AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE
Assembly Member Mervyn Dymally, Chair

TUESDAY, APRIL 12, 2005
STATE CAPITOL, ROOM 444
10:00 AM-12 NOON

ITEMS TO BE HEARD

6300 STATE CONTRIBUTIONS TO THE STATE TEACHERS' RETIREMENT SYSTEM

ISSUE 1: GOVERNOR'S PROPOSAL TO SHIFT STATE CONTRIBUTION TO SCHOOL DISTRICTS – VOTE ONLY

The subcommittee heard this issue at its March 29 hearing, and took action to refer the issue to Subcommittee No. 4 with a "no" recommendation. Subcommittee No. 4 has indicated that only the STRS operating budget is part of its jurisdiction and that the state contribution portion is under Subcommittee No. 2's jurisdiction. ***This issue is before the subcommittee today for vote only.***

The issue for the subcommittee to consider is:

- Should the state shift teacher retirement costs down to school districts and community colleges, as proposed by the Governor?

BACKGROUND:

Governor's proposal. The Governor proposes to shift part of the state's current payment into the State Teachers' Retirement System to school districts and community college districts. It also appears (details are unavailable) that he proposes to eliminate an existing requirement that the state pay a surcharge to STRS (equal to approximately 0.5% of teacher payroll) when there is an unfunded obligation or a normal cost deficit associated with benefits in effect on July 1, 1990. (This surcharge would be expected to be triggered for the 2004-05 fiscal year.) The Governor's proposals would not affect an existing state contribution for purchasing power benefits, equal to 2.5% of compensation. This state payment will contribute $581 million in 2004-05.

The Governor's proposal would result in approximately $469 million in General Fund savings (non-Proposition 98 savings), plus an additional $92 million in savings from the elimination of the surcharge for unfunded obligation. However, these savings assume that the state would not be required to re-bench Proposition 98 upwards by the same amount, in which case the proposal would not result in any savings – see below.

The Governor's proposal would require a legislative change. The administration proposes trailer bill language to effect the change. If the Legislature does not adopt the proposed trailer bill language, the Governor's proposed shift will not take effect.

Current system. The state has made contributions to STRS since 1915, when the retirement system began. The current STRS system has two types of benefit programs: the defined benefit program and defined benefit supplement program. The types of benefits from each program, as well as the contributions for each, are detailed below. Currently, all full-time and most part-time educators employed by school districts and community colleges are members of the defined benefit and defined benefit supplement program. The state contributes to the defined benefit program, but not the defined benefit supplement program.

Existing benefits and contributions to the State Teacher Retirement System
(Shading indicates contributions proposed for elimination by the Governor.)

	Defined Benefit Program	Defined Benefit Supplement Program – through 2010 (1)
General description of benefits	Provides monthly benefit to members at retirement or when disabled, (and to survivors of members who die) based on salary, age and years of service at retirement.	Provides supplemental benefit based on the amount contributed into the member's DBS account and interest credited to that account.
Member contribution	• 6% of compensation, through 2010. • 8%, beginning in 2011, returning to original amount.	2% of compensation, through 2010, when program expires (1)
Employer contribution	8.25% of compensation	None (1)
State contribution	• 2.017% of compensation • 0.524% of compensation if there is an unfunded actuarial obligation or deficit associated with benefits in effect on 7/1/90. • 2.5% or compensation to protect pensions from inflation	None

(1) Indicated contributions are for service credit up to one per school year. For the Defined Benefit Supplement Program, for service credit in excess of one per school year, the member contributes 8% of compensation for service credit in excess of one per school year, and the employer contributes 8% of compensation for service credit in excess of one per school year or for compensation paid for a limited period of time.

Funding shortfall. According to the LAO, a recent valuation showed a $23 billion unfunded liability for the entire STRS system. STRS is currently considering options for addressing this shortfall. This unfunded liability could be exacerbated by the Governor's proposal to eliminate the 0.5% surcharge (the additional state contribution) that is triggered when there is an actuarial obligation or deficit associated with benefits in effect by July 1, 1990.

Local fiscal effect of Governor's proposal. School districts and community colleges argue that the Governor's proposal to shift the $469 million contribution down to them will result in the need for them to make $469 million worth of cuts in their already-tight budgets to pay for this contribution. The administration argues that the proposal allows local entities to re-negotiate their contracts to avoid the $469 million in additional costs.

