AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

TUESDAY, APRIL 9, 2019

9:00 AM - STATE CAPITOL, ROOM 447

ITEMS TO BE HEARD

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ITEMS TO BE HEARD

6100 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES
7760 OFFICE OF PUBLIC SCHOOL CONSTRUCTION

ISSUE 1: ADULT EDUCATION

The Subcommittee will hear an update on the adult education program and discuss the Governor's budget proposal to provide a 3.46% cost-of-living adjustment, or $18 million Proposition 98 General Fund, to the Adult Education Program.

PANEL

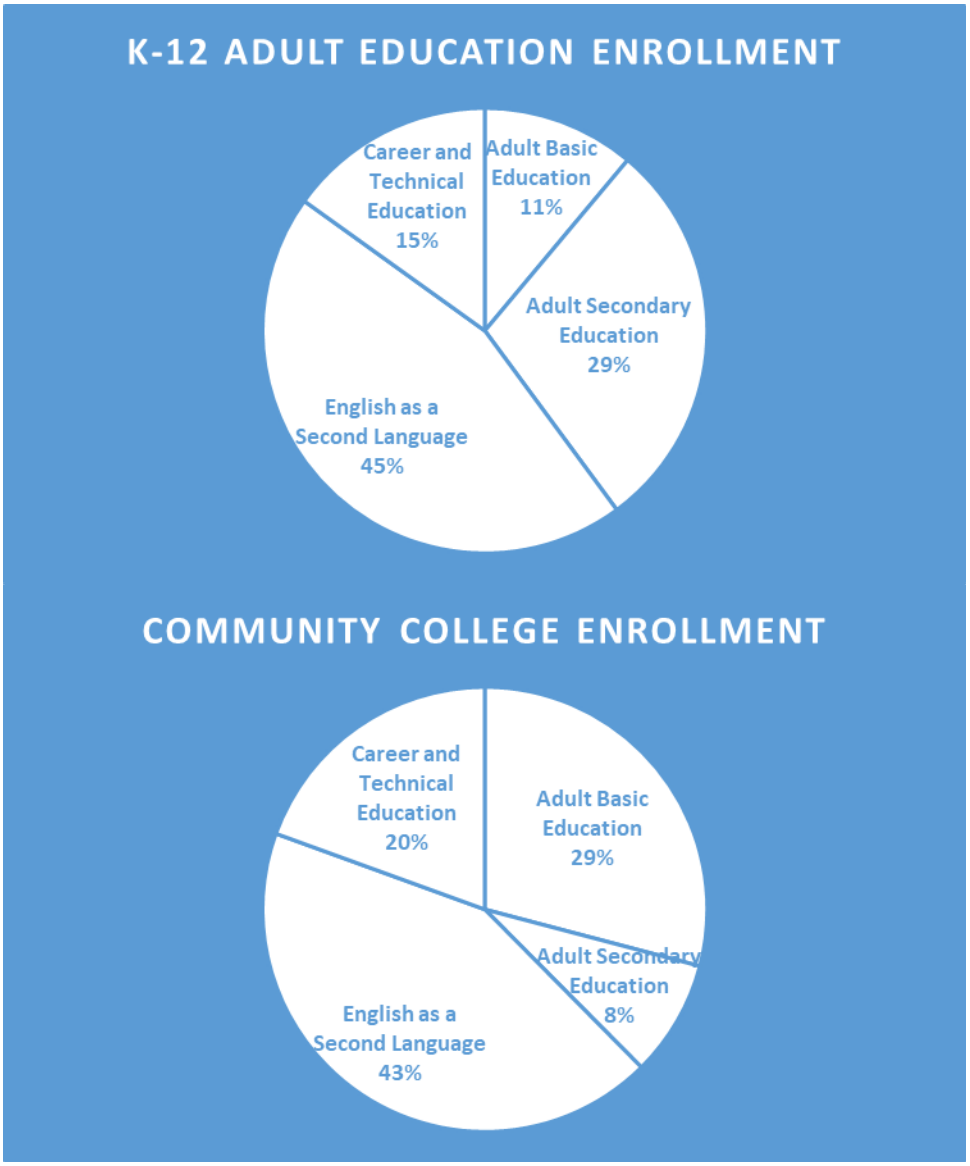
- Lisa Qing, Legislative Analyst's Office
- Keith Nezaam, Department of Finance
- Javier Romero, California Community College Chancellor's Office
- Christian Osmena, California Community College Chancellor's Office
- Khieem Jackson, Department of Education

BACKGROUND

The primary purpose of adult education is to provide adults with the pre-collegiate knowledge and skills they need to participate in civic life and the workforce. Toward this end, most adult education course offerings are in three instructional areas: basic math and English, English as a second language (ESL), and career technical education (CTE). For CTE, adult education providers tend to offer programs that are one year or less in length.

Community colleges and school districts (through their adult schools) are the primary providers of adult education. In addition, various other entities provide adult education, including community-based organizations, libraries, and jails. Due to longstanding concerns with a lack of coordination among providers, the 2013-14 budget package mapped out a new state strategy for funding and operating adult education. Specifically, the budget provided limited-term grants to adult education providers – mostly K-12 school districts and community colleges - to form consortia and develop regional delivery plans. The 2015-16 budget created the Adult Education Block Grant, which provided $500 million in ongoing funding to the consortia to serve adults according to their plans. The amount of funding that a consortium receives is based primarily on its 2012-13 adult education spending level, with a smaller portion distributed based on a calculation of regional need. In addition to this funding, the state continues to provide about $300 million annually in noncredit apportionment funding for community college adult education programs. (The LAO estimates that community colleges spend another $2 billion on CTE programs that are longer than one year in length. These programs generally are not included as part of consortia planning activities.)

Data from the 2016-17 fiscal year - the most recent available – shows that K-12 and community college programs served more than 695,000 students. The pie charts below show a breakdown of enrollment in the primary program areas.



The 2018 Budget Act made the following changes to adult education:

- A $21.6 million increase to reflect a cost-of-living adjustment for 2018-19 and 2017-18.
- $5 million for a data sharing platform, which included additional budget bill language to require that up to $500,000 be used to contract with an external entity to survey adult schools on the fees being charged for different categories of courses, and an average per student cost of adult education.
- Spending for the program totaled $526.6 million (in addition to community college apportionment spending) for 2018-19.
- Trailer bill language renamed the Adult Education Block Grant as the Adult Education Program and required that as a condition of receiving state or federal funds, adult education providers document that they are participating in their regional planning consortia and report adult education services and funding.
- Trailer bill language specified that adult schools must assign statewide student identifiers (SSID) for students without social security numbers and the community colleges must coordinate with the Department of Education to assign SSIDs for students without social security numbers. (For students who attended California K-12 schools or adult schools, this shall be the same SSID).

GOVERNOR'S BUDGET PROPOSAL

The Governor's Budget proposes a cost-of-living adjustment of $18 million (3.46%) Proposition 98 General Fund in 2019-20 for the Adult Education Program.

STAFF COMMENT

Staff notes that providing a cost-of-living adjustment seems appropriate, as adult schools face the same increasing cost pressures as other educational entities.

