AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

ASSEMBLYMEMBER AL MURATSUCHI, CHAIR

TUESDAY, APRIL 22, 2014

9 A.M. - STATE CAPITOL ROOM 444

ITEMS TO BE HEARD

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6110 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES

ISSUE 1: GOVERNOR'S 2014-15 BUDGET PROPOSAL: K-14 MANDATES

The Governor's 2014-15 Budget proposes to add the following new mandates into the Education Mandates Block Grants:

- Uniform Complaint Procedures
- Charter Schools IV
- Public Contracts

The Governor's Budget also proposes to repeal the Community College Construction Mandate.

PANELISTS:

- Keith Nezaam, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Monique Ramos, Department of Education
- Dan Troy, Community College Chancellor's Office

BACKGROUND

The concept of state reimbursement to local agencies and school districts for state mandated activities originated with the Property Tax Relief Act of 1972 (Senate Bill 90, Chapter 1406, Statutes of 1972), known as SB 90. The primary purpose of the Act was to limit the ability of local agencies and school districts to levy taxes. In 1979, Proposition 4 was passed by voters, which required local governments to be reimbursed for new programs or higher levels of services imposed by the state. Local educational agencies (LEAs) can seek reimbursement for these mandated activities. In response to Proposition 4, the Legislature created the Commission on State Mandates (CSM) to hear and decide upon claims requesting reimbursement for costs mandated by the state.

Proposition 1A, approved by the state's voters in 2004, required the Legislature to appropriate funds in the annual budget to pay a mandate's outstanding claims, "suspend" the mandate (render it inoperative for one year), or "repeal" the mandate (permanently eliminate it or make it optional). The provisions in Proposition 1A, however, did not apply to K-14 education.

Over the years, as the cost and number of education mandates grew, the state began to defer the full cost of education mandates. Prior to the 2010-11 Budget Act, the state had deferred the cost of roughly 50 education mandates but still required LEAs to perform the mandated activity by providing a nominal amount of money ($1,000) for each activity. An exception was in 2006 when the state was able to provide more than $900 million in one-time funds for state mandates. This funding retired almost all district and college mandate claims (plus interest) through the 2004-05 fiscal year. The practice of deferring mandate costs was challenged in court in 2009 and is no longer allowed.

The state currently owes $4.5 billion in prior year mandate costs that accumulated due to the state deferring costs. The Governor's Budget includes a plan to pay off all outstanding education obligations, or "wall of debt," including outstanding mandate costs. The Governor's multi-year plan does not include funding for the mandate backlog in 2014-15, but the Governor intends to pay off this obligation in the 2015-16 through 2017-18 fiscal years.

Traditional Mandate Reimbursement Process

The Legislature created the CSM in order to hear and decide on claims regarding whether state laws impose new requirements on LEAs. Once the CSM determines that an activity qualifies as a reimbursable mandate, the State Controller's Office (SCO) provides claim forms for LEAs to complete for each mandate. These forms require LEAs to provide detailed documentation on how much they spent on each mandate. The SCO then reviews the claim and provides reimbursement, subject to funding through the state budget.

The process for claiming mandate reimbursement has been considered problematic. According to the Legislative Analyst's Office, mandated costs are often higher than expected, reimbursement rates vary greatly by district, the reimbursement process rewards inefficiency, and the reimbursement process ignores program effectiveness.

Due to these concerns, the Legislature also provided for an alternative way to pay for mandates. AB 2856 (Laird), Chapter 890, Statutes of 2004, created the Reasonable Reimbursement Methodology (RRM), which required LEAs to submit detailed documentation of actual costs and the DOF, SCO or any other interested party can propose a RRM. The CSM then reviews and approves a RRM, or the rate to be provided for a particular mandate. This process was intended to alleviate LEAs from the burdensome claim process, however the RRM process has been used rarely. Only three school mandates currently have approved RRMs.

Mandates Block Grant

The 2012 Budget Act included a block grant as an alternative method of reimbursing school and community college districts for mandated costs. Instead of submitting detailed claims listing how much time and money was spent on mandated activities, districts now can choose to receive funding through the block grant.

The 2013-14 budget included a total of $250 million for the mandates block grants ($217 million for schools and $33 million for community colleges). Block grant funding is allocated to participating LEAs on a per-pupil basis, based on average daily attendance (ADA) or full-time equivalent students (FTES). The rate varies by type of LEA and by grade span, due to the fact that some mandates only apply to high schools. The per-pupil rates are as follows:

- School districts receive $28 per student in grades K-8 and $56 per student in grades 9-12.
- Charter schools receive $14 per student in grades K-8 and $42 per student in grades 9-12.
- County offices of education (COEs) receive $28 for each student they serve directly, plus an additional $1 for each student within the county. (The $1 add–on for COEs is

intended to cover mandated costs largely associated with oversight activities, such as reviewing district budgets.)
- Community colleges receive $28 per student.

Block Grant Participation
Due to concerns regarding the state's constitutional obligation to reimburse districts for mandated costs, the state also retained the existing mandates claiming process for districts not opting into the block grant. However, the LAO notes that most school districts and COEs and virtually all charter schools and community college districts opted to participate in the block grant. Those participating in the block grant represent 95 percent of K–12 students and 97 percent of community college students.