This would either reduce employees' take-home pay or reduce the level of their retirement benefits. There is some question whether this forced choice would be a violation of those employees' contractual rights.

State fiscal effect: Governor's proposal may require re-benching of Proposition 98. The LAO argues that the Governor's proposal would not result in any General Fund savings, because the state would have to re-bench the base Proposition 98 funding level upwards by $469 million. Under current law, the state can only shift a responsibility that was originally designed as NOT the responsibility of school districts or community colleges (NOT a Proposition 98 expense) to those entities if it accordingly adjusts the Proposition 98 minimum guarantee. According to those provisions in law, since the state originally designated the state's STRS contributions as a non-Proposition 98 expense, it cannot now say that the same contribution is a Proposition 98 expense unless it makes a corresponding $469 million upward adjustment in the total Proposition 98 minimum. This upward shift would cost $469 million out of the General Fund, thereby erasing any General Fund savings from this proposal.

COMMENTS:

Governor also has a proposal to eliminated defined benefit programs. In addition to the above cost shift, the Governor proposes to eliminate defined benefit retirement programs for all public sector employees and replace them with a different system. If his proposal is approved by the voters, the costs of ending the existing system could have large one-time costs up to an amount equal to the current value of the fund over the life of the close-out of the fund (approximately $120 billion).

Additional LAO recommendations regarding restructure of state retirement system. The LAO argues that the existing retirement system for teachers dictates a strong role for the state, limited local flexibility to design retirement systems that meet local needs and limited responsibility. It argues that the Governor's proposal would not address these problems, and instead recommends that the Legislature adopt a system in which school districts and teachers assume responsibility for the entire cost of the system. It also recommends allowing local flexibility for districts to choose different retirement plans best suited to meet local needs.

ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: CATEGORICAL REFORM

The issues for the subcommittee to consider are:

- A proposal by the Governor to add two professional development programs to a new professional development block grant created in last year's categorical reform bill.
- A proposal by the Governor to add provisional language to the professional development block grant item, requiring that all professional development funded by the block grant be aligned to state academic content standards and curriculum frameworks.
- The need for technical clean-up to last year's categorical reform bill (which may be accomplished outside of the budget through an existing bill).
- Whether there is a need for the budget bill to confirm with whatever statutory clean-up takes place.

BACKGROUND:

Governor's proposal. The administration proposes trailer bill language to add three professional development programs to a new professional development block grant created in last year's categorical reform bill. Specifically he proposes to add: Peer Assistance and Review ($27.3 million), Bilingual Teacher Training ($1.9 million) and Teacher Dismissal Apportionments ($43,000). The largest of these, Peer Assistance and Review, was created several years ago to help school districts develop peer review programs for teachers. It was originally funded at a much higher level, and was reduced in recent years when the state reduced funding for a number of categorical programs due to the budget crisis. The Governor also proposes to allow school districts to use funds from the block grant to fund professional development related to the Advancement Via Individual Determination program, which the Governor proposes to cut slightly in this year's budget.

In addition, the Governor proposes provisional language corresponding to the professional development block grant, which would require that all professional development opportunities funded by the block grant money be aligned to state academic content standards and curriculum frameworks.

The Governor's budget reflects the approval last year of major reform legislation regarding existing categorical programs. That reform legislation, AB 825 (Firebaugh), Chapter 871, Statutes of 2004, consolidated 26 different programs into six different theme-based block grants. Appendix A contains a table prepared by the LAO that details the programs included in the six block grants. Last year's legislation also allows school districts to transfer funds between the six block grants and into other categorical programs – up to 15% out of any block grant (except for the Pupil Retention and Teacher Credentialing Block Grants), as long as the amount transferred does not exceed 20% of the receiving block grant's original amount.

Technical problems. Since passage of last year's legislation, a number of technical problems have arisen, namely 1) the inadvertent repeal of the school safety block grant for grades 8-12 and the need for reinstatement, 2) concerns about the workability of a provision that requires 25% of each district's apportionment for the pupil retention block grant to be held back pending full funding of two supplemental instruction programs that are not in the block grant: supplemental instruction for students in grades 2-9 retained or recommended for retention and supplemental instruction for students in grades 7-12 who are at risk of failing to pass the High School Exit Exam.

