

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember S. Joseph Simitian, Chair

TUESDAY, APRIL 27, 2004
 STATE CAPITOL, ROOM 444
 10:00 A.M.

REGULAR BUSINESS

ITEM **DESCRIPTION**
OUTSTANDING COMMITMENTS

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ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: LEA MEDICAL BILLING OPTION -- *INFORMATION ONLY*

The issue for the subcommittee to consider is a proposal by Department of Health Services (DHS) to change the LEA Medical Billing Option claiming rules that school districts and county offices use to collect Medical dollars for providing certain services. The issue is of interest due to the potential substantial reduction in the amount of federal money districts may be drawing down in the near future.

BACKGROUND:

Background on program. In 1989, Congress established a mechanism through which schools could recover revenues spent on health-related services provided to students enrolled in Medicaid. Local school districts and county offices of education can use local education funds as the state match for Medi-Cal and draw down federal funds as reimbursement for providing health-related services to students. To be eligible for this funding in California, the LEA must be enrolled as a Medi-Cal provider, and the services must be covered under Medi-Cal, medically necessary, and performed by a qualified provider. Services mostly include those provided to students with special education needs as part of an Individualized Education Plan (IEP) or an Individualized Family Support Plan (IFSP) and may include health and mental health assessments, treatments, transportation, and Targeted Case Management.

Schools may participate in two different programs: (1) the Local Education Agency (LEA) Medi-Cal Billing Option, which reimburses schools for health services provided to students; and (2) the Medi-Cal Administrative Activities (MAA) program, which reimburses schools for carrying out health-related administrative duties, such as outreach or enrollment assistance. Together these two programs provide schools with funding that they can use to promote health insurance outreach, enrollment, utilization, and retention. Many districts use the funding to sustain Healthy Start programs.

Approximately 500 districts participate in the LEA Medi-Cal Billing Option program. According to some estimates, these districts generated approximately \$92.2 million in revenue during the 2002-2003 school year, up from \$79 million the previous year. Every year a greater number of schools participate in this program, and the amount claimed typically increases with each year of participation. Still, the state of California does not maximize this federal revenue source.

Proposed changes to state plan. According to DHS, it submitted a State Plan Amendment to the federal government as part of an ongoing effort to increase rates for claiming schools. The amendments include:

1. Increased rates for treatment services;
2. Requiring credentialed speech, language and hearing specialists providing services to be supervised by speech pathologists or audiologists in order to claim for their services;
3. Disallowing reimbursement for any health services that is mandated by the state and is provided free to all students, unless the services are for special education students;
4. Prohibiting claiming for non-special education students, because of an ominous federal requirement that requires districts to bill families' health insurance and receive a 100% response rate. Because this requirement is impractical, DHS proposes to eliminate claims for non-special education students.

DHS states that issues #2, #3 and #4 are consistent with federal requirements and were included in the plan amendment at the behest of the federal government.

COMMENTS:

Can state request waivers, seek other options? Staff understands that the state previously had received a waiver from issues #3 and 4 above, but the waiver expired in recent years. If this information is correct, might the state request a renewal of that waiver? If the waiver is denied, could the state explore other options to provide relief from the 100% response rate requirement (for example, allow schools to send claims to an agency to follow up with third party billers so the schools don't have to, as is done in another states.)

What is estimated fiscal effect? Staff notes that this particular program is useful to districts because it allows them to draw down federal dollars, without expending additional local funds as the state match. Some districts estimate a 40-50% reduction in the amount of federal funds they will claim as a result of these changes. Given that it is administratively cumbersome to draw down these funds, will the reduced level of claims still make it worthwhile for districts to claim under this program?

ISSUE 2: MANDATES

The issues for the subcommittee to consider are various issues related to state reimbursement of local mandates, and ways to ensure that the state controls costs.