Governor's 2014-15 Budget Proposals

The CSM recently approved statewide cost estimates for seven new education mandates. Six of these mandates apply to K-12 schools, one applies to only community colleges, and one applies to both K-12 schools and community colleges.

The Governor's 2014-15 Budget addresses four of these mandates. The Governor proposes to add the following K-14 mandates to the mandates block grants for schools and community colleges:

- Uniform Complaint Procedures (K-12 schools only)
- Charter Schools IV (K-12 schools only)
- Public Contracts (K-12 schools and community colleges)

The Governor's Budget also proposes to repeal the Community College Construction Mandate, which applies only to community colleges.

The Administration acknowledges that they inadvertently omitted one mandate and intentionally left out two mandates because the CSM had not yet finished their cost estimates when the Governor's Budget was released. The remaining three mandates will likely be addressed in the Governor's May Revision. The chart below outlines the seven new mandates with cost estimates adopted by the CSM and the treatment of these mandates under the Governor's Budget.

New Mandates
With Cost Estimate Adopted by CSM as of February 1, 2014

Mandate	Start Date of Reimbursement Period	CSM Estimated Annual Cost Statewide	Governor's Proposal	Governor's Proposed Change in Block Grant Funding
Parental Involvement Program	7/1/2002	$125,268	None	•
Williams Case Implementation	9/29/2004	106,183	None	•
Uniform Complaint Procedures	7/1/2002	34,751	Add to block grant	$0
Developer Fees	7/1/2001	34,209	None	•
Public Contracts	7/1/2001	32,932	Add to block grant	0
Community College Construction	7/1/2001	22,519	Repeal	•
Charter Schools IV	1/1/2003	4,261	Add to block grant	0

*Community College Construction applies only to community colleges. Public Contracts applies to both schools and community colleges. All other mandates apply only to schools.
*CSM = Commission on State Mandates.

Source: Legislative Analyst's Office

Uniform Complaint Procedures Mandate

Under state and federal law, schools are required to comply with activities related to antidiscrimination laws. These activities include providing a statement of intent to CDE that they will comply with antidiscrimination laws and provide CDE with descriptions of how they will comply with these laws. Because the state requirements go beyond the federal law, the CSM deemed these activities a state mandate. Specifically, the state requires schools to report on antidiscrimination compliance related to religion and sexual orientation. The statement of intent requires minimal additional workload. The CDE has not yet required districts to report on how they are complying with antidiscrimination laws.

The LAO recommends adding this mandate to the block grant and not increasing block grant funding, consistent with the Governor's proposed budget. The LAO also recommends that the Legislature require schools to submit compliance reports to CDE if evidence of discrimination emerges.

Charter Schools IV Mandate

AB 1994 (Reyes), Chapter 1058, Statutes of 2002, made several changes to the way the state establishes and operates charter schools, which resulted in a number of reimbursable state mandates. The Charter Schools IV mandate includes the following activities for charter school authorizers:

- Reviewing proposed countywide charter schools (similar to the review of non-countywide charter schools).
- Receiving financial information from the charter schools they authorize.
- Reviewing other information related to the charter schools they authorize, including procedures for closure, where the charter will be located, and process for notifying parents about accreditation and status of A-G approved courses.
- Holding open meetings for reviewing whether an existing charter can open an additional site.
- Verifying the accuracy of data reported by the charter school.

The Charter Schools I-III mandates reimburse charter authorizers for reviewing proposed charters, holding public hearings, and monitoring charters after approval. These mandates are currently included in the mandate block grant.

The LAO recommends retaining most activities related to this mandate and adding these activities to the mandates block grant without providing additional funding. The LAO also recommends repealing three mandated activities, including reviewing proposed parental notification procedures, holding open meetings to consider additional school sites, and verifying the accuracy of financial data. The LAO argues that the parental notification procedure is redundant due to the LCAP requirements. They also argue that open meetings would occur without this mandate and verifying financial data is unnecessary due to computerized accounting systems.

Public Contracts Mandate

State law generally allows school districts and community colleges discretion to undertake repair and maintenance projects using staff, or to contract out for the work. Public Contract Code does, however, require school districts and colleges to contract out for repair and paint jobs under certain circumstances. In 2012, the Commission on State Mandates identified more than a dozen reimbursable activities that are triggered when districts are required to contract out for repairs and maintenance, including specifying in bid notices any type of specific license a contractor must have, or including clauses in contracts regarding the identification of hazardous waste discovered during a project.

The Governor's Budget proposes shifting this new mandate into the mandates block grant for school districts and community college districts. The LAO recommends repealing the mandate and amending statute to allow schools and community colleges more discretion as to how they handle repair and painting projects.

Community College Construction Mandate

Each community college district submits a five-year infrastructure plan to the Board of Governors, and provides annual updates. Statute identifies six specific areas that must be addressed in these plans, including enrollment capacity at the district, an inventory of facilities, and an estimate of district funds available for construction. In 2011, the Commission on State Mandates found that four of the six required subject areas constitute state-reimbursable mandates.

The Governor's Budget proposes trailer bill language that would eliminate the mandate by allowing districts more flexibility regarding the information they present in their infrastructure plan. The LAO agrees with this proposal, noting that the information would likely be included in the plans regardless of whether it was required, as districts would need to present the information to justify proposed construction projects that must be approved by the Chancellor's Office.

