## AGENDA

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

Assemblymember S. Joseph Simitian, Chair

**MONDAY, MAY 3, 2004**

**STATE CAPITOL, ROOM 437**

**UPON ADJOURNMENT OF UTILITIES AND COMMERCE COMMITTEE**

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ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: TESTING PROGRAMS, FEDERAL ASSESSMENT (TITLE VI) FUNDS

The issue for the subcommittee to consider is the proposed funding level for the state's testing system, and various issues regarding federal testing (Title VI) funds and the potential expiration of some of these funds.

BACKGROUND:

Total funding for state testing programs. As in prior years, the Governor's budget proposes both a mix of General Fund and federal testing (Title VI) funds to support the state's various testing system. The following table summarizes the current-year and proposed budget-year funding levels for the STAR, high school exit exam (CAHSEE) and the California English Language Development Test (CELDT). The 2003-04 revised levels include revisions that appropriated a $16 million unallocated pot of federal Title VI funding last year, and the 2004-05 proposed funding levels include revisions that administration is making to the January 10 proposed budget.

Table 1: State and Federal Funding for State Testing Programs

<table>
<thead>
<tr>
<th></th>
<th>State General Fund</th>
<th>Federal Funds (Title VI)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003-04 revised</td>
<td>2004-05 proposed</td>
</tr>
<tr>
<td>STAR (a)</td>
<td>61.7</td>
<td>55.2</td>
</tr>
<tr>
<td><strong>STAR Total</strong> (state and federal $) (b)</td>
<td></td>
<td><strong>70.9</strong></td>
</tr>
<tr>
<td>CAHSEE (high school exit exam)</td>
<td>12.3</td>
<td>10.4</td>
</tr>
<tr>
<td><strong>CAHSEE Total</strong> (state and federal $) (b)</td>
<td></td>
<td><strong>15.4</strong></td>
</tr>
<tr>
<td>California English Language Development Test (CELDT)</td>
<td>11.4</td>
<td>11.4</td>
</tr>
<tr>
<td><strong>CELDT Total</strong> (state and federal $) (b)</td>
<td></td>
<td><strong>23.6</strong></td>
</tr>
</tbody>
</table>

(a) Includes funding for the SABE/2 contract and apportionments for administration. The proposed funding level for the budget year is the same as the 2003-04 revised level.
(b) Totals may not add due to rounding error.

Federal Title VI funds. The Governor proposes to spend $38.3 million in federal Title VI funding to support state testing programs and data systems. The table below was developed by CDE and summarizes the current year proposals for these funds (including revisions adopted as part of a process authorized by last year's budget) as well as the proposed budget year proposals, including proposed changes to the Governor's January 10 proposals. Staff notes the following highlights: 1) the administration proposes substantial increases in Title VI to fund cost increases in the CAHSEE, and 2) the Governor's revised 2004-05 proposal includes funding the California School Information System (CSIS) with federal Title VI funding -- to date CSIS has always been funded with General Fund (Proposition 98) (with the exception of its involvement in implementing CALPADS).
Table 2: Title VI Spending Plan

Title VI Spending Plan
(proposals in April letter shown in bold -- see note 1 below)