LAO recommendations. The LAO recommends a partial adoption of the Governor's proposal to add programs into the professional development block grant. It agrees with the inclusion of Peer Assistance and Review and Bilingual Teacher Training but disagrees with including Teacher Dismissal Apportionments. It also recommends adding the Math and Reading Professional Development program, which currently provides teachers with 120 hours of highly structured, standards-aligned training. (It also recommends the adoption of a statewide database on professional development activities, which will be discussed at a later hearing.)

The LAO also recommends that the Legislature eliminate the existing hold-back provisions and move the two remaining supplemental instruction programs that were not included in last year's reforms into the pupil retention block grant (supplemental instruction for students in grades 2-9 retained or recommended for retention and supplemental instruction for students in grades 7-12 who are at risk of failing to pass the High School Exit Exam). It recommends that these two programs get first call of any funding in the block grant, arguing that their inclusion could increase incentives for local cost containment and eliminate the problems with the existing hold back provisions.

New costly supplemental instruction mandate. The LAO notes that the Commission on State Mandates recently approved the supplemental instruction program for students in grades 2-9 as a reimbursable mandate (even though the state provides funding for this), and that it approved parameters and guidelines for cost claims that give substantial latitude to districts in determining the level of service that complies with the mandate (and this is reimbursable.) That is, the claims from this mandate could be very large in the future, particularly without any proposal to create incentives for cost containment.

COMMENTS:

Vehicle for technical clean-up. AB 682 (Karnette) contains some clean-up provisions to last year's AB 825 (Firebaugh). Currently, the legislation reinstates the School Safety Act, and addresses some of the technical problems with the Pupil Retention and Teacher Credentialing block grants.

ISSUE 2: CONTROL SECTION -- FORMER MEGA-ITEM

The issue for the subcommittee to consider is the proposed continuation of the control section regarding the former "mega-item" categorical flexibility, which allows school districts to transfer funding between different unrelated categorical programs.

BACKGROUND:

Governor's proposal. The Governor proposes to continue last year's control section regarding the former "mega-item." That section allows school districts to transfer up to 10% of the funding from any one categorical program into another categorical program, as long as the total increase to any one program does not exceed 15% of the base of the receiving program. The programs that are subject to these eligibility provisions are the following:

- Home to School Transportation
- Educational Services for Foster Youth
- Specialized Secondary Programs
- Gifted and Talented Education Program
- Economic Impact Aid
- American Indian Education
- Agricultural Vocational Educational Incentive Program
- Educational Technology Program
- Various staff development programs
- Child Nutrition Programs
- Teacher Dismissal Apportionments
- Year-Round School Grant Programs

COMMENTS:

Last year, the Legislature adopted legislation to provide school districts with significant new flexibility in how they can spend categorical funds (see issue 1). Prior to that legislation, the mega-item flexibility was the only source of funding flexibility for school districts. Now that the state has provided more flexibility, is there a need to continue the existing mega-item flexibility? The existing mega-item flexibility allows school districts to transfer funds between programs that have completely different purposes. Is this type of flexibility consistent with the type of flexibility that was provided in last year's categorical reform bill, which combined similar programs and provided funding flexibility between similar types of programs?

ISSUE 3: SCHOOL DISTRICTS' FINANCIAL CONDITION (INFORMATION ONLY)

The issues for the subcommittee to consider are:

- An update by the Fiscal Crisis Management and Assistance Team on the general financial health of school districts, including comparisons with previous years and information on any trends in school financial data.

- Findings by the LAO regarding school districts' substantial unfunded liabilities related to future health benefits for retired employees.

BACKGROUND:

Districts with qualified and negative financial certifications. Current law requires county offices of education to review school districts' budgets and certify the fiscal condition of school districts twice a year. There are two levels of certification that raise concerns about districts' fiscal health: a qualified certification means the district *may* not be able to meet its financial obligations in the current year or either of two subsequent years and a negative certification means the district *will* not be able to meet its financial obligations in the current or subsequent fiscal year. According to the most recent survey for the 2004-05 fiscal year, 14 school districts were projected to receive negative certifications and 42 school districts were projected to receive qualified certifications. Last year the Legislature adopted some reforms regarding fiscal oversight of school districts, contained in AB 2756 (Daucher). Those reforms were intended to strengthen fiscal oversight of school districts and ensure that the current system does a better job of identifying school districts in financial distress.