Overall LAO Recommendation

The LAO recommends repealing the RRM process because the education mandates block grants serve the same function through the regular budget process. The LAO also recommends considering a variety of factors when adding new mandates and adjusting funding for the mandates block grant. Additionally, the LAO recommends providing a cost-of-living adjustment (COLA) to the block grants similar to other education programs. The cost to provide a 0.86 percent COLA to the block grants would be $1.9 million for K-12 schools and $300,000 for community colleges.

STAFF COMMENTS/QUESTIONS:

Staff agrees with the Governor's proposal to include the Uniform Complaint Procedures Mandate, Charter Schools IV Mandate and Public Contracts Mandate into the mandates block grant. Staff also agrees that these mandated activities require minimal additional workload and should be added to the block grant without including additional funding.

The LAO recommends repealing the Public Contracts Mandate along with some other mandated activities within the Charter Schools IV Mandate. The LAO's recommendation would essentially undo statute that was enacted by the Legislature through the legislative process. Staff notes that there have been some concerns raised with the LAO's recommendation. Since there is not a consensus with this approach, staff recommends a more thorough review of these activities before eliminating a law through the budget process.

Regarding the Community College Construction Mandate, since there is a general consensus among stakeholders that these mandated activities would be included in the community college's five-year infrastructure plan, staff recommends adopting the Governor's proposal to eliminate this particular mandate.

Suggested Questions:

- Why does the Governor propose paying down other outstanding obligations such as deferrals and the Emergency Repair Program, but not the mandate backlog in 2014-15? What are the distributional impacts of these payments?

- Given the high participation rate of LEAs and community colleges in the mandates block grant, is it necessary for the Legislature to provide a COLA for this program?

- Why are a small percentage of LEAs choosing not to participate in the mandates block grant?

- Does the Administration plan on addressing the three remaining new mandates at the May Revision?

ISSUE 2: GOVERNOR'S 2014-15 BUDGET PROPOSAL: PROPOSITION 39 ENERGY EFFICIENCY PROGRAMS

The Subcommittee will consider the funding levels for the various Proposition 39 energy efficiency programs for California's schools and community colleges.

PANELISTS:

- Cheryl Ide, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Monique Ramos, Department of Education
- Dan Troy, Community College Chancellor's Office

BACKGROUND

The California Clean Energy Jobs Act (Proposition 39) passed by voters in 2012, required most multistate business' to determine their California taxable income using a single sales factor method, in turn, increasing the state's corporate tax revenue. This measure established a new state fund, the Clean Energy Job Creation Fund, which is supported by half of the new revenue raised by the mandatory single sales factor for multistate businesses. The initiative directs monies deposited in this fund to be used to support projects that will improve energy efficiency and expand the use of alternative energy in public buildings.

The 2013-14 budget appropriated a total of $467 million of the Clean Energy Job Creation Fund to Proposition 98 related programs, restricting the funds to be used for public K-12 and community college facilities. The appropriation specified $428 million for a new grant program for schools and community colleges to use on energy efficiency projects, $28 million for the Energy Conservation Assistance Act (ECAA) revolving loan program for schools and community colleges for energy projects, $8 million for workforce training programs (specifically, the California Conservation Corps and the California Workforce Investment Board), and $3.1 million for administrative support within the California Energy Commission (CEC).

Governor's 2014-15 Budget
The Governor's January Budget projects a $101 million reduction in funding for Proposition 39 energy projects due to lower projected tax revenues than assumed in the 2013-14 budget. These revenue projections are based on the Franchise Tax Board's estimates.

The Governor's Budget includes a total of $726 million for Proposition 39. Of this amount, $363 million is dedicated to schools and community colleges. The Governor proposes to allocate this funding for the following purposes:

- $316 million to K-12 schools and $39 million to community colleges for energy efficiency project grants.
- $5 million to the Conservation Corps for technical assistance to K-12 school districts.
- $3 million to the Workforce Investment Board for job training programs.

The Governor's Budget provides no additional funding for the ECAA revolving loan program. The Administration indicated that this program will continue to be considered for future funding. Thus far, the CEC has received 28 applications totaling $50.2 million for the ECAA revolving loan program. These applications have not yet been rejected or approved. According to the CEC, providing funding is contingent on the release of the Program Opportunity Notice (PON), which will likely be released within the next two weeks. The CEC is reviewing applications so that funding can occur as quickly as possible upon the release of the PON.

K-12 Project Grants. The 2013 Budget Act and accompanying legislation designated 89 percent of Proposition 39 funds for K-12 schools to be allocated by the CDE. Of this funding, 85 percent is to be distributed on the basis of student average daily attendance (ADA) and 15 percent is distributed on the basis of students eligible for free and reduced price meals. Minimum grant amounts were established for LEAs within the following ADA thresholds:

- $15,000 for LEAs with ADA of 100 students or less.
- $50,000 for LEAs with ADA of 100 to 1,000 students.
- $100,000 for LEAs with ADA of 1,000 to 2,000 students.

The CEC, in consultation with the CDE, Chancellor's Office and the Public Utilities Commission, is required to develop guidelines for contracts with LEAs. The CEC released these guidelines in December 2013.

