# AGENDA

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

**ASSEMBLYMEMBER SARAH REYES, CHAIR**

**TUESDAY, APRIL 6, 1999**  
**STATE CAPITOL, ROOM 447**  
**4:00 P.M.**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>6110</strong></td>
<td><strong>DEPARTMENT OF EDUCATION (K-12)</strong></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>➢ Estimated increase in current year ADA (information only)</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>➢ Deferred maintenance</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>➢ STAR</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>➢ Matrix-sampled test</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>➢ English Language Development Test</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>➢ Golden State Exam</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>➢ School and classroom libraries</td>
<td>12</td>
</tr>
<tr>
<td><strong>6120</strong></td>
<td><strong>CALIFORNIA STATE LIBRARY</strong></td>
<td>14</td>
</tr>
</tbody>
</table>
6110 DEPARTMENT OF EDUCATION (K-12)

ISSUE 1: ADA ESTIMATES (INFORMATION ONLY)

The issue for the subcommittee to consider is an upward adjustment in the estimate of average daily attendance (ADA) for the current year, which has budget implications in the current and budget years.

BACKGROUND:

In February, SDE released information that provided a preliminary estimate of ADA for 1998-99 that was significantly higher than earlier estimates. This most recent information is based on enrollment data collected through December and estimates ADA in 1998-99 to be approximately 5.5 million – an increase of approximately 86,000 ADA, or a 1.5 percent increase over earlier estimates. It should be noted that the information provided by SDE regarding ADA is used to provide an estimate of what ADA will be in the current year and is not an absolute figure. The state will not have more information regarding ADA for 1998-99 until June and until that time will have to rely on estimates.

An upward adjustment in current year ADA estimates has potential budget implications for the current and budget years. ADA is used to calculate the amount of general purpose funds districts receive through apportionments. Apportionments are continuously appropriated and are not subject to approval by the Governor or Legislature. The state makes early estimates of ADA for any fiscal year to estimate the amount it will need to spend on apportionments in that year. Any increase in actual ADA over original estimates means an expense over what the Legislature had originally planned to spend.

COMMENTS:

Differing estimates of increase: The LAO, DOF and SDE have different interpretations of SDE's preliminary information and how it affects current year ADA estimates. In its March 1999, Cal Update, the Legislative Analyst provided its own estimate of the current year ADA adjustment: between 60,000 and 90,000 ADA higher than earlier estimates. These projections are lower than a preliminary figure cited by DOF of 97,000 additional ADA. The LAO estimates the cost of this additional ADA at between $225 million and $335 million.
Despite differing projections of the new ADA estimate, however, there is a consensus among the three agencies that current year ADA will be somewhat to significantly higher than the estimate assumed in the January 10 budget. While there are usually adjustments to the estimate that occur every year, an adjustment of 86,000 ADA is unusual.

**Preliminary information may overstate increase.** Staff notes that enrollment data collected through December usually provides a higher count than later enrollment data collected in the spring (this information will not be available until June). Historically, spring enrollment counts can be from 0.25 percent to one percent lower than December enrollment counts. Therefore, if this year follows historical trends, we can expect the 86,000 figure reported by SDE to drop somewhat in spring enrollment counts. (A 0.25 percent drop in spring from the December count would lower the 86,000 figure of additional ADA to approximately 72,000. A 0.75 percent drop in the spring count would lower the 86,000 figure to approximately 45,000.)

**Possible reasons for increase:** The reasons for any increase in ADA above original estimates are unclear. Possible reasons for the increase include the following:

a) Unexpected enrollment growth – This could be caused by real population increases in California or a return to public schools by some children who had formerly attended private schools. (Charter school enrollment has been increasing, which may also be a result of the latter phenomenon.)

b) Recent changes in the way districts count average daily attendance, or ADA, for funding purposes – In 1997, the Legislature approved SB 727 (Rosenthal), which established a new method for calculating ADA for state funding purposes. The 1998-99 instructional year is the first year that districts must use the new method established by SB 727 (Rosenthal), which eliminates the practice of funding excused absences as days of attendance and instead funds apportionments based on actual attendance. The bill was intended to create an incentive for districts to get children to attend school. If the intended incentives in the bill work properly, we would expect an increase in ADA in the current year. (Anecdotal evidence suggests that some districts may have responded to the incentives in SB 727 by increasing their use of independent study or Saturday school. It is unclear to what extent any unexpected increases in ADA in the current year are due to this phenomenon.)

c) Welfare reform – Legislation passed in 1997 links children’s school attendance to their parents’ CalWORKS benefits. This policy may have created an incentive for some parents to improve their children’s school attendance.