Staff also notes that the adult education report to the Legislature, due annually on March 1 and produced by the California Community Colleges Chancellor's Office and the California Department of Education, has not yet been submitted. The Subcommittee should wait to determine an appropriate level of funding until the report is complete, as the report is expected to include updated enrollment data, as well as student outcomes data.

Finally, staff notes that the Subcommittee has received a request from the California Council for Adult Education and the California Adult Education Administrators Association to increase funding for this program by $110 million ongoing. This funding would allow adult schools to address rising pension costs, support enrollment growth and implement a 6% targeted performance bonus system.

ISSUE 2: COMMUNITY COLLEGE STRONG WORKFORCE PROGRAM

The Subcommittee will hear an update on the Community College Strong Workforce program and the Governor's Budget proposal to continue funding the program at the same level as 2018-19.

PANEL

- Lisa Qing, Legislative Analyst's Office
- Michelle Nguyen, Department of Finance
- Matt Roberts, California Community College Chancellor's Office
- Christian Osmena, California Community College Chancellor's Office

BACKGROUND

The 2016-17 budget provided $200 million in ongoing funding to the California Community Colleges (CCC) Chancellor's Office to create the Strong Workforce program a new career technical education (CTE) program. In 2017-18, the state folded in a former CTE initiative, increasing Strong Workforce funding to $248 million. The purpose of the Strong Workforce program is to improve the availability and quality of CTE programs leading to certificates, degrees, and credentials.

Program funds supplement about $2 billion in apportionment funding for CTE instruction. Strong Workforce funds are intended to support smaller class sizes for certain CTE courses, relatively expensive CTE equipment costs, and regional planning and coordination.

The Strong Workforce program requires neighboring community colleges to form a regional consortium. There are eight such consortia in the state. The primary purpose of a consortium is to coordinate CTE activities among colleges in the region. Each consortium must collaborate with various regional stakeholders, including local workforce development boards, industry leaders, and local education agencies, to develop a four-year plan for how they will address regional workforce needs. Each four-year plan must include information on service delivery, expenditures, regional goals, and alignment with other CTE and workforce plans in the region. Consortia use labor market data to direct Strong Workforce funds toward one or more of ten priority industry sectors:

- Advanced Manufacturing
- Advanced Transportation and Renewables
- Agriculture, Water and Environmental Technologies
- Energy, Construction and Utilities
- Global Trade and Logistics
- Health

- Information and Communication Technologies
- Life Sciences and Biotechnology
- Retail, Hospitality, and Tourism
- Small Business

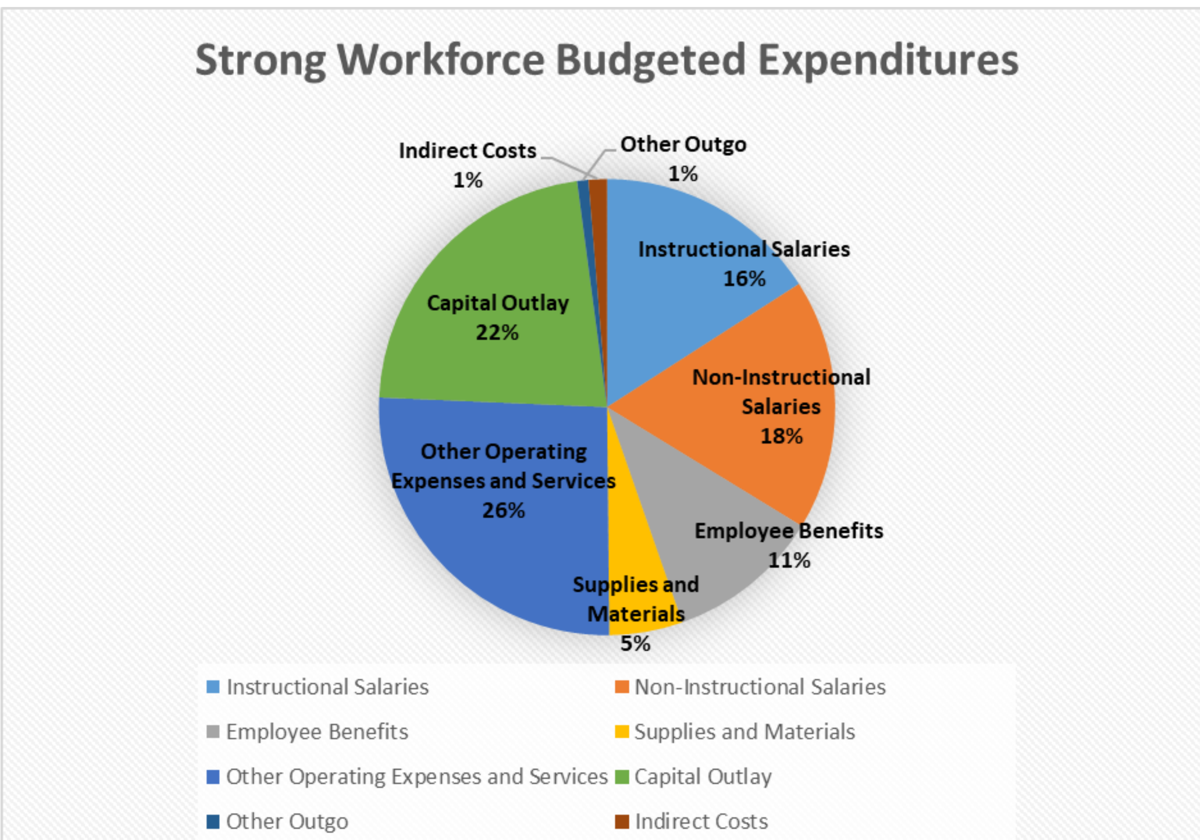
Originally, Strong Workforce funding was awarded to consortia based on their statewide share of three variables, with each variable accounting for 33 percent of funding: (1) CTE full-time equivalent (FTE) students, (2) unemployed adults, and (3) projected job openings over the next five years. Beginning in 2017-18, 33 percent is allocated based on CTE FTE students, 33 percent on unemployed adults, 17 percent on projected job openings, and 17 percent on performance in meeting regional workforce needs. Community college districts receive 60 percent of program funds directly, with 40 percent allocated to the regional consortium. Both pots of funding are for supporting regionally prioritized initiatives aligned with Strong Workforce plans.

Per statute, consortia annually report spending and enrollment data to the Chancellor's Office. Consortia report longer-term data, including the number of students who got a degree or certificate and student employment outcomes, including wage gains and job placements. Data are disaggregated by race, gender, and age group. Data for each consortium are updated annually, and the Chancellor's Office reports certain data to the Legislature annually.

