# AGENDA

**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE**

Assemblymember S. Joseph Simitian, Chair

**MONDAY, MAY 10, 2004**

**ROOM 447**

4:00 PM

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ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: SPECIAL EDUCATION: STATE AND FEDERAL FUNDS

The issues for the subcommittee to consider are: 1) the availability of $140 million in new federal special education funds, and 2) options for spending those new funds.

BACKGROUND:

The Governor's budget proposes $2.7 billion in Proposition 98 funds and $1 billion in federal special education funds for the state's special education program. This amount includes full funding for special education growth and COLA using the current COLA calculation, which may change. The Governor's budget also proposes to continue $69 million in federal special education funding for county mental health plans' AB 3632 programs (see below).

For the budget year, California is expected to receive an increase in special education funds of approximately $140 million. The Governor's budget includes $74.5 million of this increase in his January 10 budget, and uses it to pay for special education growth and COLA expenses. The administration is expected to propose the remaining $65 million in additional federal special education funds in the May Revise.

Use of federal funds to offset General Fund expenditures. Under current law, the state can use federal special education funds to offset General Fund special education expenses (such as growth and COLA), as long as the state meets maintenance-of-effort requirements (state and local funding for special education is not less than the year before). This is in contrast to many other federal education funds, which the state either does not or cannot use to offset General Fund expenditures. Using federal special education funds to offset General Fund expenditures has been the normal practice for the state, except during the late 1990's, when the state used new funds to implement funding equalization and reform (under AB 602 (Davis and Poochigian)). In 2001-02, the state also chose not to use new federal funds as a General Fund offset, and passed on new federal special education funds to school districts on top of their normal growth and COLA for the program.

As mentioned above, for the budget year, the Governor proposes to use $74.5 million of the $140 million to offset General Fund costs of growth and COLA. DOF estimates that the state could use up to $11.5 million of the remaining $65 million in new federal funds as an additional General Fund offset, without violating maintenance of effort requirements.
Options for the use of new federal funds. As noted above, the subcommittee can use up to $11.5 million of the federal funds to offset General Fund costs (which results in Proposition 98 savings), or it can choose to appropriate the entire amount for a specific purpose. Options for the funds that are not used as a General Fund offset include but are not limited to (in no particular order):

1) Passing along the additional funds to school districts in addition to growth and COLA.
2) Use funds to continue the reforms begun by AB 602 (Davis and Poochigian). Specifically, there is an outstanding funding reform issue related to funding the non-public school special education costs for students who were placed in an licensed children's institution (LCI) by a non-education agency (LCI/NPS formula) or for students placed in a long-term care facility to receive skilled nursing services (see below).
3) Provide more money to counties to offset their costs of providing mental health services to special education students, pursuant to AB 3632 (see below).
4) Other legislative priorities. 

LCI/NPS formula. There are approximately 15,000 students receiving special education services who reside in foster care settings in California. Of these students, approximately one third attend non-public schools that receive state LCI/NPS funding through school districts. Licensed children's institutions (LCI's) include foster youth in group homes, foster family agencies, foster family homes, and residential medical facilities. Non-public schools (NPS) are privately operated, publicly funded schools certified by CDE. State and local funding for them is only available for special education students. There are approximately 369 non-public schools certified in California.

The 2000-2001 budget act provided $1 million for an independent evaluation of the LCI/NPS funding formula. The American Institutes for Research concluded this evaluation and released it in March 2003. It found that the state lacks a system to ensure high-quality services in non-public schools and that school districts have strong financial incentives to place foster youth into special education programs provided by non-public schools. When foster youth in special education are served by non-public schools and agencies LEA's receive 100 percent funding, yet when school districts provide services no additional funds are provided. The study found the formula: 1) violates provisions of IDEA requiring special education students to receive services in the least restrictive environment, and 2) lacks incentives for controlling costs, due to the 100% reimbursement system. The AIR study recommended a new formula that would cost approximately $65.9 million, including the costs of hold harmless provisions to protect LEA's from funding losses. A senate working group convened last fall has been working on some refinements to the funding formula. SB 1510 (Alpert) contains intent language regarding the new formula. Some of the new federal funds could be used to fund the new formula, if desired by the Legislature.