BACKGROUND:**Issues:**

- 1) **Governor's proposal on overall amount owed by the state.** The Governor's budget proposes to defer funding for all state education mandates to a future date, adding to the amount that the state owes districts for mandate reimbursements. This is consistent with what the state has done on mandates in the past two years. According to the LAO, the state owes approximately \$1.6 billion to school districts for mandate reimbursements; this amount is cumulative and reflects the state's decision to defer mandate reimbursements over the past few years.
- 2) **Governor's proposal on recently approved mandates.** According to the LAO, the Commission on State Mandates has recently approved the following mandates: 1) Peace Officer's Procedural Bill of Rights, 2) Financial and Compliance Audits, 3) Physical Education Reports, 4) Health Benefits for Survivors of Peace Officers and Firefighters, 5) County Office of Education Fiscal Accountability Reporting, 6) Employee Benefits Disclosure, 7) School District Fiscal Accountability, 8) Photographic Record of Evidence and 9) the Standardized Testing and Reporting Mandate. The Governor's budget provides \$1 in reimbursement for all except the STAR mandate, effectively recognizing all but the STAR mandate as reimbursable mandates. The administration does not recognize the STAR mandate because it believes the claims far overstate real costs, and proposes to delay recognition until claims are audited.
- 3) **Proposals to reconsider recently approve STAR mandate.** The recently approved STAR mandate has claims from the year 2001-02 totaling \$36 million. If recognized and upheld as a legitimate mandate, these totals would be expected to climb substantially as more districts file claims. As noted above, the administration questions the legitimacy of the mandate and proposes auditing claims for the STAR mandate before it recognizes and funds the mandate. It does not appear that the state can appeal the mandate as the three-year window for appeal by DOF has expired. The LAO also recognizes a number of problems with the Commission's original decision, and recommends that the Legislature adopt trailer bill language requesting the Commission to reconsider its decision and to consider the problems that LAO has raised with its original decision. The LAO will provide more information regarding its concerns and recommendations at the hearing.
- 4) **LAO proposal to recognize offsetting revenues.** The LAO notes that several new mandates are offset by categorical programs that the state provides for a similar purpose. It accordingly recommends that the subcommittee adopt budget bill language for the following budget items to require districts to use funds from these programs to first satisfy any related mandated costs: 1) State and federal testing programs, 2) County Offices of Education Fiscal Oversight, 3) Remedial education programs. The LAO also recommends the Legislature adopt trailer bill language requiring the Commission to make modifications to the new county office fiscal oversight mandate to consider existing state funds as offsetting revenue.

- 5) **Proposals to modify/ eliminate/ suspend long-standing mandates.** The Assembly, the administration and the LAO all have proposals in this area. All proposals need legislation to implement and as such are not items for action by the subcommittee, but are important to note.
- a. The Assembly Special Committee on State Mandates has reviewed a number of long-standing mandates affecting school districts and local governments. Its recommendations are contained in **Appendix A**. If adopted, these recommendations would significantly reduce the state's future mandate obligations.
 - b. The administration proposes to suspend the following mandates: School Crimes Reporting II, School Bus Safety II, Law Enforcement Sexual Harassment Training, County Treasury Oversight Committee. It proposes suspension through trailer bill language.
 - c. The LAO recommends the elimination of the Physical Education Reports mandate and the Employee Benefits Disclosure mandate because they are both unnecessary. Elimination would result in savings of at least \$500,000 annually.
- 6) **Proposals to modify the overall mandate claims and approval process.**
- a. The administration proposes legislation that would accomplish the following reforms to reduce mandate costs: allow the legislature to limit mandate costs through the annual budget act, require the Legislature to approve reimbursement guidelines and cost estimates before they are finalized by the Commission on State Mandates, and limit reimbursements to the "least costly approach." It also proposes more audits of K-12 mandate claims.
 - b. The LAO proposes a number of reforms related to the mandate reimbursement process. In particular, it proposes that the Legislature broaden the federal mandate exclusion to allow the Commission on State Mandates to wave state reimbursement any time federal law requires the same program, regardless of whether the federal requirement predates the state mandate.

COMMENTS:

Issues 3, 5 and 6 above issues require legislation.

ISSUE 3: GOVERNOR'S PROPOSED AUGMENTATION FOR EDUCATION TECHNOLOGY

The issue for the subcommittee to consider is the Governor's proposed \$21 million augmentation to county offices for high-speed Internet2 access and maintenance.