<table>
<thead>
<tr>
<th>Item</th>
<th>2003-04 Budget Act</th>
<th>2003-04 Revised (2)</th>
<th>2004-05 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item 6110-113-0890</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternative assessments for special education--HSEE</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Alternative schools accountability model</td>
<td>775,000</td>
<td>775,000</td>
<td>775,000</td>
</tr>
<tr>
<td>Assessment review and reporting</td>
<td></td>
<td>400,000</td>
<td>400,000</td>
</tr>
<tr>
<td>CAHSEE contract</td>
<td>1,100,000</td>
<td>0</td>
<td>7,884,000</td>
</tr>
<tr>
<td>CAHSEE May administration</td>
<td></td>
<td>1,930,854</td>
<td>Incl. above</td>
</tr>
<tr>
<td>CAHSEE demographic corrections</td>
<td></td>
<td>166,000</td>
<td>0</td>
</tr>
<tr>
<td>CAHSEE study</td>
<td></td>
<td>0</td>
<td>498,000</td>
</tr>
<tr>
<td>CAHSEE workbooks</td>
<td>1,800,000</td>
<td>1,000,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>California alternate performance assessment</td>
<td>500,000</td>
<td>400,000</td>
<td>2,200,000</td>
</tr>
<tr>
<td>California Longitudinal Pupil Achievement Data System</td>
<td>6,880,000</td>
<td>1,822,000</td>
<td>2,272,000</td>
</tr>
<tr>
<td>CELDT apportionment</td>
<td>7,100,000</td>
<td>7,100,000</td>
<td>7,100,000</td>
</tr>
<tr>
<td>CELDT apportionment shortfall</td>
<td>4,454,000</td>
<td>2,493,000</td>
<td></td>
</tr>
<tr>
<td>CELDT contract shortfall</td>
<td>563,000</td>
<td></td>
<td>563,000</td>
</tr>
<tr>
<td>CELDT vertical scaling project</td>
<td>100,000</td>
<td></td>
<td>300,000</td>
</tr>
<tr>
<td>CSIS new cohort--local grants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSIS new cohort--CSIS administration</td>
<td></td>
<td></td>
<td>299,000</td>
</tr>
<tr>
<td>English language K-1 reading and writing test development</td>
<td>1,400,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary language test development</td>
<td>3,000,000</td>
<td>1,500,000</td>
<td></td>
</tr>
<tr>
<td>STAR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Contract</td>
<td>3,569,000</td>
<td>3,226,367</td>
<td>6,049,000</td>
</tr>
<tr>
<td>• Grade 5 science test administration</td>
<td>500,000</td>
<td></td>
<td>incl. above</td>
</tr>
<tr>
<td>• Middle/high science test development</td>
<td>900,000</td>
<td>661,000</td>
<td>1,400,000</td>
</tr>
<tr>
<td>• Reporting AYP</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
</tr>
<tr>
<td>• Tech. Assistance centers and pre-test workshops</td>
<td></td>
<td></td>
<td>450,000</td>
</tr>
<tr>
<td>• CST apportionment</td>
<td></td>
<td>816,480</td>
<td>incl. above</td>
</tr>
<tr>
<td>• Test development from (2)</td>
<td></td>
<td>342,633</td>
<td></td>
</tr>
<tr>
<td>• Test development from (9)</td>
<td></td>
<td>1,505,088</td>
<td></td>
</tr>
<tr>
<td>• Scenario 2</td>
<td></td>
<td>1,432,224</td>
<td>535,448</td>
</tr>
<tr>
<td>Training and materials for assessments of pupils with disabilities</td>
<td>600,000</td>
<td>600,000</td>
<td></td>
</tr>
<tr>
<td>Unallocated</td>
<td></td>
<td>16,154,000</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td><strong>45,428,000</strong></td>
<td><strong>30,944,646</strong></td>
<td><strong>38,315,448</strong></td>
</tr>
</tbody>
</table>
LAO concern about expiring funds. The LAO believes that there is approximately $32 - 38 million in Title VI funds that will expire and revert to the federal government if they are not spent by September 30, 2005. For these funds, the LAO proposes a technical solution that will allow the funds to be spent by the deadline: appropriate the federal money for the costs of the CELDT contract (since this funding will be spent sooner), and appropriate General Fund money for the CELDT apportionments, which will take longer to spend by the recipient school districts. The LAO also estimates that the state will face a similar situation in the 2005-06 budget year, with approximately $36 million expiring by September 30, 2006 if they are not spent (assuming the Governor's proposed funding level in the budget year). Staff notes that the subcommittee may wish to explore some contingency language to ensure that there is an alternative one-time purpose for expiring funds, in the event they are not spent in a timely manner.

Unspent funds. Staff notes that even with the administration's proposed changes to the January 10 proposal for spending Title VI funds, this leaves approximately $4 million in unspent funding that can be appropriated in the budget for specific purposes or saved for a future purpose (the latter option involves a slight risk of losing the funds if they are not spent by a certain date).

COMMENTS:

Status of CAHSEE? The State Board of Education (SBE) voted to postpone the requirement that students pass the CAHSEE (California High School Exit Examination) until 2006, citing opportunity to learn issues. A report on the status of the state's readiness to adopt the CAHSEE estimated that about 20% of students' schedule to graduate by June 2004 would be able to pass the exam. Staff notes that English learners and special education students will most likely be over-represented among this group. Is there any information regarding the preparations that districts are taking to ensure their students may pass the CAHSEE, given that the 2006 date is soon approaching?

Other proposals. The No Child Left Behind Act requires schools and districts to increase parental involvement as part of their efforts to improve student performance. Parental involvement includes communication with parents, and much of that communication is done via written notices. Advocates argue that despite requirements that districts provide written notices in parents' native languages, many districts do not or cannot do so, particularly for Asian languages, and that this severelyimpairs parental involvement. CDE provides some model parental notices for certain provisions of NCLB and other programs. A significant number of notices about student discipline, standardized testing, English language development programs and parental rights and responsibilities are uniform throughout the state. CDE translates some model documents into Spanish, but translations in Asian and other languages are scarce. Staff notes the availability of federal funds to pay for CDE translations of some of these model notices, or for CDE to develop an electronic clearinghouse of translated forms created by some of the larger districts.
ISSUE 2: APRIL DOF LETTER -- TESTING PROGRAMS, FEDERAL ASSESSMENT (TITLE VI) FUNDS:

The issues for the subcommittee to consider are various amendments to the January 10 budget to provide funds for testing programs and related CDE state operations.

