ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Wilmer Amina Carter, Chair

TUESDAY, APRIL 6, 2010
STATE CAPITOL, ROOM 444
9:00 AM

OVERSIGHT HEARING: IMPACT OF K-12 REDUCTIONS ON CALIFORNIA'S SCHOOLS

ITEMS TO BE HEARD

- LAO OVERVIEW OF RECENT SCHOOL FINANCE AND FLEXIBILITY ACTIONS
- UPDATE ON CDE SURVEY OF LOCAL EDUCATION AGENCIES
- STAKEHOLDER PANEL: LOCAL IMPACTS OF STATE BUDGET REDUCTIONS
  - PAULA CAMPBELL, SCHOOL BOARD MEMBER, NEVADA CITY SCHOOL DISTRICT
  - PAT GODWIN, SUPERINTENDENT, FOLSOM-CORDOVA UNIFIED SCHOOL DISTRICT
  - ERIC PADGETT, TEACHER, GARDEN GROVE UNIFIED SCHOOL DISTRICT
  - DEBORAH HEARNE, CLASSIFIED EMPLOYEE, WASHINGTON UNIFIED SCHOOL DISTRICT
  - MICHELLE HUFFAKER, PARENT, SAN DIEGO PTA

PUBLIC COMMENT

ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: FISCAL CRISIS MANAGEMENT ASSISTANCE TEAM (FCMAT) ANNUAL PRESENTATION ON DISTRICT FINANCIAL HEALTH

Current law requires the Fiscal Crisis and Management Assistance Team (FCMAT) to provide an annual overview of the overall fiscal health of school districts to the budget Subcommittees.

FCMATs assessment of the fiscal health of school districts has particular significance this year given that districts have had to grapple with significant state budget reductions over the last two years. FCMATs presentation can provide context to the Subcommittee as it considers further proposed reductions for 2010-11.

PANELISTS

- Joel Montero, Chief Executive Officer, FCMAT

BACKGROUND:

In 1991, AB 1200 (Eastin), Chapter 1213 created an early warning system to help avert financial crisis in local education agencies (LEAs), such as bankruptcy and/or the need for an emergency loan from the state. The formal review and oversight process, often referred to as the "AB 1200 process" requires the county superintendent to approve the budget and monitor the financial status of each school district and JPA in its jurisdiction. County Offices of Education (COEs) perform a similar function for charter schools. The California Department of Education (CDE), in turn, reviews the finances of county offices.

In 2004 fiscal accountability provisions were strengthened with the passage of AB 2756. The law made immediate changes in the process county offices use to review district budgets and interim reports. It also called for the state to update the standards and criteria used for the fiscal oversight of LEAs, effective in 2006-07.

Fiscal Crisis and Management Assistance Team (FCMAT). When AB 1200 was developed, the state also recognized the need for a statewide resource focusing on fiscal and management guidance to assist monitoring agencies in the performance of their tasks and to assist LEAs that request help in school business management and related areas. Therefore, AB 1200 called for the creation of a Fiscal Crisis and Management Assistance Team (FCMAT). The bill specified that one county office of education would be selected to administer the team. Through a competitive process, the office of the Kern County Superintendent of Schools was selected to administer FCMAT in June, 1992.

The mission of FCMAT is to help LEAs fulfill their financial and management responsibilities by providing expedient fiscal advice, management assistance, training and other related school business services. This can occur under several different circumstances. For example, if a county office reviews and disapproves a school district's annual budget, that county office may call upon FCMAT to examine the district's financial records, develop an approvable budget and/or provide other operational recommendations that will ensure fiscal stability. In addition, FCMAT can respond directly at the request of a school district or county office that may seek advice to improve management practices, business policies and procedures or organizational structure. The state, in its monitoring role, also could ask for FCMAT's assistance.