BACKGROUND:

The Governor proposes an augmentation of \$21 million in Proposition 98 funds to county offices to maintain their high-speed Internet2 access. DOF indicates that the program was funded last year through the UC budget at a level of \$14 million, and that the budget proposes increasing funding to \$21 million and moving it to the county offices (Proposition 98). DOF indicates that this funding is to continue the state's investment in the Digital California Project, which links schools to Internet2, a high-speed national education network established by universities and available to education institutions. To date, UC has contracted with the Corporation for Education Network Initiatives, a non-profit, to implement the project.

The administration argues that the \$21 million is for maintenance of the high-speed network that benefits county offices, and that it is needed because it is a secure network for transmitting student and financial data between schools and counties. Because the \$21 million is proposed for maintenance, the administration indicates its intent that this funding be ongoing.

COMMENTS:

LAO recommends deletion. The LAO recommends deletion of the proposed \$21 million because it argues that it entails high costs and low benefits. Specifically, it argues that districts and schools would have to invest sizeable amounts of money to connect to Internet2 (especially given that it's a new technology and may get cheaper in the future), and that its uses are limited because there is little software available for it.

Administration's proposal on Teleconnect. The Teleconnect program subsidizes school districts' telecommunication costs by providing a 50% credit to utilities' charges to school districts. It is funded from surcharges on telephone companies, and is administered by the Public Utilities Commission (PUC). The administration proposes no appropriation for this program in the budget year. In prior years, there was an unspent balance in this program, and the Legislature chose to borrow funds from the balance. Due to the large unspent balances, the PUC reduced the surcharge to zero. It would have to increase the surcharge again to replenish funding for the program. However, even if it does so, it cannot administer the program under the Governor's proposed budget because there is no appropriation for it. This issue is being heard by Assembly Subcommittee #4. Could the Teleconnect program fund the above Internet2 access program?

ISSUE 4: FCMAT -- FINANCIAL OVERSIGHT

The issues for the subcommittee to consider is an update by the Fiscal Crisis and Management Assistance Team (FCMAT) on the financial status of school districts statewide.

BACKGROUND:

Current law requires school districts and county offices of education (LEA's) to file two interim reports annually on their financial status. They must certify whether they are able to meet their financial obligations. County offices must review these certifications for accuracy. The certifications are classified as positive, qualified or negative, as follows:

Positive certification -- an LEA will meet its financial obligations for the current and two subsequent fiscal years.

Qualified certification -- an LEA may not meet its financial obligations during the current and two subsequent fiscal years.

Negative certification -- an LEA will be unable to meet its financial obligations in the current and subsequent year.

COMMENTS:

FCMAT will present information on the latest report, and the number of LEA's with negative and qualified certifications.

Staff notes that Vallejo Unified is seeking a bailout loan of approximately \$60 million. The subcommittee may wish to ask for an update on the status of the district's request.

ISSUE 5: DISTRICT FLEXIBILITY ISSUES -- INFORMATION ONLY

The issue for the subcommittee to consider is an update by CDE on districts' use of the fiscal flexibility provisions that were adopted last year.

BACKGROUND:

Last year the Legislature provided the following flexibility provisions to school districts, as part of a package of provisions to help school districts offset the overall cuts that the state adopted in education. It provided the first two provisions for one fiscal year only. It provided the last provision for two years: 2003-04 and 2004-05. The Governor's budget does not propose to renew the first two flexibility provisions for the upcoming budget year.

- 1) **Relief from maintenance set-aside:** Under current law, school districts must set aside an amount equal to 3% of their General Fund expenditures for routine maintenance. Last year, the Legislature lowered the required amount to 2% *for the 2003-04 fiscal year only*.
- 2) **Categorical Ending Balances flexibility.** Last year the Legislature provided flexibility to districts in using 100% of their end-of-year balances in restricted accounts (mostly from categorical programs) to mitigate the revenue cuts that were adopted last year. It excluded balances from the following programs from the flexibility provisions: capital outlay, bond funds, sinking funds, federal funds, Economic Impact Aid, special education, Targeted Instructional Improvement Grant, II/USP and HP, instructional materials and deferred programs. This provision is in effect *for the 2003-04 fiscal year only*.
- 3) **Economic uncertainties reserve:** State law requires school districts to maintain a reserve for economic uncertainties. The amount of the reserve depends on the size of the district. Last year, the Legislature reduced the required size of the reserve to one half of the amount normally required, for two fiscal years. This provision *is in effect for the 2003-04 and 2004-05 fiscal years*, and sunsets by the 2005-06 year.