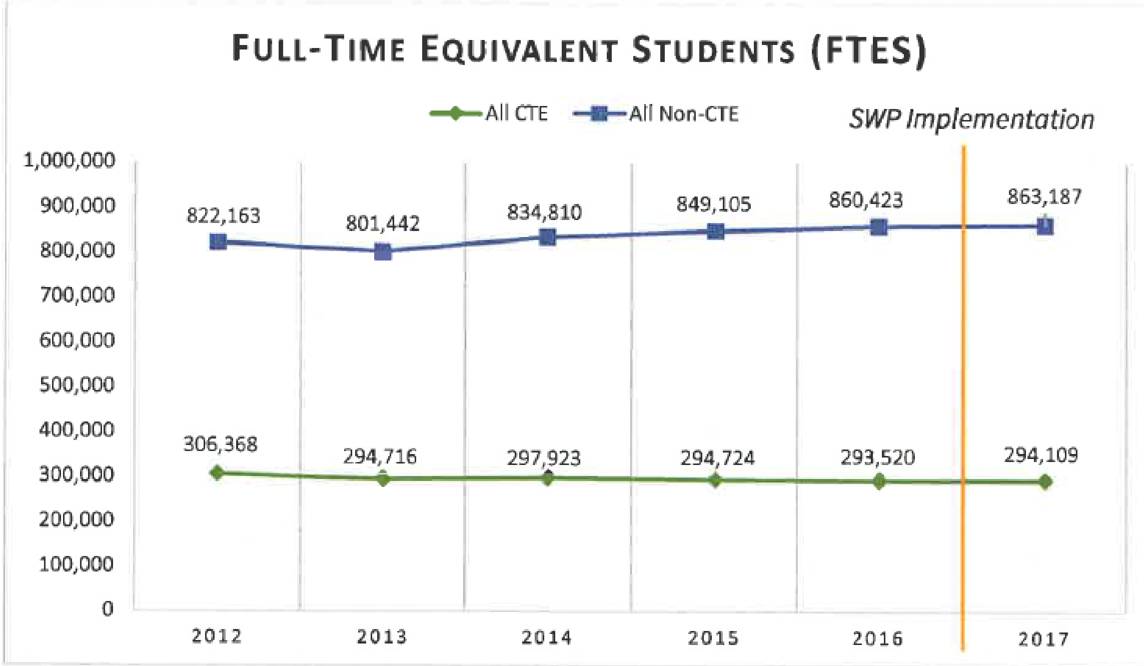
The charts on the following pages indicate spending, enrollment and some outcomes data reported by the Chancellor's Office last year. Updated data is expected to be released this month. This data reflects just the first year after implementation of the Strong Workforce program. The data indicate relatively flat enrollment in CTE programs in recent years, an increase in students taking 12 or more CTE units in 2017, after two years of decline, steady growth in recent years in the number of CTE certificates and degrees earned, and relatively stable number of students with 48 or more contact hours in noncredit CTE courses.

Strong Workforce Investments by Sector and by Region

Sectors	Bay Area	Central/ Mother Lode	Inland Empire /Desert	Los Angeles	North/Far North	Orange County	San Diego/ Imperial	South Central Coast
All Sectors	25.40%	17.40%	21.40%	15.40%	14.80%	29.50%	16.90%	37.10%
Advanced Manufacturing	8.60%	12.30%	11.50%	10.30%	10.30%	10.30%	13.20%	10.30%
Advanced Transportation & Logistics	5.80%	5.80%	5.80%	8.00%	9.90%	6.80%	9.60%	5.70%
Agriculture, Water & Environmental Technologies	4.70%	13.00%	2.90%	1.30%	7.90%	1.40%	5.90%	5.20%
Business & Entrepreneurship	6.30%	2.50%	9.50%	8.70%	5.40%	2.10%	8.10%	8.20%
Clean Energy (Prop 39 related)	0.70%	0.00%	0.80%	0.60%	0.50%	0.00%	0.70%	1.00%
Education & Human Development	4.70%	8.00%	3.70%	3.80%	4.40%	2.10%	2.20%	1.00%
Energy, Construction & Utilities	4.00%	9.40%	2.90%	3.20%	4.40%	2.70%	3.70%	3.10%
Global Trade	0.40%	1.40%	1.60%	1.90%	1.00%	2.70%	1.50%	1.00%
Health	13.30%	14.90%	10.70%	18.60%	17.70%	10.30%	9.60%	10.80%
Information & Communication Technologies (ICT)/Digital Media	14.60%	8.70%	14.40%	17.30%	10.30%	24.00%	17.60%	8.80%
Life Sciences/Biotech	3.80%	0.00%	0.00%	3.50%	1.00%	5.50%	3.70%	1.50%
Public Safety	4.40%	3.30%	7.40%	2.20%	7.90%	0.00%	2.90%	2.10%
Retail/Hospitality/Tourism 'Learn and Earn'	3.20%	3.30%	7.40%	5.10%	4.40%	2.70%	4.40%	4.10%



FULL-TIME EQUIVALENT STUDENT (FTES): CAREER EDUCATION COMPARED TO NON-CAREER EDUCATION BY ACADEMIC YEAR, STATEWIDE



Source: LaunchBoard

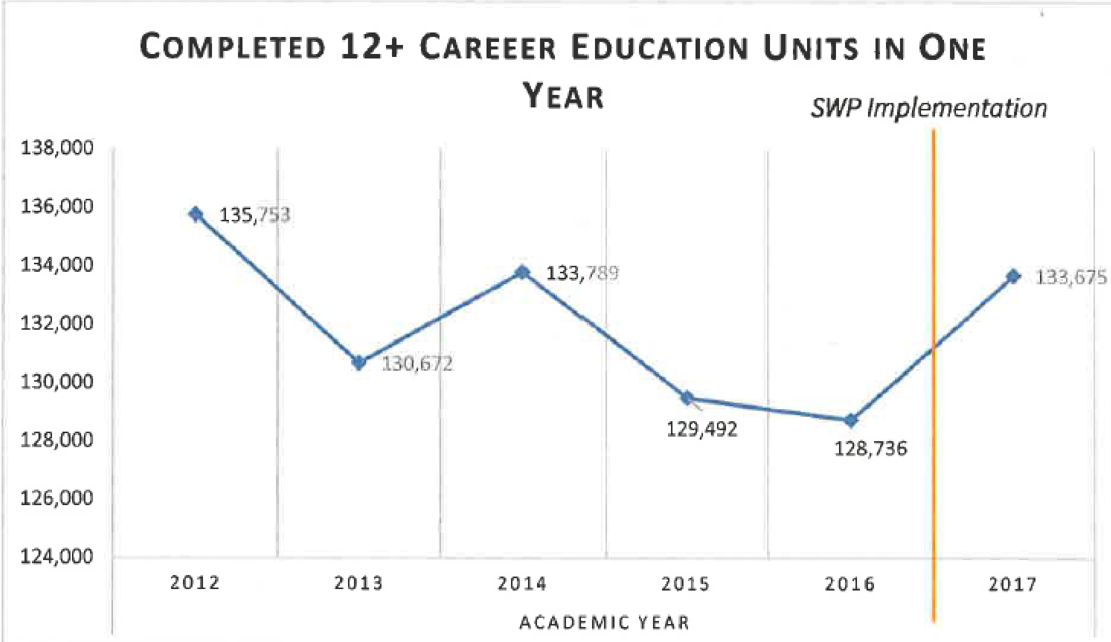
CAREER EDUCATION FTES BY ACADEMIC YEAR, STATEWIDE AND REGIONAL

Region	Academic Year					
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
State	**306,368**	**294,716**	**297,923**	**294,724**	**293,520**	**294,109**
Bay Area	66,889	62,599	62,472	60,866	60,024	58,593
Central Valley/Mother Lode	30,681	29,302	29,658	30,212	30,185	31,003
Inland Empire-Desert	23,489	23,129	22,624	22,431	22,082	21,806
Los Angeles/Orange County	104,305	100,824	103,604	100,262	99,817	100,124
North/Far North	32,852	32,005	31,338	31,809	33,946	33,418
San Diego/Imperial	26,159	25,255	26,001	26,711	25,310	26,925
South Central Coast	21,994	21,601	22,226	22,435	22,155	22,240