BACKGROUND:

In an April letter amending the Governor’s January budget, DOF proposes the following augmentations, mostly out of federal Title VI funds (federal Title VI augmentations are reflected in Table 2 above in bold):

1. **California English Language Development Test Contract Shortfall**—DOF proposes an increase of $563,000 in federal Title VI funds for the purpose of aligning program funding with current contract requirements. This request would restore the funding level to fully fund the contract with the test publisher for this program. It also proposes the following accompanying budget bill language:

   X. Of the funds appropriated in Schedule (5) of this item, $563,000 shall be available for approved contract costs for administration of an English language development test meeting the requirements of Chapter 7 (commencing with Section 60810) of Part 33 of the Education Code

2. **California English Language Development Test Apportionment Shortfall**—DOF proposes an increase of $2,493,000 in federal Title VI funds for apportionment funding (which is provided to districts to support their costs of administration) to accommodate the additional 498,600 pupils projected to take the California English Language Development Test in 2004-05.
3. **Standardized Testing and Reporting (STAR) Item Development**—DOF proposes an increase of $535,000 in federal Title VI funds to the STAR item to ensure there are sufficient test items for the STAR exam. According to DOF, CDE will begin an annual release of 25 percent of the test items used in the most recent California English-language arts, mathematics and science California Standards Tests to the public. Since these items will no longer be used on future STAR tests, the continuous development of new items is necessary. It also proposes the following accompanying budget bill language:

> The funds appropriated in Schedule (2.5) of this item shall be available for test item development for the STAR program during the 2004-05 fiscal year. The test items developed with these funds shall make progress in aligning this exam with the State Board of Education-approved academic content standards and in ensuring that this exam is valid and reliable as measured to industry standards.

4. **STAR Restoration Funds**—DOF requests an increase of $450,000 in federal Title VI funds to restore funding for STAR pre-test workshops and the STAR Technical Assistance Center that was reduced as part of the $10 million General Fund unallocated reduction to the various testing programs in 2003-04. This funding will provide technical assistance to school districts in administering the STAR exam and ensure that the required demographic fields on the exams are filled out properly.

5. **Related CDE position.** DOF proposes to provide $93,000 in federal funds for an Education Research and Evaluation Consultant position to process and monitor statewide assessment data for determining Adequate Yearly Progress and identifying Program Improvement schools.

6. **April DOF letter: technical issue.** The administration proposes a minor augmentation to the General Fund amount for administration of the California High School Proficiency exam. It proposes a $143,000 increase for an additional 1676 students to take the California High School Proficiency exam.

**COMMENTS:**

Most of the above augmentations are proposed out of federal Title VI funding, which is part of the No Child Left Behind Act and is provided for states to develop and support their state testing systems and data collection.
ISSUE 3: CALIFORNIA SCHOOL INFORMATION SERVICES (CSIS)

The issue for the subcommittee to consider is the proposed budget for and status of California School Information Services (CSIS).

BACKGROUND:

CSIS Funding. The Governor proposes to fund the California School Information Services (CSIS) with both state money and state federal Title VI (assessment funding). This is a departure from prior practice in which CSIS was solely funded with General Fund. The table below was provided by CSIS and includes prior-year funding and the proposed budget year budget for CSIS.

<table>
<thead>
<tr>
<th></th>
<th>2002-03</th>
<th>2003-04</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central operations</td>
<td>$4.29</td>
<td>$3.90</td>
<td>$3.90</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.300 (Title VI)</td>
</tr>
<tr>
<td>Project Management</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
</tr>
<tr>
<td>LEA Projects</td>
<td>5.42</td>
<td>0</td>
<td>1.950 (Title VI)</td>
</tr>
<tr>
<td>CALPADS -- assignment of student identifiers</td>
<td>0.320 (Title VI)</td>
<td>0.520 (Title VI)</td>
<td>0.520 (Title VI)</td>
</tr>
<tr>
<td>Total funding</td>
<td>$10.28</td>
<td>$4.67</td>
<td>$6.92</td>
</tr>
</tbody>
</table>

Unless indicated as Title VI federal funds, all funds are General Fund Proposition 98.

Background on CSIS. CSIS was initiated several years ago to assist districts in the electronic transfer of state reports to CDE and to facilitate the transfer of student records between districts. It is a voluntary program in which districts receive incentive funding and technical assistance to participate. CSIS is administered by the Fiscal Crisis Management Assistance Team (FCMAT). A number of districts participate in CSIS, and CSIS notes that it has a number of districts in the pipeline to participate fully. It also notes that there are a number of districts, many of them small, that do not participate in CSIS.