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1 The California Association of Family Empowerment Centers is requesting an increase in federal funding to establish more family empowerment centers across the state.
2 Approximately one third of youth emancipating from foster care fail to complete high school and few enter college, although two-thirds express a desire to attend college. After emancipating form foster care, at least 25% experience homelessness, 33% receive welfare, 50% face unemployment, and approximately 25% are arrested and spend time in incarceration.
Students Placed in Long-Term Health Care Facilities. Last year the Legislature extended the LCI/NPS formula to cover the cost of providing assessment, identification, and special education instruction to students placed in long-term health care facilities to receive skilled nursing services, Chapter 584, Statutes of 2003 (AB 1649 Simitian). The intent of this legislation was to provide for a fair and equitable distribution of special education costs to ensure that any given school district is not unduly impacted or penalized for having a skilled nursing facility that serves children located within its district boundaries.

The types of special education services provided are the same as in licensed children's institutions and non-public schools; the needs are extensive and often times result in very high costs, up to tens of thousands of dollars per child each year. The financial burden on small schools districts is even more extreme – these districts are responsible for all the educational costs, including all related services, but have no control over which children are placed there or where these children come from.

AB 3632 mental health services. Under current law, counties are responsible for providing educationally-related mental health services to special education students; if mental health services are required by a student's individualized education plan. (AB 3632 (W. Brown), Statutes of 1984, shifted responsibility for providing these services from school districts and transferred them to the counties.) Counties have supported the costs of these services through a variety of means, including filing state mandate claims, which have gone unpaid in recent years. The County Mental Health Directors Association estimates that counties’ costs related to this requirement total $120 million annually. Last year the Legislature provided $69 million in federal special education funds to counties to help cover their costs. This year, Senator Burton has introduced SB 1895 regarding potential policy changes to how mental health services are provided to special education students and related funding issues. The author is conducting constituency group meetings to work out the details of the legislation. Some of the new federal funds could be used to support this legislation, if desired by the Legislature.

COMMENTS:

The Governor's budget provides $2.3 million in federal special education funds to support 12 family empowerment centers across the state, serving families of special education students. The centers were created in 2001 pursuant to SB 511, Chapter 690, Statutes of 2001. The California Association of Family Empowerment Centers argues that the originating legislation contained a goal of creating 32 centers statewide, and that the new federal funding could be used to further this goal. DOF is proposing $180,000 to evaluate this program (see April DOF letters, below).
ISSUE 2: SPECIAL EDUCATION: APRIL DOF LETTERS

The issues for the subcommittee to consider are three special education issues included in April DOF letters amending the Governor’s January 10 budget.

BACKGROUND:

In an April 1 letter, DOF proposes the following amendments to the January 10 budget:

1) Special schools capital outlay. The administration is proposing $3.3 million in lease revenue bonds to authorize the construction of the Pupil, Personnel Services building at the California School for the Deaf in Fremont. It notes that this phase was previously approved for $2,144,000 in lease revenue bond funding in 2002. However, all of the bids received in December 2003 exceeded the appropriation by an amount that surpassed the Public Works Board augmentation authority. Therefore, the funding has been reverted and the project cancelled pending legislative approval of the new amount. The new proposed amount would be an increase of approximately $1 million above the original proposed amount. DOF believes the revised amount reflects current market conditions.

2) Evaluation of Family Empowerment Centers on Disabilities—It is requested that $180,000 be provided for the State Department of Education to contract with an outside entity for the evaluation of 12 Family Empowerment Centers on Disabilities.

   It is requested that Provision (X) be added to this item to conform to this action:

   (X) Of the funds appropriated in this item, $180,000 is available for the contract with an outside entity to evaluate 12 Family Empowerment Centers on Disabilities pursuant to Chapter 690, Statutes of 2001.

3) 6110-161-0890, Local Assistance, Special Education (Issues 200, 203)

   It is requested that this item be increased by a total of $2,906,000, including $363,000 to reflect an increase in the Capacity Building Schedule as the result of a technical error and $2,543,000 for additional local assistance carryover authority for 2002-03 federal IDEA funds.