The Fiscal Crisis and Management Assistance Team provides financial and management assistance to all districts, and particularly those with qualified and negative certifications. It will give a presentation today on the districts with qualified and negative certifications and some reasons why districts are facing difficulties.

Financial pressures faced by school districts. In its annual Analysis of the Budget Act, the LAO identified the following four types of financial pressures currently faced by school districts:

- Lower revenues in the near- and long-term due to declining enrollment (see Issue 4).

- Two years ago, the state provided school districts with relief from reserve requirements (see below), and that relief is about to expire. This will require school districts to set aside more funding for emergency reserves and maintenance.

- Pressure to align revenues with expenditures after the one-time actions school districts have taken in the past two years to attempt to ride out tough fiscal times.

- Increasing costs, including wage increases, increasing health care costs, and liability for retiree health benefits (see below).

Relief from reserve requirements is about to expire. Two years ago, as part of a package of education reductions, the 2003-04 education budget trailer bill contained language to soften required reserve levels for school districts. Specifically, it reduced by half the amount that districts were required to reserve for economic uncertainties, for two years, 2003-04, and 2004-05. It also allowed school districts to reduce the amount they were required to reserve for building maintenance from 3 to 2 percent of total expenditures and allowed districts to access 100% of their ending balances from the fiscal year for certain categorical programs.[1] For 2005-06, the flexibility regarding the reserves for economic uncertainties and maintenance reserves will end, and districts will be required to increase their reserves back to the percentages originally required by statute, unless it is changed in statute (see “Comments.).

LAO findings regarding large unfunded liabilities for future retire employees. In its Analysis of the Budget, the LAO reports that a number of school districts have large liabilities related to health benefits for future retirees. Existing accounting rules[2] require school districts to “prefund” pension costs (pay for employees’ pensions costs over the life of the employee and set aside these funds in a special trust, so they are available when employees retire). However, they only recommend but do not require districts to similarly prepay retiree health benefits. At the time of its Analysis, the LAO could not identify any district that was prefunding its health benefits.

The LAO cites large liabilities in some school districts, and believes 150 districts pose the most serious problem. When many of these districts entered into contracts to provide these benefits, health care costs were not escalating as they are now. Thus, districts’ estimates of the eventual cost of the benefits were much lower than they have now proved to be.

LAO recommendation regarding unfunded liabilities. The LAO has the following recommendations to address the potential future problem of unfunded liabilities:

1. Require districts to provide county offices of education with any actuarial study of its retiree benefits liability.
2. Require districts to develop plans to address these liabilities and provide the plans to county offices of education.
3. Require county offices of education to evaluate whether districts are following their plans to address the liabilities.
4. Require CDE to report on the size of retiree health benefits in the 150 districts that provide the most extensive benefits.

[1] The provisions allowing districts to access 100% of their ending balances from the fiscal year for certain categorical programs were provided for one year only, the 2003-04 fiscal year.
[2] Governmental Accounting Standards Board

COMMENTS:

Bills seeking to extend flexibility on reserve requirements. The Legislature is currently considering several bills to extend the existing flexibility on district reserve requirements beyond the 2005-06 fiscal year (AB 659 (Chan), AB 97 (Cohn), AB 1483 (Arambula)).

Outstanding emergency loans. Current law allows the state to provide emergency loans to financially troubled school districts, provided those districts accept state management. Last year, the Legislature approved a $60 million emergency loan to Vallejo City Unified. Other recent emergency loans include $100 million for Oakland Unified (2003), $2 million for West Fresno Elementary (2003), and $2.3 million for Emery Unified (2001).

ISSUE 4: DECLINING ENROLLMENT

The issues for the subcommittee to consider are

- The impact of declining enrollment on school districts' finances.
- Various proposals to provide school districts some relief from declining revenues due to declining enrollment, and the cost of those various proposals.