In order to receive an energy efficiency project grant, LEAs must submit an expenditure plan to the CEC outlining the energy projects to be funded. The CEC will review these plans to ensure they meet the criteria set forth in the guidelines. The CDE will distribute funding to LEAs with approved expenditure plans. LEAs can also request funding for planning prior to submission of the plan. The CDE has granted planning funding for approximately 1,500 LEAs. So far, four LEAs have been approved for energy efficient project grants. The CEC is currently reviewing an additional 21 expenditure plans for projects totaling $13.5 million.

Approximately 480 LEAs have not yet applied for planning or project grants. The Administration has indicated that they are considering changes in the May Revision to allow for these LEAs to access this funding in future years.

California Community Colleges. The 2013 Budget Act designated 11% of Proposition 39 funds for community college districts, to be allocated by the Chancellor's Office on a per-student basis. In conjunction with the Energy Commission, the Chancellor's Office developed guidelines for districts as they plan to use Proposition 39 funds. The guidelines sought to leverage existing energy efficiency programs, including partnerships most districts had with investor owned utilities.

These partnerships had been in existence since 2006 and had already reduced system wide energy costs by $12 million. Thus, most college districts did not need to use Proposition 39 for planning; the planning was complete.

According to the Chancellor's Office, 276 projects had been approved for funding by March 2014, and $36 million has been distributed. Another $3 million will be distributed in April. About half of the projects will be complete by the end of the fiscal year, and the Chancellor's Office estimates annual system wide cost savings of about $4.5 million. About 55% of the projects were related to upgrading lighting systems to make them more energy efficient. The table on the following page indicates the projects.

Project Type	# of Projects	% of Total Projects
Lighting	151	54.7%
HVAC	51	18.5%
Controls (upgrading lighting/HVAC controls for better efficiency)	38	13.8%
Retrofits	18	6.5%
Retro Commissioning (Building tune ups to optimize control systems)	11	4%
Technical Assistance	4	1.4%
Self-Generation	2	0.7%
Monitoring Based Commissioning (Installing metering systems to better track energy usage)	1	0.4%

In addition to $42 million in energy efficiency projects, the Chancellor's Office also is using $6 million for workforce development regarding energy efficiency programs. About $5 million is being used to redesign curricula regarding green energy and energy efficiency classes to ensure more standardized training across the system. Another $1 million is being used for professional development for green energy faculty.

The Chancellor's Office notes that it anticipates about 500 project requests for 2014-15 with an estimated total cost of $150 million. This need will continue to outpace funding well into the future. It will be reviewing the workforce development portion of this funding to determine an appropriate amount for 2014-15.

STAFF COMMENTS/QUESTIONS:

Staff notes that the community college system was poised to use Proposition 39 funds quickly, and many college campuses will be more energy efficient - and enjoying costs savings – by the end of the first fiscal year. This is a success.

The Chancellor's Office is expected to provide reports to the Citizens Oversight Board on the program's implementation and impacts, including project costs and energy and cost savings once projects are completed. This will provide transparency for how the money was spent and allow the public and Legislature to determine the efficacy of projects.

The K-12 system, on the other hand, was not prepared to begin implementing energy efficiency projects right away. Many LEAs are just beginning the planning process for making their schools more energy efficient. However, this is a step in the right direction in meeting the goals of Proposition 39.

Suggested Questions:

- Given the interest in the revolving loan program by LEAs and community colleges, does the Administration anticipate providing new funding for the revolving loan program this year?
- Does the Administration anticipate increased corporate tax revenues in May?
- What barriers are LEAs facing in implementing Proposition 39 projects? How is CDE supporting these LEAs?
- Why have some LEAs not yet applied for planning or project grants?

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ISSUE 3: GOVERNOR'S 2014-15 BUDGET PROPOSAL: INDEPENDENT STUDY AND BLENDED LEARNING

The Subcommittee will consider the Governor's proposed trailer bill language to make changes to the existing independent study program, create a new independent study program for grades 9-12 and a new blended learning program for grades K-12, and exempt charter schools utilizing these new programs from special fiscal review.

PANELISTS:

- Laurie Carney, Department of Finance
- Ken Kapphahn, Legislative Analyst's Office
- Monique Ramos, Department of Education

BACKGROUND

California schools are funded on the basis of average daily attendance (ADA), based on the amount of time a student spends in the classroom under the immediate supervision of a certificated employee. LEAs can provide non-classroom based education to students through various avenues, one of which being the independent study program. The part-time and full-time independent study programs allow for LEAs to provide non-classroom based instruction while still generating full ADA. Students participating in the independent study program are required to provide a work plan and teachers are required to assign time values to each assignment in order to ensure that the course is equivalent to similar classroom based courses.

Governor's 2014-15 Budget

The Governor's Budget proposes to expand opportunities for LEAs to offer non-classroom based instruction. The Administration argues that non-classroom based instruction will help fill educational gaps by stabilizing or increasing the attendance of students who may have otherwise dropped out or transferred to a private school to accelerate their educational progress. The Administration also argues that the current independent study program requirements are over burdensome and may deter schools from offering these courses.

The Governor's proposed trailer bill language makes a number of changes to the current independent study program that is offered for grades K-12. In addition, the Governor proposes to create a new "course based" independent study option for grades 9-12 and a site-based blended learning program for grades K-12. The proposal would also exempt charter schools using the new independent study and blended learning programs from special fiscal review currently required of certain charter schools using independent study.

