

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Julia Brownley, Chair

TUESDAY, APRIL 15, 2008  
STATE CAPITOL, ROOM 444  
9:00 AM

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### ITEMS TO BE HEARD

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**ITEMS TO BE HEARD****6110 DEPARTMENT OF EDUCATION**

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**ISSUE 1: ACROSS THE BOARD REDUCTION FOR BEFORE AND AFTER SCHOOL PROGRAMS****PANELISTS**

- Legislative Analyst's Office
- Department of Finance
- California Department of Education

**BACKGROUND**

The proposal reduces funding by \$59.6 million (of a workload budget of \$546 million) and therefore the number and/or magnitude of grants that can be funded in the After School Education and Safety (ASES) program, which provides grants to elementary and middle/junior high schools to establish and maintain before and afterschool education and enrichment programs.

The Department has reported point-in-time information on potential available balances of unspent funds from ASES for 2006-07 and 2007-08.

- 2006-07: CDE reports that there will be anywhere from \$83 million to \$212 million in unspent funds from the 2006-07 ASES appropriation (\$547 million). Final numbers should be available by the end of April.
- 2007-08: CDE reports that of the original \$547 million appropriation, approximately \$100 million has been reported expended. Updated expenditure reports should be available at the end of April and final numbers will be available at the end of July 2008.

In the Special Session earlier this year, the Legislature clarified language regarding the "continuous appropriation" of funds for the ASES program. This clarification allows the Legislature to recoup funds unspent at the end of each fiscal year. If no action is taken, unspent funds will revert to the Prop 98 Reversion Account on the natural.

The LAO continues to recommend that the Legislature take action before the end of the current year to recoup unspent funds from ASES from prior years to reduce the Proposition 98 spending in the current year. This can be done without the specific numbers being available.

**QUESTIONS**

- DOF and CDA, please provide updated estimates on available balances here if they are different than what is reflected in the agenda. Are further revisions expected at May Revision?

**ISSUE 2: OVERVIEW OF FEDERAL FUNDS**

This is an informational issue intended to provide the Subcommittee with information regarding the recently passed federal education budget and what it means for California. The California Department of Education (CDE) will do a presentation on this topic. Specifically, CDE will provide information regarding:

- Which programs were eliminated?
- Which programs received large decreases or increases?
- Which programs received roughly the same amount of funding as last year?
- Overall trends in funding levels and any information regarding out-year projections of federal funds.

**PANALISTS:**

- California Department of Education
- Legislative Analyst's Office
- Department of Finance

**BACKGROUND:**

The following chart compares the amount of federal funding California received in 2007-08 and what we can expect to receive for 2008-09.

<b>Federal Funding for K-12 Education – California’s Allocation</b>				
	2007-08	Budgeted 2008-09	Change From 2007-08	
			Amount	Percent
<b><u>No Child Left Behind (NCLB) Programs</u></b>				
<b>Title I</b>				
Title I Basic	\$1,643.5	\$1,696.4	\$52.9	3.2%
School Improvement	16.6	61.8	45.2	272.3
Reading First	137.0	49.0	-88.0	-64.2
Even Start	9.5	7.2	-2.3	-24.2
Migrant	126.9	129.0	2.1	1.7
Neglected and Delinquent	2.5	2.5	—	—
Advanced Placement	3.1	3.1	—	—
<b>Title II</b>				
Improving Teacher Quality	\$331.2	\$333.4	\$2.2	0.7%
Mathematics and Science Partnerships	23.6	21.9	-1.7	-7.2
Educational Technology	32.8	30.5	-2.3	-7.0
<b>Title III</b>				
Language Acquisition	\$169.1	\$164.5	\$8.0	4.7%
<b>Title IV</b>				
Safe and Drug-Free Schools	\$41.5	\$35.2	-\$6.3	-15.2%
21st Century After School	127.7	132.0	4.3	3.4
<b>Title V</b>				
State Grants for Innovative Programs	\$12.1	—	-\$12.1	-100.0%
<b>Title VI</b>				
State Assessments	\$33.4	\$33.4	—	—
Rural and Low-Income Schools	1.2	1.3	\$0.1	8.3%
Small, Rural School Achievement	6.0	6.1	0.1	1.7
<b><u>Non-NCLB Programs</u></b>				
Homeless Children and Youth	\$7.7	\$7.6	-\$0.1	-1.3%
Cal-Serve/Service America	1.8	2.3	—	—
Special Education	1,242.9	1,257.8	14.9	1.2
Vocational and Adult Education	140.8	137.4	-3.4	-2.4
Charter Schools	32.6	38.2	15.4	47.2
Child Nutrition	1,645.0	1,644.8	-0.2	-0.01
Child Development	600.7	601.4	0.7	0.12
<b>Totals</b>	<b>\$6,402.1</b>	<b>\$6,442.2</b>	<b>\$40.1</b>	<b>0.6%</b>
a Funding for these programs is based on the federal fiscal year (beginning October 1). Funding for all other programs is aligned with the state fiscal year (beginning July 1).				