Both DOF and SDE report that they are investigating whether the December data contains any reporting errors. In particular, districts are using new software systems to track attendance and this may have caused some unintended reporting errors.
How to pay for additional ADA – If the estimated increase in ADA proves to be a reality, the state will need to pay for the additional apportionments for 1998-99. The LAO cites the following options in paying for this anticipated additional current year expense:

1) Redirect current year savings to pay for all or part of the additional expense.
   The state can find savings among planned education expenditures (Proposition 98) or among other segments of the budget. If it finds current year savings among existing Proposition 98 dollars and uses them to pay for additional ADA this will lessen the extent to which the additional apportionment expenses increase the Proposition 98 base. It will also decrease the amount of additional General Fund money the state must "find" to pay for the expense.

2) Do not redirect current year savings and pay for additional expense out of additional current year and/or budget year General Fund. If the state chooses to pay for the additional expense out of additional current year General Fund money, this will have the effect of increasing the Proposition 98 base in the current year, which will similarly increase the minimum Proposition 98 guarantee in the budget year over the level assumed in the January 10 budget.

Additional property tax revenues: In addition, SDE estimates that property tax revenues may come in higher than originally estimated. These revenues can help offset the apportionment cost of any additional ADA. The latest figures from SDE project that $70 million in additional property tax revenues may be available to school districts in the current year.

Maintenance of per-pupil spending: The LAO points out that if the Legislature intends to maintain the same level of per-pupil spending as that proposed in the Governor's January 10 budget ($5944 per ADA), the cost of any additional ADA will be greater than the cost of additional apportionments. This is because apportionments make up only a portion of total K-12 spending; the remainder comes from the state’s expenditures on categorical programs. Therefore, if the Legislature chooses to maintain per-pupil spending it must also increase its spending on categorical programs. The LAO estimates that the additional cost of maintaining per-pupil spending would range from $360 million to $540 million (in addition to the cost of additional apportionments).
ISSUE 2: DEFERRED MAINTENANCE

The issue for the subcommittee to consider is the Governor's proposed reduction in funding for deferred maintenance.

BACKGROUND:

The Governor's budget proposes to eliminate $115 million in funding for deferred maintenance. This is a departure from last year's budget, which provided $115 million in General Fund for deferred maintenance.

Districts may apply for funding for deferred maintenance through the State School Deferred Maintenance Program. To obtain funding districts must have a five-year deferred maintenance plan as well as provide a dollar-for-dollar local match for any funding received.

The Department of Finance cites the voters' approval last year of a $9.2 billion bond measure for education facilities (Proposition 1A) as providing sufficient funding for deferred maintenance. Proposition 1A earmarks $6.7 billion of the total bond package on K-12 facilities over four years. It sets aside $2.1 billion of this amount for school modernization, which DOF argues can sufficiently fund districts' deferred maintenance needs. (Districts must provide a 20 percent match for modernization funding.)

COMMENTS:

The Legislative Analyst's Office recommends that the Legislature restore the $115 million for deferred maintenance deleted by the Governor's budget. It argues that the bond's $2.1 billion set-aside for modernization will not address the state's deferred maintenance problem, because deferred maintenance will only be a component of modernization projects.

It also argues that last year the Legislature made a commitment to school districts to fund deferred maintenance on an ongoing basis and that it should continue this commitment. The LAO points to language in the bond measure that requires districts to set aside a certain percentage of their general fund budget to fund facilities maintenance, in order to obtain funding for construction or modernization. The bond language allows districts to count this required facilities maintenance funding as a local match for the State School Deferred Maintenance Program, and the LAO argues that this allowance infers that the Legislature intended for the state's deferred maintenance program to continue at least throughout the life of the bond money.