Source: LaunchBoard

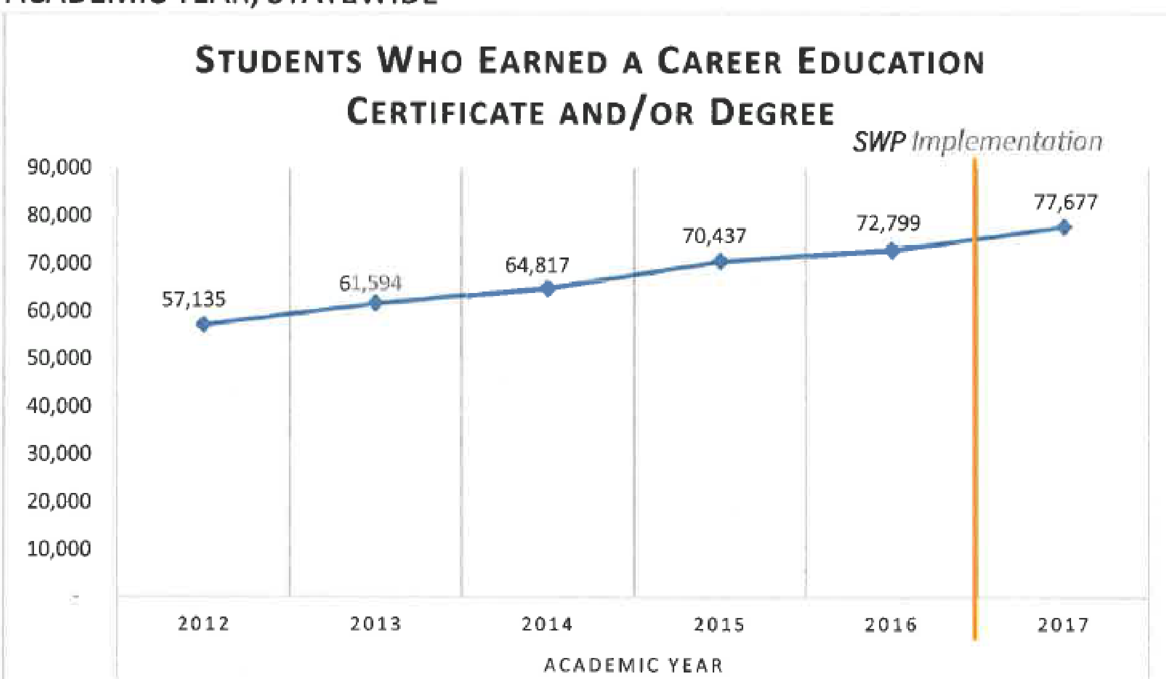
SWP

STUDENTS COMPLETING 12 OR MORE CAREER EDUCATION UNITS IN ONE YEAR BY ACADEMIC YEAR, STATEWIDE



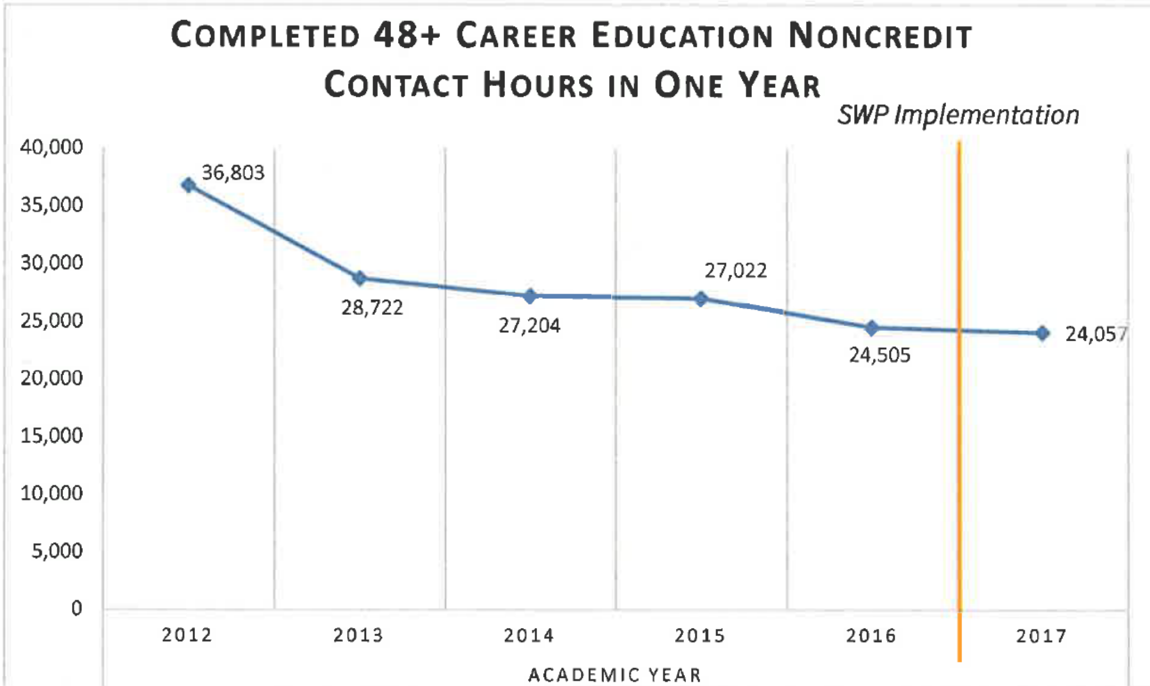
Source: LaunchBoard

STUDENTS COMPLETING A CAREER EDUCATION CERTIFICATE OR DEGREE BY ACADEMIC YEAR, STATEWIDE



Source: LaunchBoard

STUDENTS COMPLETING 48 OR MORE CAREER EDUCATION NONCREDIT CONTACT HOURS IN ONE YEAR BY ACADEMIC YEAR, STATEWIDE



Source: LaunchBoard

GOVERNOR'S BUDGET PROPOSAL

The Governor's Budget proposes $248 million ongoing Proposition 98 General Fund for this program in 2019-20. While the Governor's Budget uses a mix of ongoing and onetime funding, the Administration has stated it intends to continue funding the program in future years at least the same level.

STAFF COMMENT

The Strong Workforce program was created to support an expansion and improvement of CTE programs at community colleges. Dramatically-increased categorical funding should allow colleges to offer more and better programs, aligned to regional workforce needs. The Subcommittee could consider the following issues as it discusses the community college Strong Workforce program:

Data is insufficient to draw conclusions. Unfortunately, a lag in data makes it difficult to determine yet how effective the program is. From the data that is available, staff notes the following observations:

- CTE enrollment grew slightly in the first year of Strong Workforce funding. While not significant, it is worth noting that the increased CTE enrollment was the first increase in 5 years, halting a downward trend. However, there is one troubling issue: some regions where unemployment is higher than the statewide average saw a decrease in CTE enrollment.