BACKGROUND:

Extent of declining enrollment and its impact. Statewide, enrollment growth in elementary schools has slowed considerably since 1995-96 and is expected to decline annually through 2008-09. While high school enrollment has been growing rapidly, it too is expected to begin to decline beginning in 2010-11. This statewide trend is causing a number of districts to face declining enrollment. The LAO estimates that 40% of districts have declining enrollment, with some experiencing declines of 5% in one year. This trend is expected to continue for several years.

Because school districts receive at least two thirds of their funding based on their average daily attendance, declining enrollment translates into declining revenues. However, when school districts' enrollment declines, the costs associated with those missing students often don't decline as fast as their revenues that were once generated by those students, leading to higher per-pupil costs and the need to make additional cuts to address the decline.[3] For example, a district often must stop hiring new teachers when it faces declining enrollment. However, new teachers often earn less than more senior teachers, so the savings from not hiring new teachers are below the average salary costs, leading to increased average salary costs. Also, districts must also continue to operate a school building at full cost, even though it is only at 80% capacity. Thus, when enrollment declines, districts can't always reduce their building maintenance costs in proportion to the enrollment decline, resulting in higher-than-average maintenance costs.

Hold harmless provisions in current law. Under current law, school districts receive the higher of their current year average daily attendance or their prior-year average daily attendance. For districts with declining enrollment, this creates a one-year hold-harmless provision. That is, districts have a one-year reprieve from experiencing declining revenues when their enrollment goes down.

Various options to address the problem. There are various options to provide school districts with some relief from declining enrollment, some of which are included in legislation currently under consideration by the Legislature:

[3] That is, in declining enrollment districts, marginal costs decline much slower than marginal revenues.

- **AB 1503 (Mullin-Chan).** This bill creates a declining enrollment adjustment that recognizes the reality that districts' fixed costs (e.g., building maintenance) don't decline when their enrollment does. Thus, it attempts to scale down revenues in proportion to marginal costs. For districts with declining enrollment for two consecutive years, it would establish a base year of 2003-04 and fund them based on 40% of the difference between their funded average daily attendance level and average daily attendance in the base year. (In the case of a declining enrollment district, the funded average daily attendance would be the prior year's average daily attendance, because of existing hold harmless provisions.) Similarly, when such a district experiences an increase in enrollment, the state would only pay 60% of the new costs associated with the additional average daily attendance. The author estimates the first year's cost of the bill at $40 million.

- **SB 958 (Simitian).** This bill would allow a district whose attendance declines two years in a row to be funded based on the average of the average daily attendance for the prior two fiscal years. Similarly, a district whose attendance declines three years in a row would be funded based on the average of the average daily attendance for the prior three fiscal years.

- **LAO proposal.** This proposal would combine the same revenue limit equalization formula used in the past several years with relief to declining enrollment districts. Districts with declining enrollment would get a permanent increase to their revenue limit based on the existing equalization formula. Districts that are not experiencing declining enrollment would not receive this permanent increase. The LAO estimates that the proposal would not have a cost in the first year of implementation, but would have annual costs thereafter.

COMMENTS:

The Governor did not propose any changes to current law regarding declining enrollment in his January budget. The administration contends that hold harmless provisions in existing law are sufficient.

ISSUE 5: CHARTER SCHOOLS: GOVERNOR'S PROPOSAL FOR NEW FUNDING FORMULA

The issues for the subcommittee to consider are:

- The administration's proposal for a new method to calculate the charter school categorical block grant, which was created to provide charter schools with a level of categorical funding comparable to what non-charter schools receive.

- An LAO alternative for calculating this block grant.

BACKGROUND:

Governor's proposal. The Governor proposes to change the formula for calculating the charter school categorical block grant, which was created several years ago to attempt to provide charter schools with categorical funding comparable to what non-charter schools receive. His proposal would take last year's funding for the categorical block grant, adjust it for growth and COLA, add approximately $2.9 million to the total, and use this new funding level to establish a per-pupil base funding level. For future years, charter schools would receive a categorical block grant amount based on this per-pupil base funding level, adjusted for inflation, multiplied by each charter's average daily attendance. The proposal contains legislative intent to review the base funding level every three years, based on the growth in funding of categorical programs. The Governor's proposal is contained in AB 740 (Huff).