   It is requested that Schedules (1) and (4) of this item be amended to conform to this action:

   “(1) 10.60.050.012-Local Agency Entitlements, IDEA Special Education $871,676,000 $874,219,000
   (4) 10.60.050.021-IDEA, Capacity Building, Special Education…. $72,857,000 $73,220,000”
ISSUE 3: APRIL DOF LETTER -- CERTIFICATED STAFF PERFORMANCE AWARDS

The issue for the subcommittee to consider is a DOF letter to provide $32.7 million in one-time reversion account funds for certificated staff performance awards pursuant to a recent lawsuit.

BACKGROUND:

In an April 1 letter, DOF proposes the following augmentation to the January 10 budget:

6110-485 and 6110-605-0001, Local Assistance, 2000-01 Certificated Staff Performance Awards (Issue 190)

It is requested that $32,672,000 be reappropriated from the Proposition 98 Reversion Account for payments to teachers in schools who qualify for Certificated Performance Awards by virtue of the courts' findings in the Boyd and Acevedo cases. It is therefore requested that Schedule (6) be added as follows:

(6) $32,672,000 to the State Department of Education for the purpose of funding the 2000-01 Certificated Staff Incentive Awards.

Background. The Certificated Staff Performance Awards program was created several years ago to provide one-time monetary awards to teachers in schools that achieved certain improvements in their API. The Legislature deleted funds for the program shortly after its initiation. However, teachers from a Sacramento school sued the state over the distribution of the rewards funding in this program. The proposed funding is pursuant to the findings of the court in the plaintiffs' favor.
ISSUE 4: APRIL DOF LETTER -- MISCELLANEOUS STATE OPERATIONS ISSUES

The issues for the subcommittee to consider are various changes to the portion of CDE’s state operations budget, as proposed by DOF in its April letter amending the January 10 budget.

BACKGROUND:

In an April 1 letter, DOF proposes the following amendments to the January 10 budget:

1) 6110-001-0890, Department of Education—State Operations

Issue 002: Provisional Language to Reflect Authorized Retirement Rates—It is requested that provisional language in federal Item 6110-001-0890 be amended to conform with authorized retirement rates. These technical changes reflect approved Public Employment Retirement System (PERS) increases and would not result in expenditure or service changes.

It is requested that Provisions 3, 6, 7, 8, 10, 15, 16, 17, and 19 of this item be amended as follows to conform to these actions:

“3. Of the funds appropriated in this item, $384,000 $401,000 is available for programs for homeless youth and adults pursuant to the federal McKinney-Vento Homeless Assistance Act. The department shall consult with the State Departments of Economic Opportunity, Mental Health, Housing and Community Development, and Economic Development in operating this program.”

“6. Of the amount appropriated in this item, $1,200,000 $1,265,000 shall be used for the administration of the federal charter schools program. These activities include monitoring of grant recipients, and increased review and technical assistance support for federal charter school grant applicants and recipients. For the 2004-05 fiscal year, one Education Program Consultant position shall support fiscal issues pertaining to charter schools, including implementation of the funding model pursuant to Chapter 34 of the Statutes of 1998.”

“7. Of the funds appropriated in this item, $11,268,000 $11,368,000 is from the Child Care and Development Block Grant Fund and is available for support of Child Care Services. Of this amount, $2,000,000 is one-time federal funds for administrative start-up costs associated with a child care anti-fraud proposal to be developed in collaboration between the Administration and Superintendent and implemented through enabling legislation for the 2004-05 fiscal year. These funds shall be available to the involved state entities, as determined in conjunction with the Department of Finance.”

“8. Of the funds appropriated in this item, $2,101,000 $2,159,000 shall be used for administration of the Enhancing Education Through Technology Grant Program. Of this amount: (a) $580,000 is available only for contracted technical support and evaluation services.”
“10. Of the amount provided in this item, $843,000 \textbf{$881,000$} is provided for staff for the Special Education Focused Monitoring Pilot Program to be established by the State Department of Education for the purpose of monitoring local educational agency compliance with state and federal laws and regulations governing special education.”

“15. Of the funds appropriated in this item, $752,000 \textbf{$798,000$} shall be available for costs associated with the administration of the High Priority Schools Grant Program pursuant to Article 3.5 (commencing with Section 52055.600) of Chapter 6.1 of Part 28 of the Education Code and the Immediate Intervention/Underperforming Schools Program pursuant to Article 3 (commencing with Section 52053) of Chapter 6.1 of Part 28 of the Education Code.”