- The number of students completing 12 or more units of CTE coursework increased by about 4% between 2016-17 and 2017-18, and the number of students completing a CTE degree or certificate increased by about 7%. This could be a sign that colleges are doing better at getting students successfully through a program of study, or on track to finish a program.

Staff notes that a report with updated data that was due Jan. 1 has yet to be submitted to the Legislature.

Shouldn't there be more spending on instruction? Strong Workforce budgeted expenditures show that 26% of funds were spent on expenses and services, such as rent, equipment repairs and maintenance, consultants and training; 22% was spent on capital outlay, such as equipment expenditures; about 18% was spent on non-instructional salaries; and 16% was spent on instructional salaries. This pattern of spending may not lead to an expansion of courses, which is a key goal of the program. It should be noted that colleges can and do use apportionment funding to increase faculty, and there are some disincentives for colleges to use categorical spending on faculty. But it appears that a significant amount of Strong Workforce funding is being spent outside of the classroom.

Regional structure may be cumbersome. The goal of regional planning to meet workforce needs is important, and staff has heard some feedback that the regional consortia structure has positive benefits in aligning programs with industry needs, and allowing employers to interact with multiple colleges in one setting. But there is some frustration among colleges regarding the regional structure, which in some cases requires significant amounts of meetings, contracts and paperwork to shift regional money to colleges. The structure may lead to increased bureaucracy and administrative spending. A review of regional processes may be warranted, to determine if streamlining the structure would be beneficial to overall program goals.

Outcomes funding metrics are changing. The effort to steer 17% of this funding via outcomes measures has been challenging to implement. The chart on the next page illustrates the evolution of outcomes funding, with 2019-20 marking the third year in a row in which the metrics have changed. The Chancellor's Office notes that the metrics should be in place for 2019-20 and beyond.

Metrics	FY 2017-18 (using original SWP metrics)	FY 2018-19 (using original SWP metrics)	FY 2019-20+ (aligned with Student Success Metrics)
Course Enrollments	X		
Progress		X	X
Credential Attainment	X	X	X
Transfer		X	X
Employment		X	
Job Related to Field of Study		X	X
Earnings		X	X
Earnings Gain		X	X
Living Wage		X	X

Suggested Questions

- When will the January 1 report be released?
- Does the Chancellor's Office have a position on how much Strong Workforce funding should be spent on faculty, equipment and other classroom needs, versus other needs? Is too much being spent on administrative costs?
- Is the Chancellor's Office concerned about the regional structure processes? Are there ideas to streamline the structure to ensure more efficient deployment of resources?
- How is the outcomes funding working in the current year? Are some regions or districts showing much better outcomes than others?
- Is the Chancellor's Office able to review regional reports to determine if the sectors that regions are using Strong Workforce funding to meet local workforce needs?
- Are there examples of new programs launched with Strong Workforce dollars that met a specific workforce need?

ISSUE 3: K-12 CAREER TECHNICAL EDUCATION

The Subcommittee will hear an update from the Department of Education and Community College Chancellor's Office on the Career Technical Education (CTE) Incentive Grant program and the Strong Workforce Program. The Subcommittee will also discuss the Governor's proposed budget related to CTE.

PANELISTS:

- Ryan Anderson, Legislative Analyst's Office
- Lina Grant, Department of Finance
- Khieem Jackson, Department of Education
- Matt Roberts, California Community College Chancellor's Office
- Christian Osmena, California Community College Chancellor's Office

BACKGROUND

Career Technical Education (CTE) is industry specific coursework that provides students with hands-on learning to better prepare them for higher education and a career. The CDE defines CTE as coursework in one of 15 industry sectors. Specifically, these industry sectors include:

- Agriculture
- Arts, Media, and Entertainment
- Building Trades and Construction
- Business and Finance
- Child Development and Family Services
- Energy and Utilities
- Engineering and Design
- Fashion and Interior Design
- Health Science and Medical Technology
- Hospitality, Tourism, and Recreation
- Information Technology
- Manufacturing and Product Development
- Marketing, Sales, and Services
- Public Services
- Transportation

High school CTE programs are funded in a variety of ways, including categorical programs, one-time competitive grants, foundation contributions, federal funding, and general purpose funding. Prior to the Local Control Funding Formula (LCFF), state funding for high school CTE programs was largely provided through various categorical programs, the largest being the Regional Occupational Centers and Programs (ROCPs). With the creation of the LCFF, funding for ROCPs was consolidated into the formula, along with most categorical programs. However, in order to ensure that ROCPs continued, the state instituted a two-year MOE (totaling about $380 million), which required local educational agencies (LEAs) to maintain their existing levels of spending on ROCPs through the 2014-15 fiscal year. Under the LCFF, LEAs receive a grade span adjustment equal to 2.6 percent of the base grant for grades 9-12 to account for the higher cost of educating high school students, including the higher cost of providing CTE.

Career Technical Education Incentive Grant Program

In response to concerns around the need for funding for CTE outside the LCFF, the Legislature and Governor established the CTE Incentive Grant program in 2015-16. The 2015 Budget Act dedicated $900 million in one-time Proposition 98 funding over three years ($400 million in 2015-16, $300 million in 2016-17 and $200 million in 2017-18) for this competitive grant program. The purpose of this program was to encourage and maintain CTE programs while the LCFF was still being implemented. Funding is set aside for small, medium and large sized applicants, based on average daily attendance (ADA).

School districts, charter schools, county offices of education and Regional Occupational Centers and Programs operated by joint powers agencies could apply for grants (individually or as a consortium). The Superintendent of Public Instruction, in collaboration with the executive director of the State Board of Education, awarded the grants. Priority was given to applicants that do not currently operate a CTE program and those serving low-income students, English learners, foster youth and those at risk of dropping out. Additionally, applicants located in rural locations and areas with high unemployment received special consideration. Grantees were required to dedicate matching funds and commit to funding the program after the grant expires. The specific matching requirement includes:

- $1 for every $1 received in 2015-16
- $1.50 for every $1 received in 2016-17
- $2 for every $1 received for 2017-18

Grantees are also required to report specific data to the CDE, such as the number of students completing CTE coursework, obtaining certificates, obtaining employment and continuing on to postsecondary education.

In order to provide technical assistance to grantees, the CDE divided the state into seven regions and solicited one county office in each region to provide technical assistance. These county offices include: Butte, Fresno, Los Angeles, Napa, Sacramento, San Bernardino, and Santa Barbara.

The 2018-19 Budget

The 2018-19 budget included ongoing funding for two K-12 CTE programs, including:

- CTE Incentive Grant. The 2018-19 budget included $150 million in ongoing Proposition 98 funding for the CTE Incentive Grant program and made some changes to the program, including additional reporting requirements for the Department of Education and eliminated the county office technical assistance providers. The program maintained a 2:1 match requirement for grant recipients.