Existing Independent Study
The Governor's proposal includes the following changes to the existing independent study program:

- Calculates the student to teacher ratio caps by grade span instead of district average. (This change would likely increase the cap on independent study for high school programs, while decreasing the cap for elementary programs.)
- Allows for alternative student to teacher ratio caps to be collectively bargained.
- Eliminates the requirement for supervising teachers in independent study programs to sign and date each assignment for apportionment purposes.

The LAO recommends adopting these proposals because they provide additional flexibility for school districts. Additionally, the LAO recommends the Legislature increase the student-teacher ratio cap for charter schools at the high school level from 25:1 to 27:1. The LAO argues that this will provide corresponding flexibility for charter schools.

New "Course Based" Independent Study
The Governor's proposal would create a new "course based" independent study option for grades 9-12. This option is similar to the current independent study program, in that instruction can occur off-site. For example, students can participate in a work-based program or an online course. Students are also required to work under the general supervision of a teacher through a written learning agreement. This new independent study option includes the following components:

- Allows local governing boards to convert entire courses, instead of individual assignments, into instructional time for funding purposes.
- Requires students and teachers to communicate in-person, by telephone, or live visual or audio connection at least once per week to assess whether the student is meeting "satisfactory educational progress."
- Allows for annual certification of independent study courses, instead of each semester.

The LAO recommends adopting this proposal but expanding the program to include grades K-8. The LAO argues that new and nontraditional forms of instruction may be found in all grade levels and not just in high school. The LAO also recommends requiring local governing boards to provide additional information when approving independent study courses, including information about local and state content standards reflected in the course and the student learning goals for the course.

New Blended Learning Program
In addition to the new course based independent study program, the Governor's trailer bill language also creates a new site-based blended learning program for grades K-12. This program includes all of the elements included in the new independent study program, with the following changes:

- Requires students to be on a school site daily and meet applicable minimum instructional day requirements. Unlike classroom based programs, students could be supervised by a teacher or an instructional aid during this time.
- Allows grades K-12 to use this option. However, the Administration anticipates this option only being used for grades K-8 due to the increased flexibility of the high school independent study program.

The LAO recommends rejecting this proposal and instead expanding the course-based independent study program to grades K-8, as described above. The LAO raises concerns that the site-based blended learning option would provide little, if any, added benefit.

Special Fiscal Review for Charter Schools

SB 740 (O'Connell), Chapter 892, Statutes of 2001, established a special fiscal review for certain charter schools offering independent study programs. The SB 740 process requires charter schools offering less than 80 percent of their instructional time in a classroom setting to submit financial information to the SBE every few years. The SBE will then verify that these charter schools spend at least 80 percent of their budget on instruction and related services, including at least 40 percent on salary and benefits for teachers. Charter schools that do not meet these requirements are subject to funding reductions. In 2012-13, about 250 charter schools were subject to special fiscal review, with 10 receiving funding reductions.

The Governor's proposal would exempt charter schools using either of the new independent study options from the special fiscal review required of charter. The Governor's proposal would count the independent study and blended learning courses as classroom time, therefore exempting charter schools from special fiscal review. However, these courses would not be required to be classroom-based.

The LAO recommends rejecting this proposal. Under this proposal, a charter school using the course-based independent study option would be exempt from the review while a charter school using the existing independent study option would be subject to the review. Instead, the LAO recommends improving the SB 740 review process by relaxing some of the specific spending requirements or strengthening routine fiscal oversight that devotes resources to schools that show signs of financial abuse or mismanagement.

STAFF COMMENTS/ QUESTIONS:

The Governor's proposed trailer bill language makes major changes to the way the state currently makes funding determinations for non-classroom based instruction. Staff agrees with the basic reasoning behind this proposal that instructional models are evolving to include more technology-based and work-based instruction that is catered toward individual student needs. However, this proposal includes major policy issues to consider, that should be thoroughly vetted through the policy process. Staff is aware of the following related bills going through the policy process:

- SB 1143 (Liu) is identical to the Governor's trailer bill language on independent study and blended learning. This bill will be heard in the Senate Education Committee on April 23rd.

- AB 2151 (Levine) establishes the Blended Learning Pilot Program for grades 1-6 and 7-12 beginning in the 2015-16 school year through the 2017-18 school year. This pilot program would be administered by the SBE for the purposes of exploring various models of innovation and best practices for the blended learning delivery model.

Staff notes that some aspects of the Governor's proposal seem reasonable, such as eliminating the requirement for independent study teachers to sign and date each assignment. However, staff has concerns with other components of the Governor's proposal, such as allowing for site-based blended learning programs for grades K-12. Under this proposal, students must be present on a school site, but can be supervised by an instructional aid during this time. Currently, students in classroom-based programs must be under the direct supervision of a certificated teacher. This represents a fundamental change in how students receive instruction.

Staff also has concerns with exempting charter schools from special fiscal review. This process was put in place to correct abuses of state funding by independent study charter schools. Although the SB 740 process could be improved, there should be safeguards in place to prevent these abuses.

Budget Impact. The CDE estimates that this proposal could result in $500 million in increased ADA costs due to more students participating in independent study that would have otherwise dropped out or gone to a private school.

Suggested Questions:

- What does data show on the impact of independent study and blended learning on student achievement?
- What are the barriers for providing blended learning opportunities under the current classroom-based model?
- What are the budget implications of this proposal?