In 1997, the LAO wrote a report entitled "Addressing the K-12 Maintenance Problem." The report recommended that the state adopt a 10-year plan to 1) provide funds to eliminate deferred maintenance backlogs and 2) create an incentive for school districts to fund ongoing maintenance.
The issue for the subcommittee to consider is the proposed funding level for the STAR program.

**BACKGROUND:**

The Governor's budget proposes a spending level of $42.1 million for the STAR program. This is an increase of $2.4 million, or 6 percent over the funding level in the current year. The increase for the program is proposed to pay for an increase in the reimbursement rate to the publisher, due to 1) a statutory requirement that the publisher align the test to state standards and 2) changes in reporting requirements for the publisher. However, part of the cost of this rate increase is offset by a drop in expected participation in the primary language test. (The budget assumes that of the state's 1.4 million English learners, districts will claim reimbursement for testing only 150,000 of these students in their primary language in the budget year.)

SB 376 (Alpert), Chapter 828, Statutes of 1997, created the STAR program, which requires that all children in grades 2 though 11 (including English learners) be tested with an off-the-shelf, basic skills test (selected as the SAT 9) on an annual basis (Spring). The 1997-98 instructional year was the first year that the test was administered. According to current law, the STAR is one part of a two-tiered statewide testing system that also includes the matrix-sampled test (see issue 4), which is being developed. The STAR is nationally-normed and allows the state and parents to compare individual and combined scores with scores from children in other states.

Current law also requires that the selected test be aligned to new state content standards. The publisher of the SAT 9 has recently created an augmented version of the SAT 9 that is aligned to the state standards in reading, language arts and math. The 1998-99 instructional year will be the first time that this "augmented" STAR will be administered. The publisher will be required to provide another "augmented" version of the STAR in the 1999-2000 that will be further aligned to the state standards in science and history/social science.

Current law requires school districts to test English learners in their primary language if they have been enrolled in school for a year or less and to the extent a test exists for that primary language. For English learners that have been enrolled in school for more than a year, districts are not required to test them in their primary language but may voluntarily do so and receive reimbursements from the state for testing costs. The state has designated an off-the-shelf test to be used in Spanish. However it has not done so for other languages due to the lack of availability of standardized tests in other languages.
The state pays districts a reimbursement rate for the cost of administering the SAT 9. Districts use a portion of this funding to pay the publisher for the cost of the test materials and whatever services the publisher is required to provide pursuant to districts' contracts. The remainder of the reimbursement is intended to reimburse districts for their internal costs of administering the test. The state also pays a different, lower rate to districts for the cost of administering primary language tests pursuant to current law. Current law requires the State Board of Education to establish the reimbursement rate for both tests, and allows this rate to be up to $8 per test per pupil. (The $42.1 million in the budget for the STAR program includes reimbursements for the SAT 9 as well as primary language tests.)

**COMMENTS:**

In early March of this year, legislators were notified of problems the STAR publisher was having in delivering promised testing materials to school districts in a timely manner. The SPI reported that the publisher notified her in the first weeks of March that it would not be able to deliver testing materials to school districts that had scheduled to begin their testing for the opening of the testing window on March 15. The delay appears to have caused great inconveniences for school districts; in some cases districts were forced to reschedule instructional programs or create special schedules because of missed testing dates. As of early March, SDE reported that 136 school districts did not receive their test materials on the date promised by the publisher.

Under current law, the state does not have a single contract with the designated publisher to administer the test to districts. Rather, districts individually contract with the publisher for the provision of materials and test results and reports. The State Board of Education provides districts with a standardized contract that districts may customize to fit their individual needs. The State Board of Education has expressed its intent that districts contract with the current publisher for five years, with the intent that SBE review the performance of the publisher after three years. The 1999-2000 fiscal year will constitute the third year of districts' contracts with the current publisher.

SB 366 (Alpert), as currently drafted, makes significant changes to the STAR program. It would eliminate the requirement that school districts contract individually with the publisher and instead require a single contract between the publisher and SDE. It would also exempt English learners from the requirement that they be tested with the STAR, if they have been enrolled in California public schools for less than 24 months, as well as make other changes to provisions regarding the development of performance standards. AB 144 (Migden) also proposes changes to the STAR. Specifically, it requires the development of versions of state tests in the major primary languages in the state. It would also exempt English learners that have been received less than 30 months of instruction in English from the requirement that they be tested with the STAR.
ISSUE 4: MATRIX-SAMPLED TEST

The issue for the Subcommittee to consider is the proposed level of spending for the development and administration of the new standards-aligned Test of Applied Academic Skills, or "matrix-sampled" test.