  For 2018-19, the CDE received 379 applications totaling $352 million. The State Board recently approved funding for 337 grantees for the $150 million.

- Strong Workforce Program. The 2018-19 budget also included $150 million for the K-12 component of the Strong Workforce Program, administered by the California Community Colleges. The Strong Workforce program expands upon the regional consortia established through the federal Workforce Innovation and Opportunity Act (WIOA). Under the Strong Workforce Program, grants are allocated to LEAs through the regional consortia, aligned with the consortia's regional plan to address workforce needs. The budget included $14 million in ongoing Proposition 98 funding to support the Workforce Pathway Coordinators, K-12 Technical Assistance Providers and the consortia administrative costs. Requires the Workforce Pathway Coordinators and Technical Assistance Providers to also provide technical assistance for the grantees of the Career Technical Education Incentive Grant program.

  The Community College Chancellor's Office (CCCO) reported receiving 478 applications totaling $266 million. The CCCO will announce the grant awards later in April. The CCCO have not yet hired the Workforce Pathway Coordinators or the K-12 Technical Assistance Providers.

GOVERNOR'S PROPOSALS

The Governor's budget does not include significant changes related to CTE. The Governor's proposed trailer bill language includes technical changes related to the CTE Incentive Grant program and the K-12 component of the Strong Workforce Program. These changes include updating references to the federal Carl D. Perkins Career Technical Education Improvement Act with the Strengthening Career and Technical Education for the 21st Century Act, clarifying that regional occupational centers operated by a county office of education are eligible to apply for funding and other technical changes.

The 2017-18 budget included $4 million in one-time Proposition 98 funding in 2017-18 for the Southern California Regional Occupational Center (SoCal ROC) for instructional and operational costs. The budget included legislative intent to provide additional one-time funding for the SoCal ROC in future years, including $3 million in 2018-19, $2 million in 2019-20 and $1 million in 2020-21. The budget also required the SoCal ROC to provide a report to the Legislature and Department of Finance annually on the specific data and actions the SoCal ROC will take to transition to a fee-supported funding model as the LCFF reaches full implementation. The Governor's January budget does not include $2 million for SoCal ROC. The Department of Finance has requested additional information from SoCal ROC and will consider including this funding in the May Revision.

STAFF COMMENTS/QUESTIONS:

CTE has been a high priority for the Assembly for many years. The 2018-19 budget provided $300 million in total funding for CTE outside the LCFF, however, this funding was split between the CTE Incentive Grant programs within the Department of Education and the K-12 component of the Strong Workforce Program within the community colleges. This action will likely result in duplicative efforts and confusion from the field.

Members of the Assembly have a budget proposal to shift $150 million in ongoing funding from the K-12 component of the Strong Workforce Program and allocate an additional $150 million in ongoing Proposition 98 funding for the CTE Incentive Grant program. Under this proposal, total funding for the CTE Incentive Grant program would be $450 million in ongoing funding. Additionally, the proposal would change the match requirement for the CTE Incentive Grant to 1:1 beginning in 2019-20 (currently, the match requirement is 2:1). The proposal would also reinstate funding for county office of education technical assistance providers previously funded through the CTE Incentive Grant program.

Suggested Questions:

- What outcome data do we have on the effectiveness of the CTE Incentive Grant program?
- How are the CDE and CCC working together to implement the K-12 component of the Strong Workforce Program?
- What challenges are K-12 LEAs faced with in participating in the Strong Workforce Program? How are they receiving technical assistance on the first round of applications if the K-12 Technical Assistance Providers have not yet been hired?

Staff Recommendation: Hold Open

ISSUE 4: SPECIAL EDUCATION

The Subcommittee will discuss the Governor's budget proposal to provide $577 million for special education concentration grants.

PANEL

- Michelle Valdivia, Department of Finance
- Ryan Anderson, Legislative Analyst's Office
- Khieem Jackson, Department of Education

BACKGROUND

The federal Individuals with Disabilities Education Act (IDEA) and corresponding state law require students with exceptional needs aged birth to 22 years be provided a free and appropriate public education in the least restrictive environment.

According to the California Department of Education (CDE), in 2016, there were about 750,000 children aged birth to 22 years who were identified as having exceptional needs. About 680,000 of these children were enrolled in grades K-12, representing roughly 11% of K-12 enrollment. According to the Legislative Analyst's Office (LAO), the share of California students receiving special education was virtually flat from the 1997-98 school year through 2007-08 school year, then grew notably over the last decade. The share of students diagnosed with autism has increased at an especially fast rate, more than doubling over that time period.

Special Education Funding

Special education in California is funded through a combination of federal, state and local funds, totaling $13.2 billion in the 2015-16 school year. Of this amount, about 60% comes from local funds, 30% comes from state funds and 10% comes from federal funds. State law requires funding be allocated to SELPAs, which are either a collection of local educational agencies (LEAs), single school districts, or a collection of charter schools. SELPAs develop allocation plans and disburse funding to LEAs to serve students.

About 85% of state special education funding is provided as categorical funds known as "AB 602." AB 602 provides funding to a SELPA using a census-based method that allocates funds based on the total number of students attending school within its area, not the total number of students with disabilities in its area. AB 602 was based on the assumption that students with disabilities are fairly equally distributed in the student population and that providing funding based on overall enrollment would remove fiscal incentives to over identify students with disabilities.

Special Education Funding Equalization

AB 602 special education funding rates vary widely across SELPAs, ranging from $480 of average daily attendance (ADA) to $925 per unit. These inequities are a relic of the state's prior funding system, which provided funding in unequal amounts to SELPAs based, in part, on a survey of special education expenditures in the 1979-80 school year.

Special Education Funding for Preschool

State law and federal law require all schools to serve all three- and four-year-olds with special needs, but the state provides no categorical funding for this population. Consequently, school districts tend to fund most of these services by diverting LCFF funds, although preschool-aged children do not generate LCFF for the district. Currently, preschool special education is estimated to cost about $700 million, with federal funds covering about 20 percent of the cost.

GOVERNOR'S BUDGET PROPOSALS

The Governor's budget includes $577 million Proposition 98 funding for special education related services, including $390 million ongoing and $187 million one-time. The funding would be allocated based on a formula. Local educational agencies (LEAs) with a high concentration of low-income and English learners and low-income students (above 55 percent) and with high proportions of students with disabilities (above the state average) would be eligible for the special education concentration grant. Funding would be allocated to LEAs using a per student amount, based on the number of students with exceptional needs above the statewide average. The Administration estimates approximately 425 LEAs would be eligible to receive the concentration grant funds and would provide about $8,000 per student in ongoing funding and $4,000 per student in one-time funding.

This funding is intended to supplement existing special education resources currently required by federal and state law. LEAs could use the funds to support early intervention and school readiness programs for students currently receiving or might otherwise be identified for special education services. The one-time funds are intended for associated start-up activities, such as equipment or professional development.