FCMAT budget. The Governor’s proposed budget provides $9.13 million to FCMAT to provide all of the above mentioned services. This proposed funding level represents a 20% reduction of $2.3 million. FCMAT also received a 20% reduction in 2008-09 and 2009-10 as part of the across-the-board reductions to categorical programs in those years. Given the fiscal climate and the important preventative work FCMAT does to ensure districts maintain fiscal solvency, the Subcommittee may want to consider restoring funding to this item.

Interim Reports and Certification. Current law requires districts to file two interim reports during a fiscal year on the status of the districts financial health.

For the first interim report, districts self certify their budgets to their COE by December 15 (for the period ending October 31). COEs are then required to report the certification for all districts in their county to the Superintendent of Public Instruction (SPI) and the State Controller within 75 days after the close of the reporting period (generally by March 1).

For the second interim report, districts self certify their budgets to their COE by March 17 (for the period ending January 31). COEs are then required to submit their certification of these results to the SPI and the State Controller within 75 days after the close of the reporting period (generally by June 1).

The interim reports must include a certification of whether or not the LEA is able to meet its financial obligations. The certifications are classified as positive, qualified, or negative.

- A **positive certification** is assigned when the district will meet its financial obligations for the current and two subsequent fiscal years.
- A **qualified certification** is assigned when the district may not meet its financial obligations for the current or two subsequent fiscal years.
- A **negative certification** is assigned when a district will be unable to meet its financial obligations for the remainder of the current year or for the subsequent fiscal year.

First and Second Interim Status Reports. In comparing the first interim report for 2008-09 to the first interim report for 2009-10, there is a decline in negative certifications but a substantial increase in qualified certifications. The first interim report for the period ending October 31, 2009 shows that there were 12 districts that received a negative certification (last year, for the same period, 16 districts had received a negative certification). 114 districts received a qualified certification for 2009-10, compared to 74 districts during the same time period last year. FCMAT will provide preliminary second interim numbers to the Subcommittee during their presentation.

Emergency loan status. In most cases the oversight, advice and assistance provided by county offices of education and FCMAT under the AB 1200 process is sufficient to pull LEAs out of immediate financial trouble. The option of last resort for LEAs that have insufficient funds is to request an emergency loan from the state. Accepting a state loan is not without consequence. The SPI assumes all legal rights, duties and powers of the district governing board and an administrator is appointed to the district. Several conditions must be met before control is returned to the district. Below is a list of state loans to school districts from 1991 to 2010.

District	Tenure of State Administrators and State Trustees	Date of Issue	Amount of Original State Loan	Interest Rate	Outstanding Balance of I-Bank and General Fund Loans	Amount Paid By District Including Principal & Interest	Pay Off Date
King City Joint Union High School District	Administrator 7/23/09 – Present	7/22/09 3/11/10	$2,000,000 $3,000,000	1% 1%	$5,000,000 total GF as of 3/11/10 I-Bank Not Financed Yet	First payment on $2 million GF due 7/22/10. First payment on $3 million GF due 3/11/11	7/22/29 $2 million GF 3/11/30 $3 million GF
Vallejo Unified	Administrator 6/22/04 – Present Trustee 7/13/07 - Present	6/23/04 8/13/07	$50,000,000 $10,000,000 $60,000,000	1.500%	$48,338,523 as of 7/2/09	$15,232,232	6/24/24 GF
Oakland Unified	Administrator 6/16/03 – 6/28/09 Trustee 7/1/08 - Present	6/4/03 6/28/06	$65,000,000 $35,000,000 $100,000,000	1.778%	$78,347,270 as of 7/2/09	$29,627,913	6/29/26 GF 1/2023 I-bank
West Fresno Elementary	Administrator 3/19/03 – Present Trustee 8/26/08 - Present	12/29/03	$1,300,000 ($2,000,000 authorized)	1.93%	$681,039 as of 7/2/09	$720,975	12/30/13 GF
Emery Unified	Administrator 8/7/01-6/30/04; Trustee 7/1/04 - Present	9/21/01	$1,300,000 ($2,300,000 authorized)	4.19%	$959,974 as of 7/2/09	$680,911	9/30/21 GF
Compton Unified	Administrators 7/93-12/10/01 Trustee 12/11/01-6/2/03	7/19/93 10/14/93 6/29/94	$3,500,000 7,000,000 9,451,259 $19,951,259	4.40% 4.313% 4.387%	-0-	$24,358,061	6/30/01 GF
Coachella Valley Unified	Administrators 5/26/92-9/30/96 Trustee 10/1/96-12/20/01	6/16/92 1/26/93	$5,130,708 2,169,292 $7,300,000	5.338% 4.493%	-0-	$9,271,830	12/20/01 GF
Richmond/ West Contra Costa Unified	Pre-AB 1200 Trustee 7/1/90 – 5/1/91; Administrator 5/2/91-5/3/92; Trustee 5/4/92-Present	8/1/90 1/1/91 7/1/91	$2,000,000 7,525,000 19,000,000 $28,525,000	1.532% 2004 refi rate	$11,866,981 as of 7/2/09	$35,293,207	January 2018 I-bank