BACKGROUND:

The Governor's budget proposes $12 million in one-time Proposition 98 funds for the continued development of the matrix-sampled test, and $20.2 million in ongoing funds to administer the test in the spring of the 1999-2000 instructional year.

AB 265 (Alpert), Chapter 975, Statutes of 1995 requires the state to develop 1) statewide academic content and performance standards and 2) a test for grades 4, 5, 8 and 10 that is aligned to these standards. This test is intended to provide detailed information about students' performance in meeting the standards at the school, district and statewide levels, but will not provide individual scores like the STAR. However, the matrix-sampled exam is intended to include essay questions and open-ended questions that require written responses, in addition to multiple choice questions. The matrix-sampled test is part of a two-tiered state assessment system that includes the STAR.

COMMENTS:

Test development: The LAO opines that the $12 million set aside for test development assumes that the test is built from scratch. It notes that because the STAR is supposed to be aligned to state standards by the 1999-2000 instructional year, the matrix-sampled test could be built upon the existing aligned STAR, thereby reducing its length and cutting the cost of design and administration. The LAO recommends that SDE report to the Legislature at budget hearings regarding whether the matrix design can incorporate student responses from the STAR test and what the cost implications would be.

The SDE reports that the $12 million in one-time Proposition 98 funds designated for test development is made up of a variety of different pots of money and that this had caused some administrative problems. The following language could address these problems and provide clarity by reverting the totality of these funds and reappropriating the same level of funding for matrix-sampled test administration. Staff notes that this language is technical and does not affect the level or one-time nature of the funding available for this purpose:
Add to item 6110-495, Reversion, Department of Education:

1) The unencumbered balance as of June 30, 1999 of Section 6 (A)(2) of Chapter 975, Statutes of 1995, as reappropriated by Item 6110-490(1) of Section 2.00 of the Budget Act of 1997 (Chapter 282, Statutes of 1997), and Section 57 (a) of Chapter 330, Statutes of 1998, Statewide Pupil Assessment.

2) The unencumbered balance as of June 30, 1999 of Section 41 (D)(A) OF Chapter 299, Statutes of 1997, as reappropriated by Section 57 (b) of Chapter 330, Statutes of 1998, Statewide Pupil Assessment.

3) The unencumbered balance as of June 30, 1999 of 6110-113-0001 (b) of Section 2.00 of the Budget Act of 1997 (Chapter 282, Statutes of 1997), Statewide Pupil Assessment.

4) The unencumbered balance as of June 30, 1999 of 6110-113-0001 (b) of Section 2.00 of the Budget Act of 1998 (Chapter 324, Statutes of 1998), Statewide Pupil Assessment.

Add to item 6110-485, Reappropriation, Department of Education:

(h) $12,000,000 to the Department of Education for the purpose of contracting for matrix test development during the 1999-00 fiscal year.

**Test administration:** The LAO recommends that the Subcommittee require the SDE to report at budget hearings on the viability of developing a test in time for a spring, 2000 administration. The LAO cites a number of concerns about the feasibility of this date. Specifically, they cite the fact that the State Board of Education (which will administer the request for proposal for the contract) still has not resolved a number of issues regarding the contract and what the test should look like (multiple-choice, open-ended answers, etc.).

The SDE reports that the matrix-sampled test will not be ready for a spring, 2000 administration. Specifically, the RFP for the performance standards and the matrix-sampled test cannot be issued in time for the test to be field-tested and produced for a spring, 2000 administration.
 ISSUE 5: ENGLISH LANGUAGE DEVELOPMENT TEST

The issue for the subcommittee to consider is the proposed level of spending for developing and administering the new English Language Development test.

BACKGROUND:

The Governor's budget proposes to spend $14 million to pay for the cost of administering a new English Language Development test. This funding level assumes a reimbursement rate of $10 per administration (assuming 1.4 million English learners).