LAO RECOMMENDATIONS

The LAO has provided the following assessment and recommendations regarding the Governor's special education proposal:

Assessment

Creating New Categorical Program Works Counter to Many of the Governor's Stated Goals. Although *The Governor's Budget Summary* cites the patchwork of state special education programs as a notable drawback, the Administration's proposal adds to that patchwork of programs. School administrators would be asked to master one more special education program, including understanding its program-specific allocation formula and spending conditions. In addition, the Administration expresses concern about the poor coordination between special education and other educational services, but its proposal might exacerbate these coordination challenges. Districts increasingly support MTSS with LCFF and consider early intervention services integral parts of their overall strategic plans. By providing categorical funding specifically to support such services, the state may end up relegating these early intervention programs to a new silo, increasingly distant from general education programs.

Some of the Governor's Objectives Have Been Already Addressed Through Existing State Policies. In recent years, the state already has taken steps to address some of the Governor's key concerns. In response to concerns about special education performance, the state last year created the new network of SELPA leads to provide districts additional support. In response to concerns about the lack of early intervention programs, the state funded the expansion of MTSS. Stemming from this latter effort, almost half of districts have received an MTSS subgrant and other districts have taken steps to initiate these programs. Districts also are more commonly incorporating K-12 early intervention programs into their overall strategic plans. The Administration has not provided a compelling rationale for establishing a new categorical program with these same points of focus.

Proposed Allocation Formula Is Also Misaligned With Governor's Policy Goals. The Governor expresses interest in supporting early intervention programs because they could reduce the number of students identified for special education. Under his proposal, however, districts that reduced their number of students receiving special education would experience a decrease in associated categorical funding. We estimate the per-student rate under the Governor's proposal would be about $8,000 in ongoing funds. Losing such a large amount per student likely would discourage districts from reducing their identification of students for special education.

Schools Likely to Use Funding on Existing Special Education Services. Under the Governor's proposal, schools would be able to choose whether to use their new categorical program allotments for special education or early intervention. Because special education costs have far outpaced special education funding in recent years, most schools receiving funding under the Governor's proposal very likely would use the funds to help them cover existing special education costs.

State Has Better Options for Increasing Special Education Funding. If it is interested in increasing special education funding, we believe the state has better options than introducing a new categorical program. In particular, we have long recommended equalizing AB 602 per-student funding rates, which vary from less than $500 to more than $900 for historical reasons. Another option is to modify AB 602 to allocate some funding specifically for preschool special education.

Recommendations

Reject Governor's Proposal, Set Priorities for Any New Special Education Spending. For all these reasons, we recommend the Legislature reject the Governor's proposal and begin to identify its highest special education priorities. If the Legislature chooses to make special education a priority, it could consider two specific special education augmentations, described below.

Equalization. One option is to provide funding for equalizing AB 602 per-student funding rates. We estimate equalizing these rates at the 90th percentile of existing rates would cost $333 million. (Equalizing at the 90th percentile has been the state's most common equalization approach.) The Legislature could spread this cost increase over several years.

Preschool Special Education. The Legislature also could consider providing state funding for preschool special education. In recent years, various bills in this area have taken different approaches, with state costs ranging from $150 million to $500 million. In evaluating its options, we encourage the Legislature to:

- Avoid creating incentives to over- or under-identify three- and four-year olds for special education.
- Keep in mind that three- and four-year olds currently are identified for special education at about half the rate of K-12 students.
- Consider the shares of cost to be covered by federal funds, state categorical funds, and local general purpose funds. Currently, preschool special education is estimated to cost about $700 million, with federal funds covering a higher share of cost (20 percent) compared to K-12 special education costs (for which federal funds cover slightly less than 10 percent of the cost).
- Avoid adding unnecessary complexity by creating new programs while considering ways to modify existing programs to meet identified objective(s).

STAFF COMMENTS/QUESTIONS

The Governor's proposal on special education has many flaws. As highlighted by the LAO, the Governor's proposal would only benefit certain districts, it could incentivize over identification of students for special education and would likely not be used for early intervention or preventative services, as intended. However, the Governor's proposal provides an opportunity for the Subcommittee to discuss alternative approaches to funding special education.

Many members of the Assembly have advocated for special education equalization for many years. Specifically, the budget proposal would equalize special education funding to the 95th percentile, create a high cost service allowance for students with severe disabilities and provide funding through a formula for three and four year olds with exceptional needs. The total cost of this proposal is approximately $1.4 billion, to be funded over several years. Specifically, the estimated costs include: $800 million to equalize special education funding rates to the 95th percentile, $110 million to provide supplemental funding for students with severe disabilities, and $520 million to fund special education in preschool.

Another legislative proposal would expand eligibility for transitional kindergarten for four year olds with exceptional needs and provide a $4,000 per student amount for three and four year olds with special needs being served by the school district.

Suggested Questions:

- What are the goals of the Administration's special education proposal?
- Does the Administration believe that school funding is adequate for districts to meet all the current federal and state requirements for special education students?
- How can the state improve the delivery of special education services and improve outcomes for these students?

Staff Recommendation: Hold Open.

ISSUE 5: SCHOOL FACILITIES

The Subcommittee will discuss the Governor's proposals related to school facilities, including the proposed $1.5 billion in Proposition 51 bond sales and $1.2 million in ongoing Proposition 51 funding for 10 positions for the Office of Public School Construction to process Proposition 51 applications.

PANEL

- Keith Nezaam, Department of Finance
- Amy Li, Legislative Analyst's Office
- Lisa Silverman, Office of Public School Construction

BACKGROUND

The State School Facilities Program was created in 1998 for the purpose of allowing the state and school districts to share the costs of building new school facilities and modernizing existing facilities. Between 1998 and 2006 there were four-voter approved bonds for the school facilities program (totaling $35.4 billion) which funded the program through 2012.

In 2016, voters passed Proposition 51, which authorized the State to sell $9 billion in general obligation bonds to fund the existing school facilities program ($7 billion for K-12 education and $2 billion for community college facilities). Of the $7 billion designated for projects at K-12 schools, $3 billion is for new construction projects, $3 billion is for modernization projects, and the remaining $1 billion is split between charter school and career technical education projects. After bond funds are approved by the voters, the State Treasurer sells the bonds and the state repays the general obligation bonds using General Fund dollars.

The School Facilities Program consists of the following components:

- **New Construction Eligibility Based on Enrollment Projections.** Districts submit specific new construction projects for approval and receive a grant based on their number of current and projected unhoused students. The state awards funding on a first–come, first–served basis. The state and school districts share project costs on a 50–50 basis. Districts are required to submit progress reports, expenditure reports, and project information worksheets. Districts that receive grants also are required to set aside three percent of their annual budget for routine maintenance.

- **Modernization Eligibility Based on Age of Building.** Districts submit specific modernization projects for approval and receive a grant based on the number of students housed in buildings that are at least 25 years old. The state awards funding on a first–come, first–served basis. The state and school districts share costs on a 60–40 basis. Districts are required to submit progress reports and expenditure reports.

Districts that receive grants also are required to set aside three percent of their annual budget for routine maintenance.

- **Financial Hardship Program Targeted to School Districts With Inadequate Local Resources.** The state covers part or all of project costs for districts unable to meet the local match requirement for new construction and modernization projects. Districts have to levy the maximum developer fee allowed (typically 50 percent of project costs), demonstrate local effort (typically through placing a bond measure on the ballot), and certify they are unable to contribute the full match.