Source: California Department of Education

QUESTIONS:

1) What is the primary focus of FCMAT as they work with districts in the current fiscal climate? What are some trends/issues you can tell us about regarding overall district financial health?

2) Are there any districts on the horizon that may need emergency funding from the state and what is the potential impact on the state General Fund?

3) How has the fiscal flexibility provided in the 2009-10 Budget Act impacted local budgeting? How has this flexibility affected school district reserves?

4) How has the 20 percent reduction to your budget affected your operations and activities? What are you not able to do now that you otherwise would?

ISSUE 2: LOCAL IMPACTS OF STATE BUDGET REDUCTIONS & FLEXIBILITY PROPOSALS

The purpose of this issue is to provide background to the Subcommittee in preparation for testimony on the impacts of state budget reductions to local education agencies since 2007-08. This informational item provides context to the Subcommittee as they consider the Governor's proposed reductions to K-12 education for 2010-11.

PANELISTS

- Edgar Cabral, Rachel Ehlers and Lexi Shankster, Legislative Analyst's Office
- Carol Bingham, California Department of Education
- Nick Schweizer, Department of Finance
- Stakeholder Panel (3 minutes each):
  - Paula Campbell, School Board Member, Nevada City School District
  - Pat Godwin, Superintendent, Folsom-Cordova Unified School District
  - Eric Padgett, Teacher, Garden Grove Unified School District
  - Deborah Hearne, Classified Employee, Washington Unified School District
  - Michelle Huffaker, Parent, San Diego PTA

BACKGROUND:

Status of education prior to the recession. According to the latest edition of the California Educational Opportunity Report by UCLA's Institute for Democracy, Education & Access (IDEA) and UC ACCORD: *Educational Opportunities in Hard Times: The Impact of the Economic Crisis on Public Schools and Working Families,* even before the recent budget cuts, California's public education system lagged behind much of the nation. In 2007, the most recent year for which national data is available, California spent 77% of the national average for each student and roughly half for each student of states such as Vermont and Rhode Island, who boast high graduation rates and high NAEP scores. In that same year, *Education Week* ranked California 46th of all states in its spending for each student.

Prior to the recession and the most recent round of budget cuts, California's middle and high school classrooms were more overcrowded than classrooms in any other state. The average secondary teacher in California served almost twice as many students as the average secondary teacher across the nation.

Further, according to the UCLA IDEA report, while almost all California students received less than students in other states, students attending schools serving primarily low-income Latino, African American, and American Indian students were the most likely to experience critical problems in their schools. For example, such schools were eight times as likely as other schools in the state to face severe shortages of qualified teachers and are far more likely to have severe shortages of qualified college prep teachers and advanced placement classes.