Reform language adopted in last year's budget. The Governor proposed this year's change in response to provisional language adopted by the Legislature last year, which requires that the LAO and DOF convene a working group to develop a simpler and clearer method for calculating the charter school block grant. The language came in response to concerns that the old method was confusing and unworkable, and that stakeholders and other outside groups were unable to replicate the formula to provide a check to the administration's annual calculations. The LAO convened the working group and it met several times during the fall of 2004. While the group did not come to a consensus on a new formula, it had consensus on a number of issues, namely the need for a clear and simple formula that can be easily replicated by parties other than the administration (to provide a good-government check on the administration's calculation).

Existing law. AB 1115 (Strom-Martin) of 1999 created the current charter school funding model. The intent of the legislation was to provide charter schools with funding comparable to what non-charter schools receive, particularly in regards to categorical funding. Instead of receiving funding from categorical programs and having to comply with those programs' requirements (since charter schools are exempt from most state laws), charter schools receive funding in lieu of that categorical funding through two types of block grants, which charter schools may use for any purpose: 1) A **categorical**

block grant that is distributed based on charters' average daily attendance and is intended to provide comparable levels of categorical funding that non-charter schools receive. 2) A compensatory education block grant that is provided based on the number of economically disadvantaged students attending the charter. This block grant is intended to provide funding similar to what non-charter schools receive from the Economic Impact Aid program. Under existing law, charter schools can still apply for categorical programs whose funding is not included in the categorical block grant. The Governor proposes to change the first type of block grant and not the second. There is more information on the different types of funding for charter schools in Appendix A.

Current formula. The current formula for the charter school categorical block grant uses a base funding level dating back to the 1998-99 fiscal year. That base funding level considered the average amount of 1998-99 funding per average daily attendance, from 33 different categorical programs, some of which no longer exist or were consolidated as part of last year's categorical reform bill. Those programs were considered "in" the block grant, meaning that charter schools could not apply separately for these programs, since they would receive "in lieu" funding for these programs through the block grant. DOF is then required to adjust this 1998-99 base funding level every year based on programs that are moved in or out of the block grant calculation, and based on overall changes in Proposition 98 funding (exclusive of revenue limits, Economic Impact Aid and categorical programs for which charters are required to apply separately). Charter school may apply separately to receive certain categorical programs, but charters are prohibited from applying separately from any programs included in the categorical block grant calculation.

LAO's findings. The LAO cites two problems with the current formula. First, there is no consensus between CDE, LAO, and DOF on the programs that are supposed to be considered "in" the block grant for purposes of calculating it. In particular, it is unclear whether the new block grants created by last year's categorical legislation are supposed to be in or out of the block grant. Secondly, the formula is overly complex and uses outdated data from 1998-99. In addition, the LAO argues that the administration's proposal de-links the block grant from any underlying set of categorical programs. That is, under the Governor's proposal the block grant would no longer represent in-lieu funding for a set of specified categorical programs. It is unclear which categorical programs charter schools would be able to apply for separately under the Governor's proposal, leading to questions about potential double-dipping (since charters could apply for programs that are included in the new base funding level). DOF indicates that it intends to address this issue shortly.

LAO alternative. As an alternative to the administration's proposal, the LAO recommends identifying ten programs for which charter schools would have to apply separately. The Legislature would then adopt control language each year in the budget act specifying that charter schools would receive a share of all categorical funds not specifically identified as requiring separate application. Charters would receive a share of these categorical funds based on their share of the K-12 population. In addition, the LAO recommends a new way of providing the disadvantaged student block grant. It recommends that economically disadvantaged students receive some percentage more per categorical program (for example, 25% more for every student eligible for free and reduced price meals).

The LAO notes that it is difficult to evaluate whether charters would receive more funding under its proposal or the Governor's proposal, since there is little data on how much charter schools currently receive by applying separately for categorical programs.

COMMENTS:

The LAO will present the issue, as well as its alternative, to the subcommittee.

The Governor's proposal, AB 740 (Huff), will be heard by the Assembly Education Committee on April 20. The committee could consider certain issues through the bill, such as which categorical programs charter school should apply for separately, which programs should be included in the charter school categorical block grant, and whether there should be a default "in" or "out" mechanism for future categorical programs for which statute is unclear as to their inclusion in the block grant calculation. These issues have fiscal implications, and therefore require coordination between the policy committee and the subcommittee.