- **Several Categorical Programs Targeted to Specific State Priorities.** The four state bond measures enacted since 1998 have authorized various categorical facility programs. These have included programs for reducing class sizes; alleviating overcrowding; building and renovating charter schools; integrating career technical education into high schools; mitigating seismic safety issues; and promoting projects with "high performance attributes" such as energy efficiency, enhanced natural lighting, and use of recycled materials.

Local educational agencies (LEAs) have other options for financing school facilities related projects, the most common of which are local general obligation bonds, which can be passed with 55 percent of voter approval and are repaid by increasing local property tax rates. LEAs can also levy developer fees that may cover up to a portion of the cost to build a new school, or use other local funding sources.

The state sold a total of $565 million in Proposition 51 bonds for 2017-18 and intends to sell $594 million in 2018-19, for a total of $1.2 billion. As of February 27, 2019, the State Allocation Board has apportioned $962.5 million in Prop 51 bond funding, and has $740.6 million in unfunded approvals. The OPSC reports that they anticipate another $192.3 million from 2018-19 bond sales and districts will have 90 days to submit their fund release request by July 2019. The chart below details bond funds and projects in various stages of funding.

Proposition 51 Bond Authority

(In Millions)

	Original Bond Allocation	Apportioned (02/27/2019)	Unfunded Approvals	Workload List (2/28/2019)	Acknowledged List	Remaining Bond
New Construction	$3,000.00	$429.80	$165.30	$2,520.00	$261.30	($376.40)
Modernization	$3,000.00	$367.70	$124.60	$2,547.40		($39.70)
CTE	$500.00	$109.70	$13.70			$376.60
Charter Schools	$500.00	$55.30	$437.00			$7.70
Total	$7,000.00	$962.50	$740.60	$5,067	$261	

Source: Office of Public School Construction

Unfunded approvals are projects that have already been through the approval process and are waiting for state financing at the SAB. The workload list contains applications that have been received and accepted for processing and are within the amount of bond authority remaining from Proposition 51. The acknowledged list includes projects that are in excess of the bond authority available from Proposition 51. Applications for these projects are not processed and school district governing boards must include certifications that acknowledge the lack of available funding among other things along with their applications.

Staffing at the Office of Public School Construction

As workload at OPSC decreased significantly when funding from the 2006 bond was exhausted, the state reduced staffing at the OPSC. OPSC historically has averaged around 130 staff, and today is at a low point of approximately 52 staff. OPSC staffing has not been increased since the new bond was authorized, although in the current year OPSC has redirected three positions, for a total of 10 positions processing applications in 2018-19. The remainder of the positions are working on facility appeals and completing other work.

GOVERNOR'S BUDGET PROPOSALS

The Governor's budget proposes to sell $1.5 billion in Proposition 51 school bonds in 2019-20. Most of this funding would be provided for new construction and modernization projects, with $125 million likely designated for CTE projects. The Administration estimates that an increase of $1.5 billion in bond sales would result in $84 million in increased annual debt service for a total debt service in 2019-20 of approximately $2.3 billion for K-12 school facilities (Prop 51 and prior bonds).

The Governor's budget also provides $1.2 million in ongoing Proposition 51 funding for ten additional positions to process bond fund applications. Of these new positions, eight would be analysts and two would be managers.

LAO RECOMMENDATIONS

The LAO makes the following assessment and recommendations related to school facilities:

Assessment

Proposal to Accelerate Proposition 51 School Bond Sales Is Reasonable. Given a growing facility application backlog and the historically slow pace of Proposition 51 bond sales, we believe the Governor's proposal to accelerate sales is reasonable. By the end of 2018, the backlog of facility applications was $4.7 billion, compared to $3.3 billion 12 months earlier (a 44 percent increase). Releasing Proposition 51 funding faster would allow the state to clear more of the backlog and fund projects sooner. Assuming the proposed pace of bond sales were to continue moving forward, the state would exhaust Proposition 51 funding by 2022-23 (over six fiscal years).

OPSC Dedicates Small Share of Staff to Application Processing. The 10 FTE employees OPSC currently dedicates to processing SFP applications account for 19 percent of its 52 authorized positions. OPSC claims that if it were to transition additional staff to processing facility applications, it would divert them from other important activities, such as processing application appeals or conducting outreach on how to apply for SFP funding. We are concerned, however, with OPSC dedicating such a small share of its staff to its core function of processing applications.

Proposed Staffing Augmentation Seems High. To allocate $1.5 billion in SFP funding, OPSC would need to process approximately 380 funding applications per year. Using OPSC's assumptions for hours spent per application, we estimate the workload associated with processing that many applications could be accomplished by 12 FTE staff. This represents an increase of two positions relative to the positions currently dedicated to application processing. In response to our questions, OPSC indicated that its request for ten additional positions was also based on an anticipated increase in other activities, such as updating eligibility for SFP, handling appeals, and answering applicant questions. We are concerned that these additional tasks were not itemized in the Governor's proposal and seem high relative to the time spent processing applications.

Staffing Proposal Assumes No Workload Reduction From Shifting Audit Responsibilities. The OPSC currently has 24 positions (46 percent of all positions) associated with its audit division. Two of these positions currently are vacant. Despite shifting core auditing responsibilities to local auditors two years ago, the Governor's proposal does not assume any reduction in staffing for the audit division. In 2016-17 (the year prior to the shift of responsibilities), OPSC indicates it completed 265 audits. The OPSC expects to complete less than half as many audits in 2019-20, with additional declines moving forward as projects funded prior to April 2017 are closed out. We understand OPSC has assumed some new workload with the transition of its audit responsibilities, such as providing technical support for local auditors and assisting in the development of local audit procedures. Nevertheless, we are concerned that the Governor's proposal assumes no associated staffing reduction when auditing is no longer a core function and a need for additional application processing exists.

Recommendation

Recommend Rejecting Proposal to Increase OPSC Staffing. Although we have no concerns with the Governor's proposal to accelerate Proposition 51 bond sales, we believe OPSC can manage the workload associated with processing additional SFP applications using existing resources. The OPSC currently dedicates a relatively small share of its FTE employees to processing applications, and the reduction in its audit responsibilities should free up additional staff time. As a first step in aligning its staffing with the proposed bond sales, OPSC could shift the two currently vacant positions in its audit division to application processing.

STAFF COMMENTS/QUESTIONS

The Subcommittee has received a budget request from members of the Legislature and advocates to increase the bond sale in 2019-20 to the remaining $5 billion. According to OPSC, requests for funding of new construction and modernization already exceed the remaining bond funding. Advocates for this request argue that delays in the sale of bonds likely means that the state will be subject to higher interest rates and increased debt service over the life of the bond term and rising project costs for school districts due to increases in the costs of construction.

Suggested Questions:

- Does OPSC believe they can shift existing positions to process the proposed bond applications, as suggested by the LAO?
- Does the Administration have a plan for future bond sales?
- Would OPSC be able to process $5 billion in bond applications with the staffing proposed in the Governor's budget?

Staff Recommendation: Hold Open.

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This agenda was prepared by Mark Martin and Katie Hardeman.