As part of the budget flexibility package, the Legislature also provided mega-item flexibility at the same proportions proposed by the administration in this year's budget (districts can transfer a maximum of 10% of a program's funding level into another categorical program, as long as the amount transferred does not exceed 15% of the receiving program's original funding level). The subcommittee heard this issue at last week's hearing.

COMMENTS:

Preliminary information from CDE and from school districts suggests that districts used the ending balance flexibility (outlined in #2 above) more than they used the flexibility on their economic uncertainties reserve (#3 above). Representatives of the California Department of Education will provide information regarding the extent of districts' use of these flexibility provisions.

ISSUE 6: NO CHILD LEFT BEHIND -- UPDATE FROM SBE, CDE

The issue for the subcommittee to consider is an update from the State Board of Education and the California Department of Education regarding the status of the state's compliance with accountability requirements dictated by No Child Left Behind Act, and the effect on the need for Title I set-aside funds (Issue 7).

BACKGROUND:

Background on No Child Left Behind. The federal No Child Left Behind Act of 2001 requires states to develop assessment tools for measuring student progress, develop a "proficiency" benchmark based on those tests, and then expect that every student in the state meets that benchmark in ten years. The federal law requires schools and districts receiving Title I funds to ensure that their students are making **adequate yearly progress** toward that ten-year goal (by 2013-14). It requires districts to intervene in Title I schools not making adequate yearly progress. Specifically, if a Title I school fails to make adequate yearly progress it must enter the **Program Improvement program**, which is outlined below in the following table drawn from the LAO's Analysis of the 2003-04 Budget Act. Beginning in September 2004, California must begin to identify program improvement **districts**.

Table 1: No Child Left Behind Program Improvement Program -- Sanctions and Interventions for Title I Program Improvement Schools (a)

Year 1—School Choice
<ul style="list-style-type: none"> • Develop a two-year improvement plan. • Use 10 percent of Title I funds for professional development focused on school improvement. • Provide students with the option to transfer to any other school in the school district and pay the transportation costs.
Year 2—Supplemental Services
<ul style="list-style-type: none"> • Level 1 interventions. • Use Title I funds to obtain tutoring/after school program from the State Department of Education (SDE) approved public or private provider.
Year 3—Corrective Action. Level 1 and 2 interventions, plus school district must do one of the following:
<ul style="list-style-type: none"> • Replace responsible staff. • Implement new curriculum. • Significantly decrease management authority at school level. • Appoint an external expert to advise school. • Extend school day or school year. • Restructure internal organization of school.
Years 4 and 5—Restructuring. Level 1, 2, and 3 interventions, plus prepare a plan that must be implemented within one year. Options include:
<ul style="list-style-type: none"> • Reopen school as charter school. • Replace most of the school staff. • Hire private management company to operate school. • Turn the operation over to SDE. • Other major restructuring.

(a) Program improvement school: A school that has failed to make adequate yearly progress for two years in a row.

CDE has also developed the following table to summarize the different interventions once a school or district has failed to make adequate yearly progress for two years in a row (program improvement):

Table 2: Program Improvement requirements for schools that fail to make adequate yearly progress for two consecutive years

	Year 1	Year 2	Year 3	Year 4	Year 5
Revise and implement local plan	X	X	X	X	X
Provide choice	X	X	X	X	X
Provide supplemental services		X	X	X	X
District takes local corrective action			X	X	X
Plan for alternative governance				X	X
Implement alternative governance					X

California had already implemented its own accountability systems (the II/USP and HP programs¹) and testing systems prior to the adoption of the federal No Child Left Behind Act (NCLB). However, California's accountability system differs from the federal requirements in that it is a school-based accountability system that holds individual schools accountable for their progress, and the NCLB requires a district-based accountability. It also differs in the measurement used to hold schools/ districts accountable: the state system measures a school's **aggregate** progress toward a statewide achievement goal (with requirements that subgroups **in the aggregate** make progress toward the goal), while the federal system requires every student to meet the goal. There are other significant differences between the two systems as well.