**COMMENTS:**

**Major decreases or eliminations.** The federal budget eliminates funding for the state grants for Innovative Programs under Title V. This is a state-administered formula grant program designed to improve student academic achievement and the quality of education for all students. Funding may be used to support local education reform efforts, library services, instructional and media materials, staff development, and programs that meet the academic needs of students who are behind in achieving state content standards. According to CDE, the elimination of funding would reduce many of the above activities for approximately 1185 LEAs who received this grant in 2007.

Funding for Reading First was drastically decreased by 64 percent which some suggest may signal a phase-out of the program. Other programs that also received major decreases include: Even Start and Safe and Drug-Free Schools.

**Major increases.** Funding for the new School Improvement Fund under Title I was dramatically increased from \$16.6 million to \$61.8 million. The \$16.6 million allocated in 2007-08 was carried over so a total of \$78.4 million is available under this fund in the budget year. This fund was developed to address the needs of Title I schools in Program Improvement (PI) to assist schools with improving student achievement so they may exit PI. Further discussion of this new funding stream will be discussed in Issue 3 of the agenda.

**Effect on CDE state operations?** CDE's administrative functions are largely funded with federal funds. Fluctuations in federal funding may adversely affect the funding available to support a number of positions within CDE.

**OTHER ISSUES:**

**Status of federal carry-over money.** The 2007-08 Budget Act appropriated one-time federal carryover money for a number of issues several of which the Governor vetoed. The Subcommittee should seek clarification from CDE as to the status of these sources carryover dollars. Further, the Subcommittee should request from CDE, a comprehensive list of available federal ongoing and carryover funds as well as a timeline for reversion of these funds.

- **Major 2007-08 Governor Vetoes:**

- **Poverty study.** The Governor vetoed \$130,000 in one-time federal Title I carryover funds for CDE to do a study to identify options for the state in improving measures of student socioeconomic status. The objective of the study was to identify options for identifying needy students for the purposes of targeted school funding.
- **Special education proposals.** The Governor vetoed the following proposals, which used one-time federal special education carryover funds:
  - \$150,000 for an evaluation of the dispute resolution program run by the Office of Administrative Hearings.
  - \$400,000 for CDE to identify best practices and develop corresponding materials that help students with specific learning disabilities receive appropriate instruction to achieve academically. The Governor also vetoed corresponding language requiring CDE to convene an advisory committee to a) identify research-based information for the identification, evaluation and instruction of students with specific learning disabilities, b) identify professional development materials needed for training and technical assistance and c) identify research-based information on effective practices to prevent disproportionality consistent with federal law. The funds were also intended to help CDE pay for the development and dissemination of materials related to the recommendations of the advisory committee.
- **Evaluations related to English learners.** The Governor vetoed a total of \$800,000 million in federal Title III one-time carryover funds for two evaluations related to English learners: a) \$300,000 for an evaluation of a future pilot project that will develop alternative instructional materials to help English learners master English (this is pursuant to legislation separate from the budget) and b) \$500,000 out of \$1 million appropriated for the evaluation of a project funded in last year's budget to identify best practices for teaching English learners. (The Governor's veto leaves \$500,000 for the evaluation of the best practices pilot project.)