“16. Of the funds appropriated in this item, $443,000 \textbf{$419,000$} shall be available pursuant to Chapter 1020, Statutes of 2002 for the development and implementation of corrective action plans and sanctions pursuant to federal law.”

“17. Of the funds appropriated in this item, $4,373,000 \textbf{$1,414,000$} is for administration of the Reading First Program. Of this amount, $873,000 is to redirect 6.0 staff to assist in program administration, and $500,000 is for the department to contract for annual evaluations of program effectiveness.”

“19. Of the appropriated funds in this item, $637,000 \textbf{$668,000$} is for the department to continue developing a comprehensive strategy to address data reporting requirements associated with the No Child Left Behind Act (P.L. 107-110), and to establish 5.0 positions to assist with this task.”

2) \textbf{6110-001-0890, Department of Education—State Operations}

\textbf{Issue 178: Federal Mathematics and Science Partnership Grant Program}—It is requested that Schedule (2) of this item be increased by $10,000 to provide additional state operations support for the federal Mathematics and Science Partnership Grant Program. This amount will allow additional participants to attend a collaboration meeting. The need for additional capacity at the collaboration meeting is the result of an anticipated grant increase of approximately $6.2 million that will result in new program participants. (See Item 6110-193-0890, Issue 188 for local assistance).

3) \textbf{6110-001-0687, State Operations, Donated Food Revolving Fund (Issue 704)}

It is requested that this item be increased by $400,000 to purchase additional equipment to handle the higher volumes and to replace aging equipment. Voluntary fees paid by local agencies (per unit of food) reimburse SDE for the costs of receiving, storing, handling, and distributing food items donated by the federal government to the local agencies. Higher volumes of food distribution and the collection of previously delinquent fees are available to support the proposed expenditures without increasing fees.
ISSUE 5: APRIL DOF LETTER -- MISCELLANEOUS FEDERAL FUNDS LOCAL ASSISTANCE ISSUES

The issues for the subcommittee to consider are various DOF proposals to adjust the amount of federal funds provided to local school districts, due to changes in the federal grant or due to the availability of carryover.

BACKGROUND:

In an April 1 letter, DOF proposes the following amendments to the January 10 budget:

1) 6110-102-0890, Local Assistance, Federal Learn and Serve America Program (Issue 182)

It is requested that this item be reduced by $277,000. This adjustment includes a reduction of $560,000 in order to align appropriation authority with the anticipated federal grant award amount and an increase of $283,000 to provide carryover authority for unspent prior year funds. These funds will provide one-time grant augmentations for projects such as lesson plan development and youth-led mini-grants, which provide opportunities for students to organize service programs for pupil and staff participation at their school and other partnering schools.

2) 6110-136-0890, Augment Even Start, McKinney-Vento Homeless Children Education, Title I Basic, and Title I School Support (Issues 001, 004, 005, and 010)

It is requested that Schedule (1) be increased by a total of $132,733,000 as follows:

- $10,730,000 to reflect $10,700,000 of carryover (one-time) and $30,000 from a federal grant increase to even Start. SDE will use the funds to expand existing literacy service projects.
- $52,082,000 to reflect $8,980,000 of carryover (one-time) and $43,102,000 from a federal grant increase to Title I Basic.
- $69,921,000 to reflect $31,381,000 of carryover (one-time) and $38,540,000 from a federal grant increase to Title I School Support.

It is requested that Schedule (2) of this item be increased by $1,996,000, to reflect $1,229,000 in one-time carryover funds and $767,000 from a federal grant increase to McKinney-Vento Homeless Children Education. The SDE will use the funds on a competitive basis to provide grants for homeless child education. The program allows students who become homeless to continue attending the same school by providing a district liaison or transportation when necessary.