2008-09 and 2009-10 budget reductions. In September 2008, the state passed the 2008-09 Budget Act 13 weeks late, making it the latest enacted budget in state history. After the enactment of the 2008-09 Budget Act, the nation faced a historic economic crisis. Rapid declines in revenues created cash flow problems and the need for repeated revisions to the 2008-09 Budget Act. In November and early December the Governor called the Legislature into special sessions to address a two year shortfall projected at $28 billion. A majority vote package was crafted to address the shortfall but the Governor vowed to veto the package. The Governor called a third special session on December 19th. On December 31, 2008, the Governor released an early 2009-10 budget proposal that reflected a $41.7 billion budget deficit over two years.

On February 20, 2009 the Legislature passed a budget package that made changes to the 2008-09 Budget Act and enacted the 2009-10 Budget Act five months before the constitutional deadline. The package provided $41.8 billion in solutions over the two years. As a part of this package, Proposition 98 was reduced from $58 billion in 2008-09 to $50.7 billion, a decrease of $7.3 billion. The February package funded Proposition 98 at $53.2 billion for 2009-10.

By May, revenues had deteriorated further and solutions adopted in February that needed voter approval failed to pass. On July 1, the Governor called a fourth special session. By the end of July, the Legislature enacted additional solutions totaling $24 billion (this was on top of the $35.8 billion in solutions realized from February). This package further reduced Proposition 98 funding from $50.7 billion in 2008-09 to $49.1 billion. For 2009-10, Proposition 98 was reduced from $53.2 billion to $50.4 billion.

Over the last two years, K-14 education has seen programmatic reductions of $7.6 billion, forgone COLAs totaling $4.9 billion and $4.6 billion in deferrals.

Federal stimulus funds. Federal stimulus dollars played a crucial role in helping schools cope with state budget reductions. K-12 education received $2.919 billion in federal stabilization funding in 2009-10 and is expected to receive an additional $213 million for a total of $3.123 billion. This is general purpose funding intended to help mitigate state funding cuts. In 2009-10, schools also received over $2 billion in federal ARRA funding to support educational programs that serve low-income students and students with disabilities.

Existing categorical program flexibility and fiscal oversight relief. The state provided fiscal flexibility to LEAs in 2008 and continued this flexibility in 2009 in an effort to ease the local impact of state budget cuts.

Beginning in 2008-09 through 2011-12 prior restricted funds for more than 40 categorical programs could now be spent on any educational purpose. The Governor's proposed 2010-11 budget provides $4.5 million for these flexible categorical programs.

The 2009-10 Budget Act also authorized the following:

- Allowed school districts to reduce the number of instructional days by five – from 180 to 175 days per year -- through 2012-13 without losing longer-year incentive grants, beginning in 2009-10.

- Extended the suspension of the LEA requirement to purchase newly adopted instructional materials through 2012-13 (five years total) and prohibited the State Board from adopting materials during this period. The February budget package suspended the purchase requirement for two years only beginning in 2008-09.

- Allowed school districts to direct the proceeds from the sale of surplus property for general fund purposes through January 1, 2012. Only proceeds from the sale of non-state funded property are eligible for this additional flexibility, which commenced in 2009-10.

- Suspended the remaining routine maintenance reserve requirement of one percent for school districts that meet the facility requirements of the Williams settlement, beginning in 2009-10. The February budget package reduced the requirement from three to five percent from 2008-09 through 2012-13 for school districts generally.

- Provided LEAs with access to additional, prior-year fund balances for general purposes in 2009-10 beyond those provided in February. LEAs may now access ending balances for the following additional programs: Targeted Instructional Improvement Grants; Instructional Materials; California High School Exit Exam; Adult Education; ROC/P Facilities; and Deferred Maintenance. [Economic Impact Aid; Special Education; Quality Education and Investment Act (QEIA); Home-to-School Transportation; English Language Learner Acquisition and Development Pilot Program; Child Development; and Child Nutrition remain protected.]