AB 748 (Escutia), Chapter 936, Statues of 1997, requires the SPI to adopt an existing test, or if her review finds that there is no existing test, contract for the development of a test to assess the English language development of English learners according to certain criteria, by January 1, 1999. The criteria include: a) must have sufficient range to test students in grades K-12 in reading, speaking and written skills (K-1 in reading and speaking only), b) must be capable of administration to pupils with any primary language, c) must be capable of administration by classroom teachers, d) must have psychometric properties of reliability and validity deemed adequate by technical experts and e) be aligned to state-adopted standards for English language development. The law also requires the State Board of Education to approve standards for English language development for pupils whose language is other than English. The law specifies that the assessment tool shall be used to do two things: 1) identify English learners as they enter school and 2) evaluate their progress in acquiring English.

Last year's budget provided SDE with $300,000 to develop the required performance standards and $800,000 to develop the corresponding test. SDE presented the standards to the State Board of Education in November of last year. To date, the State Board of Education has not approved the standards. (An agenda for SBE's April hearing includes another review of the performance standards. It is unclear whether SBE intends to adopt the standards at that hearing or at a later date.)

COMMENTS:

As with the matrix-sampled test, the LAO expresses concerns about the feasibility that a test can be developed in time for a 1999-2000 administration. The major concerns are: 1) the fact that the test development cannot begin until SBE approves the standards, 2) the fact that it normally takes at least 12 months to develop and field test a test and 3) the fact that the English learner test is intended to be used to identify English learners and that this use would necessitate a fall administration (July or August administration in the case of multi-track year-your round schools). It recommends that the subcommittee require SDE to report on the progress of the test's development during the budget process.

SDE reports that due to delays in the approval of the standards and other issues, the English language development test will not most likely not be ready for a 1999-2000 administration.
ISSUE 6: GOLDEN STATE EXAM

The issue for the subcommittee to consider is the proposed funding level for the Golden State Exam.

BACKGROUND:

The Governor's budget proposes a funding level of $14.2 million for the administration of the Golden State Exam. This is a $3.3 million increase over the level provided in the current year. The Governor proposes to increase funding for this program to pay for increased participation in the test.

COMMENTS:

The Golden State Exam is part of the Golden Seal Merit Diploma program to recognize outstanding academic achievement among graduating seniors. The program began in June of 1997.
ISSUE 7: SCHOOL AND CLASSROOM LIBRARIES

The issues for the subcommittee to consider are the proposed funding level of $159 million for school libraries and the Governor's proposal to provide $25 million for K-4 classroom libraries.

BACKGROUND:

The Governor's budget proposes approximately $159 million in ongoing funds for school libraries through the California Public School Library Act of 1998. Last year's budget provided the same level of ongoing funding for this program. The California Public School Library Act was created by legislation approved in 1998, AB 862 (Ducheny), Chapter 332, Statutes of 1998 and requires the SDE to apportion funds designated for this purpose to districts on a per-ADA basis. Districts are required to develop a districtwide school library plan in order to receive funding under the program. The law requires that materials that are purchased through this program conform with state curriculum standards and frameworks and to standards for the use of library media program materials and resources.

The Governor's budget also proposes to spend $25 million for classroom libraries in grades K-4. According to the administration, this proposal is distinct from existing library funding provided in the budget because it is intended to provide books and materials that are kept and used in K-4 classrooms, as opposed to materials maintained in a school's library. The LAO calculates that this proposal would provide approximately $11 per ADA in grades K-4 which districts could use to purchase classroom library materials.

COMMENTS:

The Legislative Analyst's Office recommends that the Legislature approve the proposed spending level for the budget year, but that it approve only $134 million of the $159 million proposed for school libraries on an ongoing basis and that it approve the remaining $25 million on a one-time basis. The LAO argues that the proposed level of ongoing funding would provide more than what's needed to maintain high-quality libraries. However, the LAO acknowledges that the lack of funds dedicated to school libraries over the past decade has lead to a deterioration in school library quality and because of this it argues that districts need some one-time money to "catch up." The LAO's recommendation of $134 million in ongoing funds would provide approximately $24 per student for library materials, and the proposed $25 million in one-time funds would provide $4.50 per student on a one-time basis. The LAO argues that by designating some of the funds as one-time its proposal frees up ongoing money that the Legislature can use later to address K-12 priorities beyond the budget year, without reducing the amount of money available for districts to spend on school libraries in the budget year.
The Analyst also recommends that the Legislature combine the new classroom libraries proposal and the existing California Public School Library Act so that districts can use the funds interchangeably for school libraries as well as classroom libraries. This recommendation would require amending the California Public School Library Act to allow districts to use funds provided through the program for classroom libraries. Current law requires that materials purchased with California Public School Library Act funds "be circulated from, or used in, the school library media center."