California's progress in complying with federal law. Last summer, the State Board of Education filed its consolidated plan to comply with the No Child Left Behind Act and integrate the state system with the federal accountability requirements. Prior to that, it adopted a definition of the ultimate goal of "**proficiency**" that it expects all students to meet in ten years under the NCLB requirements: 1) for grades 3-8, score at proficient or advanced levels on the California Standards Tests for English language arts and math; 2) for grades 10-12, score at proficiency levels on the California High School Exit Exam. (The LAO notes that the second criteria is higher than the score needed to pass the California High School Exit Exam.)

COMMENTS:

Number of schools identified as Program Improvement expected to increase. Table 3 below outlines the number of schools that have been identified as program improvement schools as of last year. The number of schools (and districts, see below) identified as program improvement is expected to grow over time, as schools will be required to increase the number of students meeting the statewide definition of "proficient."

¹ Immediate Intervention in Underperforming Schools and High Priority Schools Grant program.

Table 3: Status of schools in federal program improvement (two consecutive years of non-attainment of annual yearly progress)

Level of Intervention	Number of Schools
Year 1	642
Year 2	217
Year 3	328
Year 4	12
Total	1,199

Program Improvement districts to be identified for the first time in the fall. Up to this point, CDE has only identified program improvement *schools*. However, beginning in September 2004, CDE must begin identifying program improvement *school districts*. The identification of these districts will be based on test scores from this spring. CDE estimates that approximately 48 districts will be identified. Once districts have been identified, they will be expected to revise their improvement plans and implement changes shortly after being identified in September. Moreover, they will be required to make improvements in three years or face more severe state interventions.

LAO comments. The LAO will present its comments at the hearings. As outlined in its *Analysis of the 2003-04 Budget Act*, those concerns include: 1) A concern that the state should do a better job of integrating the state and federal accountability systems, so that there is one system. 2) A recommendation that the California Department of Education and State Board of Education report on how the state will intervene in districts whose schools fail to improve, and 3) A concern that the State Board of Education has set the definition of "proficiency" for all students to meet in ten years so high, that it will be extraordinarily difficult for Title I schools to ensure that all students meet it in 10 years. Specifically, it notes that a little more than one-third of students in grades 4 and 8 meet the criteria, but ***even fewer English learners, special education and economically disadvantaged students*** meet the criteria. It also notes that the proficiency level for grades 10-12 is higher than the score needed to pass the California High School Exit Exam (CAHSEE).

ISSUE 7: FEDERAL TITLE I FUNDS

The issues for the subcommittee to consider are 1) an increase of in Title I "set aside" funds available for the state to use for intervening in struggling schools and districts before and after they've been identified for state intervention, and 2) the possibility that between \$2 and \$15 million in Title I funds may go unused and revert back to the federal government unless they are spent by September of this year.

BACKGROUND:

Increase in amount available for interventions. Under the federal No Child Left Behind Act, states can spend up to a certain percentage of their total grant on intervention activities related to the accountability provisions of the law. Initially states could use up to 2% of their total grant for these activities. In the coming budget year, California will be able to use up to 4% of its total grant for these activities. This change will result in an increase of more than \$30 million that will be available to be used in the budget year. In total, CDE estimates that the state will have a total of \$243 million in Title I set-aside funds to spend over the three-year period spanning from 2004-05 to 2006-07. The increase in set-aside funds is expected to be permanent over the next three years, until the reauthorization of the No Child Left Behind Act, but it is not expected to increase above this level substantially. Therefore the amount available for state interventions and prevention will remain steady over the next three years. In contrast, ***the need for this funding will increase over the next three years***, as the number of schools and districts identified for program improvement and subject to potential state sanctions and interventions increases over this time period.

The Governor's budget does not include this increase in federal funds, and instead proposes that it be included as part of the May Revise. The Governor's budget currently proposes the same funding levels as last year for state interventions (see Table 4 below.)

Vehicle for the use of the funds. The Legislature is currently considering AB 2066 (Steinberg), which intends to establish a system to intervene in program improvement schools and districts, among other provisions. The system will be supported with the increase in Title I set-aside funds outlined above.

Current- and prior-year appropriations of the Title I set-aside funds. The table below summarizes prior-year appropriations of the Title I set-aside funds, and the Governor's January 10 proposal, which holds off on including the increase in funds until the May Revision. To date, the state has spent the Title I set-aside funding on schools that have participated in the state accountability systems and have needed additional assistance to exit.