- Continued the reduction of penalties for exceeding the maximum class sizes allowable under the K-3 CSR program for a four year period, beginning in 2008-09, as enacted in the February budget package.

- Continued the suspension of the deferred maintenance reserve and reporting requirements for deferred maintenance for five years, beginning in 2008-09, as enacted by the February budget package.

Fiscal Oversight Relief:

- Changed the minimum requirement for reserves for economic uncertainty to one-third of the currently required level in 2009-10, provided that LEAs make annual progress in restoring reserves and fully restore reserves in 2011-12.

- Allowed LEAs to avoid a negative or qualified fiscal certification due to a substantial loss of federal ARRA Stabilization Funds in 2011-12 and 2012-13. To ensure consistent statewide implementation, the Superintendent of Public Instruction shall convene the Standards and Criteria Committee to modify the budget and fiscal review criteria to incorporate these changes.

Governor's flexibility proposals for 2010-11: Changes to teacher policies. To provide some help to districts as they respond to another tight budget, the Governor proposes new flexibility options, which primarily relate to the state's teacher policies.

For K-12 teachers, the Governor proposes to: (1) extend the layoff notification window specified in state law and eliminate layoff hearings; (2) amend state law to eliminate teacher seniority rules that apply to layoffs, as well as assignments, reassignments, transfers, and hires; (3) eliminate state rules regarding priority and pay for laid-off teachers serving as substitute teachers; (4) extend the observation window for probationary teachers to four years; and (5) make numerous changes to the teacher dismissal process.

Although the administration continues to consider these issues to be "budget trailer bill" issues, the administration acknowledges that they are proposing major policy changes and as such plan to move these proposals through separate policy bills. The Administration will give the Subcommittee an update of the status of these bills at today's hearing.

LAO assessment of Governor's teacher flexibility proposals. According to the LAO, while a few of the Governor's proposals would increase flexibility, some of the near-term benefit would be quite limited. For example, given state teacher provisions often have similar counterparts in local bargaining agreements, the LAO thinks changes in the state provisions would offer districts little initial increase in flexibility (though the proposals still could be worthwhile for other reasons). In the context of providing flexibility, the LAO recommends approval of one of the Governor's teacher proposals: changes to priority for substitute teaching positions.

The Governor proposes to allow districts to hire any qualified substitute teacher regardless of seniority and set pay rates irrespective of length of substitute assignment or pre-layoff salary level. According to the LAO, this proposal would give districts discretion in the rate paid to substitute teachers, with potential savings from being able to hire less expensive substitute teachers. It also would allow districts to choose among a larger pool of qualified candidates, including retired teachers. While some teachers who otherwise would have been entitled to substitute teaching positions might no longer receive them, the state would have no prohibition against administrators and teachers negotiating similar provisions in their local contract agreements.

LAO flexibility alternative. The LAO flexibility alternative includes nine options specific to K-12 education. As the chart below indicates, the LAO recommends folding some programs into the "K-12 Flex Item". These programs would join the 40 some categorical programs that remove program restrictions and allow funds to be spend on any educational purpose.

Program/Provision	Recommendation
After School Education and Safety (ASES)	Repeal certain provisions of Proposition 49 and include ASES in K–12 flex item. (Requires voter approval.)
Career Technical Education (CTE)	Combine funding from two CTE programs in K–12 flex item and three CTE programs outside K–12 flex item.
English Learner Acquisition Program	Shift funding into Economic Impact Aid.
Home–to–School Transportation	Include in K–12 flex item.
K–3 Class Size Reduction	Include in K–12 flex item.
Priority for substitute teaching positions	Remove requirement that districts give laid–off teachers priority for these positions and pay them at pre–layoff rates.
Quality Education Investment Act (QEIA)	Allow QEIA schools qualifying for federal school improvement funding to be subject only to federal requirements (that is, free from state QEIA requirements).
Contracting out for K–12 and CCC noninstructional services	Ease restrictions on contracting out for noninstructional services.
K–12 and CCC mandates	Eliminate many K–14 education mandates.