Proposed funding for new CSIS cohort. In an April letter, DOF proposes to increase CSIS' budget by providing $1,974,000 in additional Title VI federal funds for CSIS to expand to a new cohort of school districts. Last year, the Legislature did not provide any funding for new participants. DOF also the following budget bill language to accompany its proposed increase:

X. The funds appropriated in Schedule (11) of this item are available for the first-year implementation costs of a new CSIS cohort.

In addition, DOF proposes to increase CSIS' central operations budget by $299,000 in federal Title VI funds, to bring its central operations budget back to 2002-03 levels. (Last year, the Legislature cut CSIS' central operations budget in an effort to cut overall costs in Proposition 98.) It also proposes the following accompanying budget bill language:

X. The funds appropriated in Schedule (12) of this item are available for CSIS central operations costs for new hardware and software to support the new cohort.
COMMENTS:

FCMAT will be available to answer any questions.
ISSUE 4: CALIFORNIA LONGITUDINAL PUPIL ACHIEVEMENT DATA SYSTEM (CALPADS)

The issue for the subcommittee to consider is the proposed budget for and status of the California Longitudinal Pupil Achievement Data System (CALPADS).

BACKGROUND:

Longitudinal database. Pursuant to SB 1453 (Alpert) of 2002, CDE is required to develop, via contract, a California Longitudinal Pupil Achievement Data System (CALPADS) that will contain longitudinal data on students' test results on the various state testing systems. SB 1453 provided $6.8 million in federal Title VI funding for the system, and in the current year, the revised funding level for this program is $1.8 million. For the budget year, the Governor proposes $2.3 million in federal Title VI funding to continue development of CALPADS. For the past two years the budget has provided CSIS with funding to assign unique individual student identifiers to every student in the state's K-12 education system. This funding is highlighted in Table 3 above.

COMMENTS:

CDE will be available to present an update on CALPADS.
ISSUE 5: ECONOMIC IMPACT AID -- LAO PROPOSAL REGARDING FORMULA, BLOCK GRANT

The issue for the subcommittee to consider are 1) an LAO proposal to change the formula for distributing funds for the Economic Impact Aid (EIA) program, and 2) a proposal to merge a portion of the Targeted Instruction Improvement Grant program and the English Learner Assistance Program into EIA.

BACKGROUND:

The Economic Impact Aid program provides funding to school districts to provide compensatory education services to economically disadvantaged and English learner students. The formula for distributing the funds is based on a primary formula and a secondary formula, both of which are based on measures of economically disadvantaged children and English learners. The LAO argues for changes in the formula based on its findings that the current formula results in what it believes are arbitrary funding levels, as well as unpredictability in the amount of funding that each district will receive. For the budget year, the Governor proposes $548 million for this program.

In addition, the LAO recommends adding the $53.2 million in English Learner Assistance Program funds into the EIA formula. It also proposes maintaining the current distribution of the Targeted Instruction Improvement Grant funds and including these funds as an add-on to districts' EIA grants.

COMMENTS:

The LAO will be available to present their proposals at today's hearing.

Due to the complexity of the formula and the proposed changes, staff recommends that this proposal be considered as a bill to be heard by policy committees and not as part of the budget process.
5180 Department of Social Services  
6110 California Department of Education

ISSUE 6: CHILD CARE REFORM

The Subcommittee will discuss a proposed reform to Child Care programs.

BACKGROUND:

The Governor's Budget contains a substantial reform of child care programs. These reforms include:

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>DESCRIPTION</th>
<th>Estimate Savings from Reform in FY 04-05 (Oct. 1 start date)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Eligibility</td>
<td>Creates a three-tiered eligibility limit, based upon county.</td>
<td></td>
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<tr>
<td></td>
<td>➢ Highest-cost counties would stay at the existing income eligibility level (currently 75 percent of State Median Income).</td>
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<tr>
<td></td>
<td>➢ Medium-cost county counties would have their maximum income eligibility level reduced by 4.55 percent from the current level.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>➢ Low-cost counties would have their level reduced by 9.11 percent from the current level.</td>
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<tr>
<td></td>
<td>As of FY 04-05, the maximum income eligibility level would become a set dollar amount. In FY 05-06 and subsequent years, this amount would be adjusted by the California Necessities Index (CNI) and would not be based upon the State Median Income.</td>
<td>$9.3 million</td>
</tr>
<tr>
<td>Child care for 11 and 12 year olds</td>
<td>State would provide child care to 11-12 year old children only when “afterschool programs are not available”.</td>
<td>$75.5 million</td>
</tr>
<tr>
<td>Family Fees</td>
<td>Family fees start at 38 percent of the current eligibility limit. For CalWORKs, family fees at the point when the family when a family leaves cash aid. The total fee would not exceed 10 percent of income. Fees would be collected by providers.</td>
<td>$22.3 million</td>
</tr>
<tr>
<td>Reimbursement rates</td>
<td>Creates a tiered maximum reimbursement rate for vouchered child care programs that ranges from 85-40 percent of the Regional Market Rate. The level of child development principles (quality) would determine the level of reimbursement.</td>
<td>$57.7 million</td>
</tr>
<tr>
<td></td>
<td>➢ 85 percent for accredited licensed providers that serve private-pay children</td>
<td></td>
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<tr>
<td></td>
<td>➢ 75 percent for all other licensed providers that serve private-pay children</td>
<td></td>
</tr>
<tr>
<td></td>
<td>➢ 75 percent for accredited licensed providers that do not serve private-pay children</td>
<td></td>
</tr>
<tr>
<td></td>
<td>➢ 50 percent for all other licensed providers that do not serve private-pay children</td>
<td></td>
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<tr>
<td></td>
<td>➢ 50 percent for licensed exempt providers with that meet certain health, safety and training requirements.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>➢ 40 percent for all other licensed exempt providers</td>
<td></td>
</tr>
<tr>
<td>Time limit for</td>
<td>Creates a one-year time limit of eligibility for CalWORKs Stage 3</td>
<td>$0 (all savings would be realized by FY 05-06).</td>
</tr>
</tbody>
</table>
CalWORKs Stage 3 and education and training  
- Child Care.
  - Limits families attending education and training activities receiving child care in Alternative Payment and General Child Care to two years of care.

CPS families  
- CPS referrals would pay family fees after three months unless the referral was made by the county child welfare agency. CWS-referred families would have to pay fee after one year of care.

CalWORKs Waiting List  
- Allows CalWORKs families to enter the waiting list for child care as soon as they report earned income. CalWORKs families would transition to AP/General Child Care as soon as a slot opened.

TOTAL  
- Included in Fee savings.  
- N/A

The Governor's Budget Summary also referenced a child care fraud effort that will be included in the May Revision.

The Governor's Budget Summary states that child care reform is necessary for the follow reasons:

- Personal responsibility is promoted by lowering the income threshold when families are asked to share in the cost of child care.
- Program effectiveness and quality will be enhanced by providing financial incentives for licensed providers to integrate early childhood development education principles.
- Program equity is enhanced by implementing a tiered income eligibility structure that recognizes higher cost areas.
- Program integrity and efficiency will be enhanced by establishing lower reimbursement limits for lower quality care, improving compliance and authorizing administrators to pursue overpayments made to providers and families.

Previous reform efforts were based upon the projected fiscal pressure from caseload trends in child care programs.

The chart below details how the savings from the proposed reform, by program.

<table>
<thead>
<tr>
<th>FY 04-05 Savings $ in millions</th>
<th>Age Eligibility Limits</th>
<th>Eligibility Reforms</th>
<th>RMR - Reforms</th>
<th>Family Fees</th>
<th>Stage 3 One Year Time Limit</th>
<th>Total Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>$18.2</td>
<td>$1.1</td>
<td>$22.5</td>
<td>$0.0</td>
<td>n/a</td>
<td>$41.8</td>
</tr>
<tr>
<td>Stage 2</td>
<td>$25.4</td>
<td>$1.6</td>
<td>$19.2</td>
<td>$7.6</td>
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<td>$53.8</td>
</tr>
<tr>
<td>Stage 3</td>
<td>$15.8</td>
<td>$0.8</td>
<td>$11.0</td>
<td>$4.9</td>
<td>$0</td>
<td>$32.5</td>
</tr>
<tr>
<td>GCC</td>
<td>$4.5</td>
<td>$4.9</td>
<td>$0.0</td>
<td>$7.7</td>
<td>n/a</td>
<td>$17.1</td>
</tr>
<tr>
<td>Latchkey</td>
<td>$3.0</td>
<td>$0.2</td>
<td>-</td>
<td>$0.1</td>
<td>-</td>
<td>$3.3</td>
</tr>
<tr>
<td>AP</td>
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</tr>
<tr>
<td>Total</td>
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<td>$9.3</td>
<td>$57.7</td>
<td>$22.3</td>
<td>$0</td>
<td>$164.8</td>
</tr>
</tbody>
</table>
The proposed reform would reduce the ongoing Proposition 98 funding for child care by about $69.2 million a year. These ongoing Proposition 98 funds would be used for other K-14 priorities.

April DOF letter. On April 1, 2004, the Department of Finance issued an April Fiscal Letter requesting that budget bill be amended to implement a reduction to the Alternative Payment Providers administrative rate at a new percentage, rather than a fixed dollar amount. The change would be more in line with actions taken by the Subcommittee last year, which reduced the AP administrative rate by 1 percent. The proposed change is reflected below.