Table 4: Current and Prior-Year Appropriations of Title I set-aside funds (\$\$ in millions)

Title I set-aside funds	2003-04		2004-05
	Appropriated	used	Proposed
Statewide System of School Support	\$ 7.5	\$7.5	\$ 7.5
School Assistance and Intervention Teams	\$ 8.6	\$2.3	\$8.6
\$150 per pupil amount for each school that is managed by a School Assistance and Intervention Team.	\$13.6	\$5.7	\$13.6
Pursuant to legislation	\$17.2		
Sub-total for interventions	\$46.9	\$15.5	\$29.7
Prior-year carryover (expire September 30, 2004 if not spent)	\$15.5		
LAO's estimate of 2004-05 carryover (expire September 30, 2005 if not spent)			\$32.5

Carryover funds possibly at risk if not spent. In its Analysis of the 2004-05 Budget Bill, the LAO argues that the state risks having to send back Title I set aside money if it does not spend it by September of this year. Under federal law, states have 27 months to spend federal funds or they revert back to the federal government. The LAO argues that \$15.5 million of last year's Title I set-aside appropriations were carryover from the 2002-03 fiscal year, and that local education agencies must spend it by September 30 of this year or it will revert back to the federal government. This funding was appropriated for the following purposes last year: the Statewide System of School Support, School Assistance and Intervention Teams. While the LAO believes that the funding appropriated for the Statewide System of School Support will be spent by the agencies that received it, it has concerns that the funding for the School Assistance and Intervention Teams may not be spent because it was only recently provided to eligible schools.

The LAO estimates that at least \$2 million of the funding appropriated for SAIT teams may go unspent. To avoid having to revert this funding back to the federal government, it therefore recommends that the Legislature re-appropriate \$2.5 million of this money to the Statewide System of School Support, because it believes that it can spend the money before September 30 of this year. If the Legislature chooses to adopt the LAO recommendation, it may wish to make it clear to the recipients that this is a one-time increase, unless it increases its appropriation to \$10 million on an ongoing basis.

The LAO argues that the state may face this problem again next year, when \$32.5 million is potentially at risk of being sent back if the state does not ensure that locals spend the money by September 30, 2005. However, the state can mitigate this problem in the future by ensuring that this funding goes to a purpose that can be spent in a short amount of time.

COMMENTS:

Early Prevention vs. late intervention. In its deliberations on AB 2066, the members of the subcommittee and the rest of the Legislature will be considering how to distribute the available \$243 million in federal Title I set-aside funds over the three-year period. As it deliberates, it will have to decide whether to spend funding "at the front end" before districts are identified as program improvement districts, in order to try to prevent their identification as such, or to spend more "at the back end" once districts have been identified as program improvement districts and are faced with stricter interventions.

Options for expiring funds. Some advocates have suggested that the 48 school districts expected to be identified as new program improvement school districts should receive first priority for the funds that are expected to expire. Staff notes that the subcommittee may wish to explore some contingency language to ensure that there is an alternative one-time purpose for expiring funds, in the event they are not spent in a timely manner.

ISSUE 8: STATE ACCOUNTABILITY PROGRAMS

The issue for the subcommittee to consider is the proposed funding levels for the state accountability programs: Immediate Intervention in Underperforming Schools (II/USP) program and the High Priority (HP) Schools Grant program.

BACKGROUND:

The Governor's budget proposes a total reduction in funding for these two programs, as indicated in the following table. The proposed reductions reflect two issues: 1) the fact that schools that entered the programs several years ago are now "timing out" of the program -- that their 2- and 3-year grants are expiring, and 2) the fact that the state has not funded grants for new schools since 2002-03. For the budget year, the Governor proposes funding for the II/USP to fund schools in Cohorts 2 and 3. Cohort 1 schools have ended eligibility for funding.