ISSUE 4: GOVERNOR'S 2014-15 BUDGET PROPOSAL: CHARTER SCHOOL OVERSIGHT

The Subcommittee will consider the Governor's trailer bill language to allow the State Board of Education (SBE) to designate its oversight authority for a charter school approved by the SBE to any LEA.

PANELISTS:

- Chris Ferguson, Department of Finance
- Ken Kapphahn, Legislative Analyst's Office
- Monique Ramos, Department of Education

BACKGROUND

The SBE authorizes charter schools whose petitions originally were rejected at the local level but approved by the SBE on appeal. Existing law allows SBE to delegate its oversight responsibilities for any school it has authorized to a consenting LEA in the county where the school is located. The SBE, however, has historically declined to exercise this authority and instead delegated all of its oversight responsibilities to the CDE.

Governor's 2014-15 Budget
The Governor's proposed trailer bill language allows the SBE to delegate their oversight responsibilities to any LEA in the state, with the exception of another charter school. The proposal retains the SBE's ability to continue delegating oversight responsibilities to the CDE.

LAO Recommendation
LAO recommends the Legislature adopt the proposed trailer bill language to allow the SBE to delegate oversight to any LEA. According to the LAO, for charter schools located in smaller counties, the options for delegating oversight within the county may be very limited. By allowing SBE to delegate oversight to a capable school district or other COE, the proposal would improve the prospects of quality oversight. In addition, given oversight is currently managed by CDE—which is located a considerable distance from some of the schools it oversees—the entity selected as the oversight authority under the Governor's proposal likely would be located closer to the charter school.

STAFF COMMENTS/QUESTIONS:

The Administration proposed the same trailer bill language last year. The Subcommittee rejected the proposal in order to send this issue to Conference Committee. The proposal was ultimately rejected in Conference Committee due to a lack of a budget nexus.

<u>Policy Impacts:</u> Staff notes that this is largely a policy proposal with little budgetary impact. Some of the policy issues include:

- Is this change necessary? The SBE currently has the authority to delegate it's oversight of a statewide charter school to the county in which the charter is located but the SBE has not exercised this option.
- Are LEAs located far away from the charter school best equipped to oversee those schools?

- Will this proposal result in one or a few LEA overseeing all charter schools approved by the SBE?

Budget Impacts. The Administration argues that this proposal could reduce workload for the CDE. However, CDE claims that this proposal would actually have a negative impact on their budget. According to CDE, the fees collected from charter schools for oversight is also used for other charter school related activities, such as charter school appeals. By redirecting these fees, CDE would not have sufficient funding to complete other charter school related activities.

Suggested Questions:

- What is the problem this proposal is trying to address?

- Has the State Board indicated that they would like to begin delegating charter school oversight authority to particular LEAs? If so, which LEAs?

- Why has the State Board not exercised their ability to delegate charter school oversight authority to an LEA within the charter school's county?

ISSUE 5: GOVERNOR'S 2014-15 BUDGET PROPOSAL: STATE SPECIAL SCHOOLS: DEFERRED MAINTENANCE

The Subcommittee will consider the Governor's Budget proposal to provide $5 million in one-time General Fund for deferred maintenance for the State Special Schools. This proposal is included as part of the Governor's Five Year Infrastructure Plan, which includes $815 million for deferred maintenance.

PANELISTS:

- Lisa Mierczynski, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Monique Ramos, Department of Education

BACKGROUND

The CDE administers the State Special Schools (SSS), which includes a total of six facilities, including three residential schools and three diagnostic centers. These schools include the California Schools for the Deaf in Fremont and Riverside, the California School for the Blind in Fremont and Diagnostic Centers located in Fremont, Fresno, and Los Angeles. The SSS are funded with a combination of state and federal funds, with a total budget of approximately $95 million annually. Typically, the CDE is responsible for setting aside funding for maintenance within the SSS operating budget. Beginning in 2002, the CDE began the practice of setting aside $2.4 million annually for scheduled and deferred maintenance projects. In 2012-13 the CDE dedicated an additional $2.3 million in unspent prior year funds for deferred maintenance projects, totaling $4.7 million. Currently, the list of deferred maintenance projects for the SSS totals $25 million.

In 2012-13, the state reduced ongoing state General Fund support for the SSS by $1.8 million. However, in 2012-13 and 2013-14 the Legislature provided one-time federal special education funds to backfill this cut.

Governor's 2014-15 Budget

The Governor's 2014-15 Budget provides $5 million in one-time General Fund for the State Special Schools for deferred maintenance projects. These funds can be used through the 2015-16 fiscal year. Of this funding, $3.6 million would essentially backfill the $1.8 million cut to their operating budget for 2014-15 and 2015-16, while providing an additional $1.4 million for scheduled and deferred maintenance projects. The CDE has indicated that they would pursue some major projects such as replacing roofing and improving theatre accessibility, as well as other smaller projects.

Under the Governor's proposal, prior to allocating these funds, the CDE must provide a list of deferred maintenance projects to the Department of Finance for review and approval. DOF will then submit the approved list of projects to the Chairperson of the Joint Legislative Budget Committee 30 days prior to allocating the funds.