With regard to contracting out, this Subcommittee heard this issue in March and acted to delink these policy changes from decisions related to budget funding levels.

Proposals for changes to the Quality Education and Investment Act (QEIA) program and education mandates will be discussed in detail at future hearings.

Details on the remaining components of the LAO alternative are as follows:

- ***Add Home-to-School (HTS) Transportation and After School Education and Safety (ASES) Programs to Flex Item.*** Last year, the Legislature excluded the HTS transportation program from the flex item because at the time the program was being funded with special funds that had to be used for transportation purposes. Under the Governor's 2010-11 proposal, the HTS program is funded with Proposition 98 monies. As such, the LAO sees no reason to continue to treat this program differently from most other K-12 programs and recommends adding the program and its associated funding (roughly $500 million) to the flex item.

Similarly, the LAO continues to recommend the Legislature ask voters to repeal the existing restriction that roughly $550 million in K-12 funds be used solely for after school services. Specifically, the LAO recommends the Legislature place a measure on the ballot to repeal Proposition 49 (which created the automatic ASES funding requirement), and, if it passes, to add the ASES program into the flex item.
Relaxing restrictions on the HTS and ASES programs would provide districts with discretion over about $1 billion in previously restricted categorical funds.

- ***Shift English Learner Acquisition Program (ELAP) Into Economic Impact Aid (EIA).*** Currently, ELAP must be used to provide services to English learner (EL) students in grades 4 through 8. The LAO recommends merging ELAP and its associated funding ($50 million) into the more broad-based EIA program, which supports various activities benefiting EL and low-income students. While continuing to dedicate funds for the state's most at-risk students, this change would grant districts flexibility to spend the funds on EL and low-income students of any grade level, depending on their areas of greatest need.

- ***Streamline Funding for Career Technical Education (CTE), Focus on Student Outcomes.*** In 2008-09, the state allowed funds associated with two CTE programs serving high school students to be used for any educational purpose while maintaining detailed requirements for three other high school CTE programs. To better coordinate the state's fractured CTE system and increase local flexibility, the LAO recommends consolidating all high school CTE funding ($427 million) and eliminating programmatic requirements in favor of monitoring related student outcomes. (One such consolidation approach would be to roll the funds into high schools' revenue limits.)

  Under this approach, districts receiving CTE funding would be held accountable for various student outcomes, including the percentage of high school students that enter postsecondary education or begin employment in a high-wage industry. By holding districts more accountable for student engagement and outcomes, the state could ensure students receive the positive benefits of CTE while providing more flexibility to districts in developing effective high school programs.

- ***Recommend Placing K-3 CSR Program in K-12 Flex Item.*** Beginning in 2010–11, the LAO recommends adding the K-3 CSR program to the K-12 flex item (which contains about 40 other categorical programs). In an effort to make this transition in the least problematic way, the LAO recommends districts receive their 2007-08 allocation less 20 percent—essentially akin to the other programs in the flex item—regardless of their increase in class size in the intervening years. Statewide, this would generate $382 million in ongoing savings.

QUESTIONS:

1) How have LEAs used the categorical flexibility? What programs are LEAs continuing? Which have been eliminated?

2) How have LEAs used the ARRA stabilization funds?

3) Can the Administration give the Subcommittee an update on the proposed teacher proposals? Has legislation been introduced?

Stakeholder panel:

1) What is your district's primary focus when considering reductions in spending? What programs and services continue to be a priority? What have you had to "do without"?

2) Has your district made any employment concessions? If not, are you considering any this year?

3) What are some positive examples of things your district has done as does more with less?

4) What suggestions do you have for the Legislature as it considers the Governor's proposed 2010-11 budget?