Title I consists of various programs which provide funds to Local Education Agencies (LEAs) for the academic improvement of disadvantaged students. According to the SDE, these carryover funds are available because local education agencies did not fully spend their original allocations. The federal government allows up to 15 percent of the grant to be carried into the next fiscal year. The SDE is requesting 3 percent to be carried over. The funds primarily go out as formula apportionments.
It is requested that Schedules (1) and (2) of this item be amended as follows to conform to these actions:

“(1) 10.30.060-Title I-ESEA . . . 1,695,361,000 1,828,094,000
(2) 10.30.065-McKinney-Vento Homeless Children Education . . . 7,330,000 9,326,000”

It is further requested that the following provisional language be added to the item:

X. Of the funds appropriated in Schedule (1), $10,700,000 for Even Start, $31,381,000 for Title I School Support, and $8,980,000 for Title I Basic, are carryover funds provided on a one-time basis.

X. Of the funds appropriated in Schedule (2), $1,229,000 in carryover funding for McKinney-Vento Homeless Children Education is provided on a one-time basis.

3) 6110-156-0890, Local Assistance for One-time Carryover for the Federal Adult Education Program (Issue 184)

It is requested that Schedule (1) of this item be increased by $5,521,000. This adjustment includes an increase of $1,355,000 in order to align appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide funding to local programs that provide adult education courses. Further, this adjustment includes an increase of $4,166,000 to provide carryover authority of unspent prior year funds to provide one-time augmentations for professional development in areas such as federal data collection requirements and on how to develop collaborations with local One-stop agencies.

4) 6110-166-0890, Local Assistance, One-time Carryover for Federal Vocational Education Program (Issue 186)

It is requested that this item be increased by $1,597,000. This adjustment includes a reduction of $4.7 million in order to align appropriation authority with the anticipated federal grant award amount and an increase of $6,297,000 to provide carryover authority of unspent prior year funds to provide one-time augmentations to existing program participants for Leadership and Tech-Prep priorities, including standards-aligned curriculum development and staff development activities.

5) 6110-180-0890, Local Assistance, Education Technology (Issue 652)

It is requested that this item be increased by $3,338,000 to reflect an increase in federal funding for the Enhancing Education through Technology Grant Program.

It is requested that Provisions 1 and 2 of this item be amended as follows:

“1. Of the funds appropriated in this item, $42,704,000 $45,571,000 is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program.
2. Of the funds appropriated in this item, $42,703,000 $45,570,000 is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of Division 3 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program—including the eligibility criteria established in federal law to target local education agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal School Improvement or demonstrating substantial technology needs.
Under no circumstances shall the legislation designate specific local education agencies as subgrant recipients.”

6) 6110-183-0890, Local Assistance, Drug Free Schools and Communities Program (Issue 708)

It is requested that this item be decreased by $177,000. Specifically, the proposed budget adjustment is the result of: (1) a base $4,616,000 increase in the federal grant for Drug Free Schools, (2) a one-time carryover of $1,526,000 from unused funds, and (3) the federal elimination of $6,319,000 for community service grants. SDE will use the funds to provide grants to local education agencies for providing drug and violence prevention and intervention services.

It is also requested that Provision 2 of this item be deleted and provisional language be added as follows:

3. Of the funds appropriated in this item, $1,526,000 is available for one-time grants for drug and violence prevention and intervention services.

7) 6110-193-0890, Local Assistance, Federal Mathematics and Science Partnership (Issue 188)

It is requested that this item be increased by $6,238,000 in order to align the appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide additional competitive grant awards to institutes of higher education and low-performing schools to partner to provide staff development and curriculum support for mathematics and science teachers.

8) 6110-195-0890, Local Assistance, Federal Improving Teacher Quality Grant (Issue 189)

It is requested that Schedule (1) of this item be reduced by $11,291,000 in order to align appropriation authority with the anticipated federal grant award amount. This adjustment includes a technical correction of approximately $8.6 million in federal Title II-Improving Teacher Quality funding that is provided by the US Department of Education directly to the California Postsecondary Education Commission, but was inadvertently reflected in SDE’s appropriation.
ISSUE 6: APRIL DOF LETTER -- FEDERAL MIGRANT EDUCATION FUNDS

The issue for the subcommittee to consider is an April DOF letter regarding federal carryover funds for the education of migrant children.