LAO Recommendation

The LAO believes the Governor's proposal provides too much funding for maintenance at the SSS. The LAO argues that the CDE is already implementing a long term plan to address scheduled and deferred maintenance by dedicating $2.4 million annually for this purpose. Also, the LAO argues that not all of the identified projects represent pressing health and safety needs.

The LAO recommends rejecting the Governor's proposal to provide $5 million in one-time funding for maintenance projects. Instead, the LAO recommends providing the $3.6 million in one-time state funds in order to continue backfilling the base reduction to the SSS budget. This approach will enable CDE to continue its existing maintenance practices through 2015-16.

STAFF COMMENTS/QUESTIONS:

The Governor's proposal to provide $5 million in one-time funding for deferred maintenance at the SSS would essentially backfill the recent cut to their operating budget for two years and provide an additional $1.4 million for deferred maintenance projects. Considering the list of deferred maintenance projects for the SSS totals $25 million, this is a good time to make a one-time investment for this purpose. Staff recommends adopting the Governor's budget proposal to invest one-time funds for deferred maintenance projects at the SSS.

The Administration has not indicated whether the SSS operating budget would be made whole in 2016-17. Staff recommends assessing the SSS budget and considering providing ongoing funding in 2016-17 to address the $1.8 million cut that was made to the SSS budget.

<u>Suggested Questions:</u>

- Does the Administration anticipate providing additional ongoing funding for the State Special Schools beginning in 2016-17?

- Does the Administration have a long term plan for eliminating the $25 million in deferred maintenance projects at the State Special Schools?

- Does CDE believe the additional $1.4 million for maintenance is needed for the State Special Schools? What types of projects would this funding be used for?

- What is the total cost of the shovel ready deferred maintenance projects at the State Special Schools?

ISSUE 6: GOVERNOR'S 2014-15 BUDGET PROPOSAL: SCHOOL FACILITIES

The Subcommittee will consider the Governor's proposal to shift $211 million in remaining School Facility Program bond authority to the New Construction and Modernization programs. Additionally, the Subcommittee will consider the Governor's proposal to dedicate $188.1 million to the Emergency Repair Program.

PANELISTS:

- Cheryl Ide, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Monique Ramos, Department of Education

BACKGROUND

School districts rely on state and local General Obligation (G.O.) bonds to raise money to build and remodel school buildings and purchase equipment. Districts can also generate funds by levying developer fees and forming facility districts. Since 1998, voters have approved $35 billion in statewide G.O. bonds for school facilities in California. California's statewide school building program, the School Facilities Program, is supported by statewide bond measures and is administered by the Office of Public School Construction (OPSC). The last bond that was approved by voters was in 2006 with Proposition 1D. This bond provided a total of $7.3 billion in bond authority for various K-12 facility programs, including:

- New Construction
- Modernization
- Overcrowding Relief
- Career Technical Education
- Charter Facilities
- Seismic Mitigation
- Energy Efficiency
- Joint Use

There is currently no bond authority remaining in the New Construction and Modernization programs, while most of the other programs have some bond authority remaining. Additionally, there is over $400 million in project applications awaiting funding in the New Construction and Modernization programs.

Governor's 2014-15 Budget Proposals

The Governor's 2014-15 Budget summary proposes to examine the future of school facilities funding, including "what role, if any, the state should play in the future of school facilities funding." The Governor highlights a number of problems with the current system for funding school facility needs, including that the current program is overly complex, does not incentivize efficiency, provides a competitive advantage to districts with staff dedicated to manage facilities, and does not allow for adequate local control. The Governor proposes creating a system that will provide schools with the resources they need to address facility needs, without relying on state debt issuance.

Transfer of Bond Authority

The Governor's Budget proposes to transfer the remaining bond authority from four targeted bond funds to the New Construction and Modernization programs. These four programs include: the Overcrowding Relief Grant, Career Technical Education, Seismic Mitigation, and the High Performance Incentive Grant. The Governor's January Budget estimated that the remaining bond authority for these programs would total $211 million. Under the proposal, any remaining bond authority on June 30, 2014 would be redirected and divided evenly between the New Construction and Modernization programs. Any funds that revert to these four targeted programs after this date also would be transferred and split between the two programs.

As shown in the chart on the following page, the amount of bond authority in these programs has changed since the Governor's January Budget. As of March 2014, the total amount of bond authority available in these four programs is approximately $204 million, instead of $211 million. These numbers will continue to change as funding is awarded by OPSC or if funding is reverted back to the program.

Governor's Proposal for School Facilities Program

(In Millions)

	Original Bond Authority[a]	Remaining Bond Authority[b]	Governor's Proposal	Program Status
Modernization	$3,300	—	Receive half of bond authority transferred from other programs.	$184 million in applications submitted beyond bond authority.
New construction	1,700	—	Receive half of bond authority transferred from other programs.	$231 million in applications submitted beyond bond authority.
Overcrowded schools	1,000	$16	Transfer remaining bond authority to new construction and modernization.	Applications on file with OPSC for most of remaining bond authority but funding not yet disbursed. OPSC adopting new regulations that likely would speed up disbursements.
Career technical education	500	4	Transfer remaining bond authority to new construction and modernization.	Applications on file with OPSC for most of remaining bond authority but funding not yet disbursed. OPSC adopting new regulations that likely would speed up disbursements.
Charter facilities	500	95	None.	OPSC currently accepting new applications from April 1, 2014 to May 30, 2014.
Seismic mitigation[c]	200	151	Transfer remaining bond authority to new construction and modernization.	Applications on file with OPSC totaling about $4 million. Additional applications pending at DSA (prior to submission to OPSC).
Energy efficient facilities	100	33	Transfer remaining bond authority to new construction and modernization.	This program is a supplemental grant, to be used with other programs.
Joint use	30	—	None.	
Totals	**$7,330**	**$298**		

[a] From Proposition 1D (2006).
[b] As of March 26, 2014.
[c] Seismic mitigation is a subprogram of the new construction program.
OPSC = Office of Public School Construction and DSA = Division of State Architect.