ISSUE 6: CHARTER SCHOOLS: CHARTER SCHOOL FACILITY GRANT PROGRAM

The issue for the subcommittee to consider is whether to provide a fourth year of funding for the Charter Schools Facilities Grant Program, for which the Governor does not propose any funding.

BACKGROUND:

Governor's proposal. The Governor does not propose to provide a fourth year of funding for the Charter School Facilities Grant 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. While the state provided $10 million for the 2001-02 fiscal year, this amount was later eliminated due to mid-year cuts and program reversions. It later provided $10 million for program in 2002-03, $7.7 million in 2003-04, and $7.7 million in 2004-05.

Background on program. The Charter School Facilities Grant Program reimburses selected charter schools for the costs of renting and leasing classroom buildings. It was created in 2001 by SB 740 (O'Connell) as part of a package of reforms to increase accountability and lower funding for non-classroom-based charter schools. Those reforms also created this program to reimburse charters serving economically disadvantaged children for their facilities' costs. To participate, a charter must be either:

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.

COMMENTS:

The administration argues that the state has provided three years of funding, consistent with legislative intent in the originating legislation. Advocates argue that the total amount funded to date is short of the total $30 million that the originating legislation included as the total amount intended to be funded over the life of the program.

Appendix A: Funding for charter schools under existing law

AB 1115 (Strom-Martin) of 1999 created the current charter school funding model, which provides charter schools with four types of funding:

1) General purpose funds based on attendance, similar to revenue limit apportionments. These are continuously appropriated outside of the budget process, similar to how school districts receive their apportionments.

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. These funds are discretionary for charter schools. The block grant is calculated using a base funding level. That base funding level is based on the average per-ADA amounts from the following programs in 1998-99 for grade spans K-3, 4-6, 7-8 and 9-12:

   - The Agricultural Vocational Education Incentive Program
   - Apprentice Education
   - The Beginning Teacher Support and Assessment System
   - Various college preparation programs, including the Academic Improvement and Achievement Act
   - Community day schools
   - Instructional Time and Staff Development Reform Program
   - School-Based Pupil Motivation and Maintenance Program and Dropout Recovery Act
   - The Early Intervention for School Success Program
   - Education Technology
   - Foster youth programs
   - Gifted and Talented Education
   - Healthy Start
   - High-Risk First-Time Offenders Program
   - Instructional Materials
   - Intersegmental programs
   - California Mentor Teacher Program
   - Miller-Unruh Basic Reading Act
   - Morgan-Hart Class Size Reduction Act
   - Opportunity schools
   - Partnership Academies
   - Math and Reading Staff Development
   - Improvement of elementary and secondary education (pursuant to section 52000)
   - School Community Policing Partnership Act
   - School/Law Enforcement partnership

- Specialized secondary schools
- School Personnel Staff Development and Resource Centers
- Supplemental Grant Funding
- Academic Progress and Counseling Review
- Schiff-Bustamante Standards-Based Instructional Materials Program
- Elementary School Intensive Reading Program
- California Public School Library Protection Act
- California Peer Assistance and Review Program
- State Instructional Materials Fund
- Instructional Materials Funding Realignment Program
- Math and Reading Professional Development Program

DOF is then required to adjust this base funding level every year based on programs that are included and excluded from the above list, and based on overall changes in Proposition 98 funding (exclusive of revenue limits, Economic Impact Aid and categorical programs for which charters are required to apply separately). Charter schools receive a block grant every year based on their average daily attendance multiplied by the base funding level. Charters are prohibited from applying separately from any programs included in the categorical block grant calculation.

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). The formula for this block grant considers total funding for EIA and divides by the number of economically disadvantaged students. To calculate the amount that each charter receives under this block grant, it then multiplies this per-pupil amount by the number of English learners and students on free- or reduced-price meals in each charter.

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.

The Governor's proposal would change the formula for calculating the second type of funding, and would leave the first and third types of funding unchanged. It is unclear whether the fourth type of funding would be affected by the Governor’s proposal, since the proposed legislation does not specify whether charter schools would be able to apply separately for certain categorical programs.