BACKGROUND:

In an April 1 letter, DOF proposes the following amendment to the January 10 budget:

6110-125-0890, Language Acquisition and Migrant Education (Issues 006 and 009)

It is requested that Schedule (1) of this item be increased by $9,601,000 to reflect one-time carryover funds that is available for grants to the 22 Migrant Education regions. The proposed adjustment includes a one-time increase of $10,200,000 from carryover, and a decrease in the federal grant of $599,000. The carryover funds are available due to a one-time technical State and federal budget alignment and the liquidation of prior year encumbrances. The SDE would distribute $6.2 million according to the current state funding formula that designates 75 percent for all eligible students, and targets 25 percent to students most at-risk of failing to meet academic achievement standards. The SDE would allocate the remaining $4.0 million as grants to the 22 Migrant Education regions to promote parental involvement and leadership, a key focus under federal Migrant Education program guidelines.

The $4.0 million for grants includes $2.0 million previously proposed by the Administration in a letter to the Joint Legislative Budget Committee dated February 23, 2004, for use in 2003-04 for the same purpose. However, SDE subsequently reported that local agencies could not reasonably spend the requested funds effectively by the end of the current fiscal year. Accordingly, we are hereby rescinding our previously proposed use of the $2.0 million in 2003-04. The Administration’s revised proposal would give local agencies the ability to determine which local agencies would provide parental involvement services, and allow more time to plan and spend the entire $4.0 million most effectively in 2004-05.

It is requested that Schedule (3) of this item be increased by $22,916,000 to reflect federal grant increases ($22,638,000) and one-time carryover ($278,000) for educating limited English proficient and immigrant students. SDE will allocate these funds on a formula basis.

It is requested that Schedules (1) and (3) of this item be amended as follows to conform to these actions:

"(1) 10.30.010-Title I, Migrant Education . . . 126,077,000 135,678,000"
"(3) 20.10.004-Title III, Language Acquisition . . . 132,793,000 155,709,000"

It is further requested that the following provisional language be added to Item 6110-125-0890:

X. Of the funds appropriated in Schedule (1), $10,200,000 in carryover funding for Migrant Education is provided on a one-time basis and shall be used for grants to the 22 Migrant Education regions. SDE shall allocate $6,200,000 under the current state funding formula to promote academic achievement, and $4,000,000 equitably to all 22 regions to promote parent involvement and leadership activities. Local education agencies shall decide which local entities can most effectively perform parental involvement services.

X. Of the funds appropriated in Schedule (3), $278,000 in carryover funding for Title III, Language Acquisition is provided on a one-time basis.
COMMENTS:

The $10 million in carryover referenced above is approximately 8% of the amount proposed in the budget for this item.
The issues for the subcommittee to consider are three miscellaneous proposals by DOF to make technical changes to the reversion account and two control sections.

**BACKGROUND:**

In an April 1 letter, DOF proposes the following three amendments to the January 10 budget:

1) **6110-495, Proposition 98 Reversion Language, Department of Education (Issue 007)**

   It is requested that language in Schedule (2) of this item be amended to allow the unexpended balance, rather than the specific amount ($569,000), to be reverted. The State Controller's Office indicates that it is unable to revert amounts that differ from the estimated year ending balances projected in the budget. This technical change would allow the Controller to revert whatever amount is remaining at the end of the fiscal year from designated funds, as intended. Every other schedule in the item already has the requested language.

   It is requested that Item 6110-495- be amended as follows to conform to these actions:

   "(2) $569,000, or whatever greater or lesser amount reflects unexpended funds, from Schedule (3) of Item 6110-104-0001, Budget Act of 2002 (Ch. 379, Stats. 2002)"

2) **Amendment to Budget Bill Control Section 12.40, Technically Revise Reporting Date (Issue 008)**

   Section 12.40 requires local educational agencies to submit data to SDE by October 8, 2005, on how funds are being shifted between programs at the local level, as allowed. The SDE proposes changing the reporting date to October 15, 2005, which conforms to the date that the enabling year-end fiscal data is due from local education agencies.