Staff notes that the Governor's proposed level of spending for school libraries of $159 million would provide ongoing funding of roughly $29 per student. Staff also notes that any estimates of the level of adequacy of this proposed spending level or other proposals are complicated by the fact that the cost of library materials varies significantly by type of material.
6120 CALIFORNIA STATE LIBRARY

The issue for the Subcommittee to consider is the proposed spending level for the California State Library, proposed trailer bill language to eliminate the sunset date for a funding mechanism for the state Law Library and a DOF letter to augment the expenditure authority for an account that funds the state Law Library.

**BACKGROUND:**

The California State Library provides services to state agencies and the Legislature and also runs some local assistance programs that provide technical assistance, promote literacy and achieve other educational goals.

Below is a summary of the California State Library's expenditures.

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The Governor's budget proposes an increase of 15 positions and some additional expenditures for the California State Library's state operations. These additional expenses are:

- Seven positions and $1,012,000 to implement the Library of California Act – (see below);
- One position and $74,000 (federal funds) to support the Library Services and Technology Act – This is a grant program that distributes federal funds to local libraries that provide information and library programs for the public;
- $34,000 (federal funds) for publications;
- One position and $74,000 (federal funds) to provide library technical assistance;
- One position and $153,000 (General Fund) to implement the California Civil Liberties Public Education Act (see below);
Five positions and $278,000 (General Fund) for the Braille and Talking Book Library – This is a service that provides library services to over 17,500 blind Californians. The administration states that this augmentation is needed to support growing demand; and

$522,000 for the library annex maintenance.

The Governor's budget also proposes an increase of $492,000 in local assistance for the Transaction Based Reimbursement Program. This program is part of the California Library Services Act and reimburses local libraries for a portion of the costs they incur when they extend lending services beyond their normal clientele.

Last year's budget provided new local assistance for two new grant programs (see new legislation below): 1) $5 million for the Library of California Act ($770,00 of which the budget uses for state operations in the current year) and 2) $1 million pursuant to the California Civil Liberties Public Education Act.

The Governor's budget proposes to continue local assistance funding for these two programs at $4 million for the Library of California and $1 million for the California Civil Liberties Public Education Act.

The Governor's budget also proposes to continue funding at last year's level for other local assistance programs, such as the Public Library Foundation and the Library Services and Technology Act.

**Trailer bill language:** The Governor's budget proposes trailer bill language to eliminate the January 1, 2000 sunset date for the current funding mechanism for the Law Library (section 11 of RN 9902192). Under current law the State Law Library's sole source of funding is from a $50 set aside from appellate court filing fees.

**COMMENTS:**

**Finance letter:** The Budget Committee has received a letter from the Department of Finance, dated March 29, 1999, requesting a $163,000 augmentation in expenditure authority for the California State Law Library Special Account. This account receives revenues from a $50 set-aside from appellate court filing fees, and is the sole source of funding for the Wilkins State Law Library. In its letter, DOF also proposes new trailer bill language to increase the set-aside from $50 to $65 and to increase the appellate court filing fee from $250 to $265 to offset the increase in the set-aside. DOF argues that the increase in fees and corresponding expenditure authority is needed to fund three additional positions at the State Law Library "to support eliminating a backlog of unprocessed legal authorities, bills and legal briefings."
New legislation: Last year the Legislature approved two bills that affected the workload and responsibilities of the California State Library:

1) SB 409 (Alpert), Chapter 948, Statutes of 1998 – This bill established the Library of California Act to create regional library networks to include thousands of public, academic, school, special and private libraries.

2) AB 1915 (Honda), Chapter 570, Statutes of 1998 – This bill enacted the California Civil Liberties Public Education Act, which created a grant program to educate the public about the exclusion, forced removal and internment of Japanese-Americans and permanent-resident aliens of Japanese ancestry during World War II.