“11. Administrative and support services allowances for the Alternative Payment, Stage 2, and Stage 3 Setaside child care programs funded through Schedules (1.5)(d), (1.5)(e) and (1.5)(f) of this item, shall be limited to no more than 25 23.46 percent of the direct cost-of-care payments to child care providers. The $12,000,000 reduction for administrative and support services allowances contained in Provision 14 of Item 6110-196-0001 of the Budget Act of 2003 (Chapter 157, Statutes 2003) shall still apply.”

COMMENTS:

Subcommittee #1 held a hearing that received substantial public comments on the proposed reform.

Sub 1 took actions on some of the reform proposals and has requested that Subcommittee # 2 conform to these actions. The actions were:

- Reject Time Limit on CalWORKs Stage 3 Child Care and including CalWORKs families on child care program on a wait list
- Reject limiting Child Care for Parents in Employment and Training Activities
- Reject proposed Trailer Bill Language requiring additional audit requirements for LEA's providing child care
5180 DEPARTMENT OF SOCIAL SERVICES
6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 7: CHILD CARE FOOD PROGRAMS

The Subcommittee will discuss the loss of the Child Care Food Programs across the State.

BACKGROUND:

The Child Care Food Program offers nutrition education and reimbursement to licensed family child care providers for the nutritious meals they serve.

Last December, the largest administrator of child care programs in the State decided not to renew their Child Care Food Program contract, citing overwhelming regulatory burdens. The agency cited the following examples of regulatory hurdles required by the program:

- The agency was given different interpretations of the regulations throughout the year. At times, these regulations were conflicting in nature.
- The program required the agency’s employees to complete time-sheets that required that each employee measure the time spent on the program in fifteen-minute intervals.
- Each provider was expected to fill out paperwork immediately after each meal was prepared, which conflicted with their ability to pay attention to the children in their care.

The Department of Education reports that these regulations are a result of a federal Department of Agriculture crackdown on fraud in child care food programs.

The Department of Education requested 15 PY’s using $1.9 million of federal funds in the budget year to provide technical assistance and increased monitoring of child nutrition programs at the Department of Education, including the child care food program. The State spends roughly $1.4 billion per year on nutrition services. The budget contains $800,000 in funding for these activities, but does not authorize any positions.

April DOF letter. On April 1, 2004, the Department of Finance issued an April DOF Letter requesting the that budget bill be amended to allow funding received from a private company as part of a legal settlement with a grill manufacturer for price fixing to be used for child nutrition programs at the schools and child care sites. The proposed provisional language is below:

"3. Of the funds appropriated in Schedule (1), $150,000 shall be made available to improve the health and nutrition of children through nutritional grants to school districts and childcare agencies. Funding for these grants shall be contingent on an award from the Salton Company Fund for this purpose. Funding for these grants shall not exceed the amount of the award."
Assembly Budget Subcommittee #1 heard this issue as part of its deliberations on April 14, 2004. Subcommittee #1 has referred this issue to this Subcommittee for action, with a recommendation that Subcommittee #2 provide CDE with the requested funding and positions for oversight of child nutrition programs.
The Governor's Budget proposes to use federal 21st Century after school funds to provide care for 11-12 year olds that currently receive subsidized child care.

BACKGROUND:

The Governor's Budget proposes to provide subsidized child care to 11-12 year old children only when "afterschool programs are not available". The proposal assumes $75 million in savings is achieved from all 11-12 year olds being able to transfer to afterschool program in the budget year. The Department of Finance estimates that 18,000 11-12 year old children would receive care next year.

The Governor's budget did not contain additional funds for afterschool programs, but DOF has issued an April DOF letter that identified new federal funds that would fund the additional afterschool slots needed for the families currently receiving child care. California will receive approximately $60.8 million in 21st-century federal funds in the budget year. Currently, afterschool programs in California receive $46.5 million in federal funds that are directly contracted to providers and are expiring in the budget year. Thus, the net increase in federal funds is $14.3 million additional 21st-century federal funds above the current year level. However, the budget does not guarantee that programs getting federal funds that expire this year will continue to get funding in the budget year. The language in the April DOF letter that provides the $60.8 million is contained below.

It is requested that this item be increased by $61.8 million to reflect a $60,410,000 increase in the federal 21st Century Community Learning Centers grant and $1,390,000 in one-time federal reallocated and carryover funds. It is requested that these funds be allocated as follows: $2,118,000 for technical assistance grants; $5,195,000 for access grants; $1,510,000 for family literacy grants; $3,685,000 for high school grants; and $49,292,000 for elementary, middle, and junior high school grants. This allocation complies with the existing plan shares intended for recipients of these funds.