Table 5: Prior-year and proposed funding for II/USP and HP programs (\$\$ in millions)

Program	2001-02	2002-03	2003-04	2004-05 Proposed
II/USP	\$161	\$151.4	\$129.8	\$ 53
High Priority Schools Grant Program	\$200	\$172	\$218.4	\$193

Background on programs. The Immediate Intervention in Underperforming Schools Program (II/USP) was created in 2000 as part of an overall state public accountability system. The program allows schools in the lowest half of the state's Academic Performance Index ranking to develop an improvement plan and receive \$200 per ADA for up to three years to implement it. In exchange, participating schools must show progress toward meeting state improvement goals or face sanctions or state interventions. The High Priority Schools Grant Program (HP) was created in 2001 and is open to schools in the lowest 10% of the state's API ranking. Participating schools must similarly develop improvement plans and receive \$400 per ADA for up to four years to implement them.

The following table summarizes the number of schools in each cohort, and was provided by CDE.

Table 6: Summary of schools participating in II/USP and HP programs

	1 st Implementation Year		
	2000-01	2001-02	2002-03
II/USP Cohort I	429		
II/USP Cohort II		430	
II/USP Cohort III			429
HP			665
Total schools			1953

Status of program. The chart below includes information provided by CDE regarding the status of schools that participated in the II/USP and HP programs.

Table 7: Status of Schools Participating in II/USP and HP

	Exit program	On-watch	State-monitored	Closed	Made growth targets	Did not meet growth targets
II/USP Cohort I	303	72	49	5	(a)	(a)
II/USP Cohort II	101	320	6	3	(a)	(a)
II/USP Cohort III - after 1 st year of implementation				5	242	183
HP -- after 1 st year of implementation					313	(b)

(a) Data included in previous columns.

(b) Awaiting SBE definition of significant growth.

COMMENTS:

Given that the state no longer provides funding for new cohorts for these programs, what has the state learned from these programs that can help inform the Legislature's decisions on the Title I set-aside and how to allocate it?

ISSUE 9: TESTING PROGRAMS, FEDERAL ASSESSMENT (TITLE VI) FUNDS

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

BACKGROUND:

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

Table 8: State and Federal Funding for State Testing Programs

	State General Fund		Federal Funds (Title VI)	
	2003-04 revised	2004-05 proposed	2003-04 revised	2004-05 proposed
STAR (a)	61.7	55.2	9.1	9.1
STAR Total (state and federal \$) (b)			70.9	64.3
CAHSEE (high school exit exam)	12.3	10.4	3.1	10.9
CAHSEE Total (state and federal \$) (b)			15.4	21.2
California English Language Development Test (CELDT)	11.4	11.4	12.1	10.2
CELDT Total (state and federal \$) (b)			23.6	21.6

(a) Includes funding for the SABE/2 contract and apportionments for administration. The proposed funding level for the budget year is the same as the 2003-04 revised level.

(b) Totals may not add due to rounding error.

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

Table 9: Title VI Spending Plan

Title VI Spending Plan

(proposals in April letter shown in bold)

	2003-04 Budget Act	2003-04 Revised	2004-05 Proposed
Item 6110-113-0890			
Alternative assessments for special education--HSEE	1,000,000	1,000,000	
Alternative schools accountability model	775,000	775,000	775,000
Assessment review and reporting		400,000	400,000
CAHSEE contract	1,100,000	0	7,884,000
CAHSEE May administration		1,930,854	Incl above
CAHSEE demographic corrections		166,000	0
CAHSEE study		0	498,000
CAHSEE workbooks	1,800,000	1,000,000	2,500,000
California alternate performance assessment	500,000	400,000	2,200,000
California Longitudinal Pupil Achievement Data System	6,880,000	1,822,000	2,272,000
CELDT apportionment	7,100,000	7,100,000	7,100,000
CELDT apportionment shortfall		4,454,000	2,493,000
CELDT contract shortfall		563,000	563,000
CELDT vertical scaling project		100,000	300,000
CSIS new cohort--local grants			1,947,000
CSIS new cohort--CSIS administration			299,000
English language K-1 reading and writing test development	1,400,000		
Primary language test development	3,000,000	1,500,000	
STAR			
• Contract	3,569,000	3,226,367	6,049,000
• Grade 5 science test administration		500,000	incl. above
• Middle/high science test development	900,000	661,000	1,400,000
• Reporting AYP	650,000	650,000	650,000
• Tech. Assistance centers and pre-test workshops			450,000
• CST apportionment		816,480	incl. above
• Test development from (2)		342,633	
• Test development from (9)		1,505,088	
• Scenario 2		1,432,224	535,448
Training and materials for assessments of pupils with disabilities	600,000	600,000	
Unallocated	16,154,000		
Subtotal	45,428,000	30,944,646	38,315,448