Source: Legislative Analyst's Office

The Governor's Budget does not propose to shift bond authority from the Charter School Facility program, although this program has $95 million in remaining bond authority.

The LAO recommends approving the Governor's proposal with two modifications. First, the LAO recommends delaying the transfer of remaining bond authority from the four targeted school facility programs by six months. This would allow OPSC to award more funding for pending projects. Second, the LAO recommends the Legislature also transfer the remaining bond authority in the Charter School Facility program to the New Construction and Modernization programs. This would be consistent with the Governor's approach to better match state resources with local facility needs.

Emergency Repair Program

The Emergency Repair Program (ERP) was established through the Williams v. California settlement. The Williams v. California lawsuit, originally filed in 2000, charged that the state had failed to give thousands of children the basic tools necessary for their education, including "inadequate, unsafe, and unhealthful facilities." The 2004 settlement included increased accountability measures, extra financial support, and other help for low-performing schools. The state agreed to provide $800 million for critical repair of facilities in future years for the state's lowest-performing schools. These low-performing schools were defined as those that were in the bottom three deciles of the 2006 Base Academic Performance Index (API) rankings. Thus far, the state has contributed a total of $338 million for the ERP, and has not provided any new funding since 2008-09.

The Governor proposes to provide $188.1 million in one-time Proposition 98 General Fund to the ERP in 2014-15. The funds would be made available for districts that submitted applications and were approved for ERP funding in 2008. New funding is disbursed to districts in the order in which they were originally submitted and approved. Over 100 districts have approved ERP projects on file at over 700 school sites. These projects include emergency repairs such as replacing heating and air conditioning systems, plumbing, electrical and repairing roofs. Many of these projects may have already been completed, however the Office of Public School Construction does not have the authority to survey districts about the status of their projects and whether they have completed these projects since the time the applications were approved.

As part of his plan to pay down the "wall of debt," the Governor proposes providing $188 million in 2014-15 and $274 million in 2015-16 in order to retire the state's remaining ERP obligation.

The LAO has raised concerns with the Governor's ERP proposal. Because ERP projects are focused on emergencies, the LAO points out that most projects have likely already been addressed. Therefore, this funding may not have much impact on improving school facilities since the funding would likely function as general purpose funding for those districts that receive ERP funding. The LAO also believes that some districts may no longer meet the program's eligibility criteria of being among the lowest performing schools. Additionally, the LAO highlights that the proposal runs counter to the state's more recent decision to eliminate categorical programs and require schools to address their facility maintenance using LCFF funds.

<u>The LAO recommends</u> three options for addressing the ERP.

1.) Approve the Governor's proposal and honor the state's commitment from many years ago to pay these districts.
2.) Open up a second round of ERP applications for either low performing schools or all schools.
3.) Adopt statutory language indicating the state has met its obligation for ERP since it provided billions of dollars in new LCFF funding in 2013-14 and requires that districts use a portion of this funding to maintain their facilities.

STAFF COMMENTS/QUESTIONS:

Transfer of Bond Authority

Transferring approximately $200 million in existing bond authority to the New Construction and Modernization programs will not sufficiently address the state's school facility needs. The Subcommittee may wish to consider a more long term solution for addressing school facility projects. One option would be to pass another statewide facilities bond. AB 2235 (Buchanan and Hagman) would enact the Kindergarten-University Public Education Facilities Bond Act of 2014. This bill authorizes an unspecified amount of state general obligation bonds to provide aid to LEAs, community colleges and public universities to construct and modernize education facilities. If passed, this bill would be operative only if approved by voters in the November 2014 statewide general election. The bill was passed by the Assembly Education Committee on April 9^{th} and will next be heard in the Assembly Higher Education Committee.

Emergency Repair Program (ERP)

The Governor's proposal is a step in the right direction in meeting the state's outstanding ERP obligation. As the LAO points out, these projects may have already been completed, since they originally applied for funding in 2008. Regardless if these projects have been completed, this funding is necessary in meeting the state's commitment under the Williams settlement. The state should follow through with their commitment to fund those schools that applied and were approved for funding in 2008.

Suggested Questions:

- Why does the Governor's proposal not include shifting bond authority from the Charter School Facility program, which also has remaining bond authority?
- What have been the barriers of issuing funding for the Seismic Mitigation program? Why does this program have a considerable amount of bond authority remaining?
- Why does the LAO suggest opening up another round of ERP applications to low performing or all schools? Wouldn't this be unfair to those schools that were approved for funding in 2008?
- Does the Administration agree with the LAO's assertion that the state has met its ERP obligation through investing in the LCFF? Are there potential problems with this approach?