Additionally, it is requested that the Superintendent of Public Instruction be granted the authority to waive grant caps for after school programs that are already earning the maximum grant amount, but that can create additional slots for 11 and 12 year olds redirected from subsidized child care programs. It is therefore requested that the following provisional language be added to this item:
4. (a) Of the amount appropriated in this item, $60,410,000 is new ongoing federal 21st Century Community Learning Centers funds, $782,000 is one-time reallocated federal funds, and $608,000 is one-time federal carryover funds.

(b) Notwithstanding any other provision of law, priority for core grants shall be given to new programs in areas that have been identified by the State Department of Education as having high concentrations of 11 and 12 year olds in subsidized child care programs.

(c) Notwithstanding any other provision of law, the Superintendent of Public Instruction may, upon request of a program that is earning the full grant amount, waive the funding caps for core grants for elementary, middle, and junior high schools to enable those programs to create additional slots for 11 and 12 year old students redirected from state and federally funded subsidized child care programs as a result of child care reforms enacted in the 2004 Legislative Session.

Block grants vs. earned funding. For the new $60.8 million, the Governor proposes to continue the set-asides that were approved two years ago when the state first began receiving the 21st century grants: technical assistance grants, access grants, family literacy grants and high school grants. The Legislature provided the set-asides to ensure that there were two types of funding going to school districts: 1) "earned grants" based on the number of students attending and hours of service provided in the after school programs and 2) block grants designed to provide districts with more flexibility in meeting the needs of certain types of students and providing a variety of services to help families support their children's success. High school 21st Century grants are funded entirely through the second type of funding mechanism. Elementary and middle school grants have both types of funding, although the majority of funding is through earned grants. At the time of the creation of this dual funding model, the administration was supportive of the first type of funding, which is similar to the way the state-funded after school program is funded. This funding mechanism requires programs to keep strict attendance records, penalizes programs (such as middle and high school programs) where students may not attend every day, and does not provide funding for literacy programs and support programs that were part of the original 21st Century direct grant program to districts. Certain members of the Legislature was supportive of the second type of funding, which is based on the way the federal 21st Century direct grants to school districts were originally provided, based on an application and overall plan by the district and without the requirement that the district earn its funds based on the number of children served and hours of service provided.

Proposition 49. The voter-approved Proposition 49 of 2002 will eventually increase State funding for afterschool programs by $428 million a year. However the LAO does not think this funding requirement will be triggered until FY 07-08. DOF projects that the trigger will be pulled in FY 06-07.

Additional April DOF letter issues: On April 1, 2004, the Department of Finance issued a letter requesting that the budget bill be amended to reflect the following changes:

- Provide budget bill language and spending authority for $60.8 million in ongoing 21st Century federal child care funding for afterschool programs. The proposed budget bill language directs the funding to pay for the care of 11 and 12-year-olds currently receiving subsidized child care. The language also empowers CDE to waive enrollment caps to create capacity for these youth.
• Eliminate the budgeted spending authority for afterschool programs, as they are now continuously appropriated by the passage of Proposition 49.
• Provide $283,000 in federal funds and 4.0 positions to CDE to provide support for the 21st Century Community Learning Centers Grant Program, to accommodate the increase in federal local assistance funding.

COMMENTS:

According to child development advocates, many afterschool programs are at capacity and have waiting lists. Thus, even with the additional $14.3 million provided by the federal government in the budget year, it is unlikely that all 11 and 12 year olds in the current child care system would get an afterschool slot without additional funding.

Many of the families receiving child care need care at off-hours and during school holidays. Even if sufficient slots were available, not all families could utilize afterschool as their only care for their children.

The Department of Finance has commented that it will be adjusting the budget in the May Revise to reflect a small net savings from the movement of 11 and 12 year olds to afterschool programs.

Last year, the budget eliminated child care eligibility for 13 year-old children. According to child advocates, families should not leave children younger than age 12 unattended at home. The Administration intends to continue care to children 12 years old and younger currently in the system, either in an afterschool slot or in child care.

Unexpended Funds that will expire. Staff notes that there is more than $20 million in carryover that is expected to expire soon due to delays in implementation. CDE reports that it has a proposal to expend these funds and expects it to be a part of May Revise. The Subcommittee may want to inquire what CDE and the Administration will do in the future to prevent this from happening again.
ISSUE 9: CHARTER SCHOOLS

The issues for the subcommittee to consider are: 1) the Governor's proposal to eliminate the charter school categorical block grant and roll categorical funding into charter school apportionments (revenue limit funding), and 2) the Governor's proposal to eliminate funding for the Charter Schools Facilities Grant Program.

BACKGROUND:

I. Governor's proposal regarding the charter school categorical block grant. The Governor proposes the following major changes to categorical funding for charter schools. The changes are contained in the Governor's categorical reform bill, AB 2824 (Runner).