LAO concern about expiring funds. The LAO believes that there is approximately \$32 - 38 million in Title VI funds that will expire and revert to the federal government if they are not spent by September 30, 2005. For these funds, the LAO proposes a technical solution that will allow the funds to be spent by the deadline: appropriate the federal money for the costs of the CELDT contract (since this funding will be spent sooner), and appropriate General Fund money for the CELDT apportionments, which will take longer to spend by the recipient school districts. The LAO also estimates that the state will face a similar situation in the 2005-06 budget year, with approximately \$36 million expiring by September 30, 2006 if they are not spent (assuming the Governor's proposed funding level in the budget year). Staff notes that the subcommittee may wish to explore some contingency language to ensure that there is an alternative one-time purpose for expiring funds, in the event they are not spent in a timely manner.

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

April DOF letter. Staff notes a technical issue for the subcommittee: In an April letter amending the January 10 proposed budget, the administration proposes a minor augmentation to the General Fund amount for administration of the California High School Proficiency exam. It proposes a \$143,000 increase for an additional 1676 students to take the California High School Proficiency exam.

COMMENTS:

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

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

ISSUE 10: CSIS, STATE LONGITUDINAL DATABASE
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The issue for the subcommittee to consider is the proposed budget for and status of California School Information Services (CSIS) and the California Longitudinal Pupil Achievement Data System (CALPADS).

BACKGROUND:

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

**Table 10: CSIS state and federal funding: 2002-03 through proposed budget year
(\$ in millions)**

	2002-03	2003-04	2004-05
Central operations	\$4.29	\$3.90	\$3.90
			0.300 (Title VI)
Project Management	0.250	0.250	0.250
LEA Projects	5.42	0	1.950 (Title VI)
CALPADS -- assignment of student identifiers	0.320 (Title VI)	0.520 (Title VI)	0.520 (Title VI)
Total funding	\$10.28	\$4.67	\$6.92

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

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

Proposed funding for new CSIS cohort. In an April letter, DOF proposes to increase CSIS' budget by providing \$1,974,000 in additional Title VI federal funds for CSIS to expand to a new cohort of school districts. Last year, the Legislature did not provide any funding for new participants. In addition, DOF proposes to increase CSIS' central operations budget by \$299,000 in federal Title VI funds, to bring its central operations budget back to 2002-03 levels. (Last year, the Legislature cut CSIS' central operations budget in an effort to cut overall costs in Proposition 98.)

Longitudinal database. Pursuant to SB 1453 (Alpert) of 2002, CDE is required to develop, via contract, a California Longitudinal Pupil Achievement Data System (CALPADS) that will contain longitudinal data on students' test results on the various state testing systems. SB 1453 provided \$6.8 million in federal Title VI funding for the system, and in the current year, the revised funding level for this program is \$1.8 million. For the budget year, the Governor proposes \$2.3 million in federal Title VI funding to continue development of CALPADS. For the past two years the budget has provided CSIS with funding to assign unique individual student identifiers to every student in the state's K-12 education system. This funding is highlighted in Table 10 above.

COMMENTS:

CDE will be available to present an update on CALPADS.

ISSUE 11: OTHER FEDERAL FUNDS -- INFORMATION ONLY

The issue for the subcommittee to consider is information from the federal government regarding federal education funding that California is expected to receive in the budget year.

BACKGROUND:

Appendix B contains a table that was prepared by Senate staff and summarizes current year and expected budget year allocations in federal education funds for California. Of note are:

- An 80% increase in the 21st Century Community Learning Centers grant, which provides funding for after school programs -- This issue will be heard at the May 4 hearing.
- A 14% increase in Title III Language Acquisition Funds, which support English learners. This funding is provided to school districts on a formula basis based on the number of English learner students.
- A 15% increase in Special Education basic funding. -- This issue will be heard at the May 4 hearing.

ISSUE 12: ECONOMIC IMPACT AID -- LAO PROPOSAL REGARDING FORMULA, BLOCK GRANT

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

BACKGROUND:

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

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

COMMENTS:

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

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