission. As a result of that letter, the LAUSD filed 250 reports of alleged misconduct by teachers as of March 21, 2012. To provide perspective, the CTC received 260 reports for the entire 2010-11 fiscal year; of these, CTC opened 210 cases. Nine staff began working overtime in early March to handle the extra workload in the Intake unit. While it is not fully known, the CTC estimates that the LAUSD's search for unreported cases of misconduct may yield a total of 400 or more cases for review by the Commission. It is also not clear how many other districts will take the approach that LAUSD has taken and how many more reports will come from other districts as a result. The DOF has requested the CTC provide monthly updates on the number and types of reports received in order to track any increase in workload. Currently, the CTC has redirected three positions to address the temporary workload and oversight of the division.