Rolls funding for 22 categorical programs into charter school apportionments (revenue limit funding). This is analogous to the concept in the Governor's general categorical reform proposal for non-charters.
For four of the above 22 programs, he rolls each charter's existing funding levels (zero for some charters) into its apportionment. These funding levels vary from charter to charter. In contrast, for eighteen of the programs he proposes to roll into the revenue limit he maintains the existing per-pupil funding mechanism in the current charter categorical block grant.
Eliminates the line item for the charter school block grant, due to the proposed roll-in.
He eliminates the line item for the charter school compensatory education block grant, rolls the funding into the Economic Impact Aid program and requires them to apply for this program.

Background on charter school funding. AB 1115 (Strom-Martin) of 1999 created the current charter school funding model, which provides charter schools with four types of funding: 1) apportionments based on attendance, similar to revenue limit apportionments, and 2) a categorical block grant which is distributed on a per-ADA basis and is intended to provide the same amount of categorical funding to charter schools as non-charter schools receive, without all of the statutory restrictions that accompany categorical funding, 3) a compensatory education block grant, which provides charters with funding based on the number of economically disadvantaged and English learner pupils, similar to the Economic Impact Aid (EIA program) and 4) categorical funding which charters must apply for separately and comply with the accompanying categorical requirements just like non-charters -- these are programs whose funding is not included in either of the two block grants. Under current law, charter school apportionments are linked to non-charter apportionments, and the categorical block grant is linked to appropriation levels for the categorical programs included in the block grant.

LAO comments, proposal. LAO has the following concerns about the Governor's proposal: 1) For four of the categorical programs it proposes to roll into apportionments, it maintains existing funding levels per charter, thereby maintaining existing inequities between charters and not equalizing funding, as occurs under current law with programs included in the charter school block grant. 2) It creates potential inequities between charters and non-charters because it rolls 10 programs into charter's revenue limits that it does not propose to roll into non-charter revenue limits. The LAO believes that this proposal effectively de-links charter school funding to non-charter funding, as currently occurs, and could lead to future inequities between charters and non-charters. 3) Eliminating the charter school block grant eliminates a cornerstone of charter school legislation of providing in-lieu categorical funding. Charter schools might need to directly apply for all new categorical programs that are created in the future. The Governor also
maintains more than 20 categorical programs for which charters must apply separately, without any mechanism (block grant) to provide in-lieu funding for these programs, should the Legislature decide to do so at a future date.

The LAO proposes an alternative proposal which shifts some categoricals into the revenue limit but still maintains the charter school categorical block grant. They will present their proposal at the hearing.

II. Charter Schools Facilities Grant Program. The Governor proposes to eliminate $7.7 million in funding for this program, which was created in 2001 by SB 740 (O'Connell) of that year. DOF cites the phase out of the program and the availability of bond funds for charter schools as reasons to delete the funding. The program was created as part of a package of reforms to reduce funding for non-classroom based charter schools, which do not have the same level of costs as classroom-based charter schools. As part of those reforms, the legislation created this program to reimburse charters serving economically disadvantaged children for their facilities' costs. Specifically, it reimburses selected charter schools for the costs of renting and leasing classroom buildings. To participate, a charter must

1) Located within the attendance area of an elementary school serving 70+ percent students who qualify for free/reduced lunch, and/or
2) The charter school's population must serve a population of 70+ percent free/reduced lunch students.

Eighty-three charters currently receive funding from the program. The authorizing legislation contained intent language to fund the program at $10 million each for the 2001-02, 2002-03 and 2003-04 fiscal years.

DOF has provided the following history of funding for the program:

2001-02: Originally, $10 million; got reduced to $5 million as part of the mid-year cuts. The $5 million was eventually reverted in the 2002 budget act.
2002-03: $10 million
2003-04: $7.7 million

COMMENTS:

Technical note: On the proposed changes to the charter school funding mechanisms, staff notes that if the subcommittee does not wish to adopt the Governor's proposal, it would need to re-establish the line items for both charter categorical block grants and adjust the amount in the EIA line item.
ISSUE 10: 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 provides 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\(^1\) 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.

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

\(^{1}\) 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 from foster care, at least 25% experience homelessness, 33% receive welfare, 50% face unemployment, and approximately 25% are arrested and spend time in incarceration.
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 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 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 11: 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 $874,219,000
(4) 10.60.050.021-IDEA, Capacity Building, Special Education…. $72,857,000 $73,220,000”
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 13: 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 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 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 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, $1,373,000 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 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) 6110-001-0890, Department of Education—State Operations

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) 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.
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.
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, or 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.
0558 OFFICE OF THE SECRETARY FOR EDUCATION

ISSUE 17: 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.