   It is requested that subdivision (c) of Control Section 12.40 be amended as follows to conform to this action:

   "(c) As a condition of receiving the funds provided for the programs identified in subdivision (b), local education agencies shall report to the State Department of Education by October 8, 2005 October 15, 2005, on any amounts shifted between these programs pursuant to the flexibility provided in subdivision (a). The Department of Education shall collect and provide this information to the Joint Legislative Budget Committee, chairs and vice chairs of the fiscal committees for education of the Legislature and the Department of Finance, by February 1, 2006."
3) Amendment to Budget Bill Control Section 24.60, Lottery Expenditure Reports (Issue 321)

Beginning in 2003-04, all school districts, county offices of education and joint powers agencies are reporting in the SACS format. Therefore, SDE is able to report statewide lottery expenditures, except for charter schools, without sampling expenditures from a few local educational agencies. It is therefore requested that Control Section 24.60 be amended as follows:

"SEC. 24.60. (a) From the funds appropriated in Items 4300-003-0814, 4440-011-0814, 5460-001-0831, 6110-006-0814, 6110-101-0814, 6440-001-0814, 6600-001-0814, and 6870-101-0814 of this act, the State Department of Developmental Services, the State Department of Mental Health, the Department of the Youth Authority, the State Special Schools, the Regents of the University of California, the Board of Directors of Hastings College of the Law, the Board of Trustees of the California State University, and community college districts through the Chancellor of the California Community Colleges Each entity receiving lottery funds shall annually report to the Governor and the Legislature no later than January 15, 2006 on or before May 15, the amount of lottery funds that each entity received and the purposes for which those funds were expended in the 2004–05 prior fiscal year, including administrative costs, and proposed expenditures and purposes for expenditure for the 2005–06 fiscal year. If applicable, the amount of lottery funds received on the basis of adult education average daily attendance (ADA) and the amount of lottery funds expended for adult education also shall be reported.

(b) The State Department of Education shall determine the patterns of use of lottery funds in all local educational agencies having more than 200,000 ADA and representative local educational agencies randomly selected by size, range, type, and geographical dispersion. On or before May 15, 2005, the State Department of Education shall report this information to the Legislature and the Governor for the 2003–04 fiscal year."

COMMENTS:

Staff notes that the second amendment proposed above affects control section 12.40, which is the section that provides former mega-item flexibility to districts to move funding between categorical programs. The subcommittee heard this control section two weeks ago. It may wish to hold this DOF letter issue open, pending final action on the entire control section.
ISSUE 8: CATEGORICAL PROGRAM DEFICIENCIES

The issue for the subcommittee to consider is information regarding expected deficiencies in several categorical programs. The subcommittee requested information about this issue at an earlier hearing.

BACKGROUND:

According to the LAO, the following categorical programs may experience deficiencies in the current year:

Charter Schools

Supplemental instruction, which provides funding to school districts to provide after and summer school programs for students who have been retained or are at risk of retention, among others. Funding is based on the number of students served and may vary from year to year based on districts' decisions to run summer school programs and variations in the number of students wanting and eligible to take summer school.

Community day schools, in which school districts may receive per average daily attendance (ADA) funding for serving high-risk students who, have been expelled from regular district-run schools. The funding is based on average daily attendance, and the rate is higher than traditional revenue limits. Enrollment in these programs has increased in recent years.

The LAO may present its estimates of the expected deficiencies for these programs at the hearing. For supplemental instruction, CDE indicates that it will not know the extent of the deficiency for supplemental instruction until after June.

Of the above programs, all but the community day schools are included in a control section 12.60, which allows CDE to move money between categorical programs in the event there are shortfalls in some programs and extra funding in others. K-3 class size reduction is included in that control section, and there are expected to be unexpended funds in this program in the current year, due to lower than expected participation in the program. The K-3 class size reduction savings may be available to address the deficiencies in all but the community day school program, unless the subcommittee decides to revert any current-year class size reduction savings and use them for another purpose in the budget year.

COMMENTS:

DOF may address some of the above deficiencies in its May Revise proposal.
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ISSUE 9: STATE OPERATIONS

The issue for the subcommittee to consider is the state operation's budget for the Office of the Secretary for Education.

BACKGROUND:

The Governor's budget proposes a total General Fund funding level of $1,582,000 for the office's operations. This is a reduction of approximately $200,000 compared to last year's funding level. The Governor proposes reductions due to baseline reductions to state operations per control sections 3.60 and 4.10.

COMMENTS:

No one has raised issues with this item.