- **Promoting the use of interpreters by school districts.** The Governor vetoed \$50,000 in federal Title III one-time carryover funds for CDE to evaluate districts' use of interpreters when they communicate with non-English-speaking parents. He also vetoed language requiring CDE to a) report back on the different ways that districts communicate orally with non-English-speaking parents, and b) identify the best ways for districts to communicate with non-English-speaking parents of K-12 public school students.
- **Funding for the monitoring of English learners and special education students in alternative schools.** The Governor vetoed a total of \$2.7 million in federal Title III and federal special education funding<sup>1</sup> to pay for seven additional limited-term positions to monitor the compliance of alternative schools, court schools and Division of Juvenile Justice schools with federal and state law requirements regarding special education and English learner students.

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<sup>1</sup> \$1.05 million (3 limited-term positions) in federal special education funds and \$1.6 million (4 limited-term positions) in federal Title III carryover funds. This funding was provided on a one-time basis to be available over three years.

**ISSUE 3: LAO PROPOSAL – CDE REPORTING OF FEDERAL FUNDS**

The issue for the Subcommittee to consider is the LAO proposal to require CDE to report on the status of federal funding on an annual basis.

**PANALISTS:**

- Legislative Analyst's Office
- California Department of Education
- Department of Finance

**BACKGROUND:**

Currently, CDE is responsible for tracking federal funds appropriations, expenditures, and carryover by year and by program and provides information about federal funds to the Department of Finance and Legislature upon request. According to the LAO, there is currently no routine or consistent reporting of the status of federal funds and at times this has caused federal funds to be reverted back to the federal government because decisions about how best to spend the funds could not be made in a timely manner.

**Issues with timely information regarding federal funding and carryover.** The federal government appropriates funds to California for a variety of programs—each with unique requirements on how the funds can be expended and when they will revert if unspent. The CDE is responsible for tracking the funds and adhering to the federal requirements for each “pot” of funding.

Because only CDE officially tracks the many pots of federal funds, others involved in the K-12 budget process must rely on CDE for updates on available monies. Without a regular reporting cycle for this information, all other interested parties must make ad hoc requests for information. This situation puts a burden on CDE as it often answers the same question multiple times each year.

Without formal dissemination of consistent information, all decision makers do not have a complete picture of information as they begin budget deliberations. For example, only CDE knows the carryover balances for each program. According to the LAO, this lack of transparency about available carryover has resulted in federal funds going unspent and reverting to the federal government.

**LAO recommends two annual reports from CDE.** To address the concerns noted above, the LAO recommends that CDE produce two new, annual reports.

First, the LAO recommends CDE provide a three-year picture of federal funds, by program, no later than January 15 of each year. For each type of activity (state operations, state level activity, local assistance, or capital outlay), this budget summary should include: (1) actual expenditures for the prior year, (2) a revised estimate of current-year expenditures, and (3) the budget-year appropriation. Although too late to be helpful to the administration in preparing its budget proposal, the January 15 deadline would help ensure more accurate information is disseminated—as the federal budget should be enacted and information distributed to the states by that time. In addition, the January 15 deadline would ensure the Legislature has timely information before beginning its budget deliberations. This deadline also allows for timely current-year corrections.

Second, the LAO recommends CDE submit an annual report of carryover amounts and potential reversion dates for each pot of federal funds (by program and fiscal year) by November 1 of each year. The LAO believes this report could be provided earlier than the three-year budget summary report because it does not rely on recent passage of the federal budget. The somewhat earlier deadline for this report would benefit the administration in its budget development as well as the Legislature in its budget deliberations. The deadline would also facilitate timely actions to deal with monies in danger of reverting.

<b>COMMENTS:</b>
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According to CDE, current practice is that CDE provides DOF, LAO, and the Legislature a report listing all available federal carryover funds for the April letter. CDE is supportive of working with the Legislature to improve the transparency of annual available federal carryover amounts and potential reversion dates for pots of federal funds. CDE will work with LAO and other staff to determine the appropriate report/mechanism to achieve this goal. CDE notes that the November 1<sup>st</sup> due date as proposed by the LAO would be achievable if based on accounting data that is available after June 30<sup>th</sup>.

CDE recommends that the forecast of federal funds be pushed from January 15<sup>th</sup> to February 15<sup>th</sup>. This is a more realistic date to have a signed federal budget. Data provided would be estimates and would be a working document that would be updated as changes become available.

Staff supports the LAO's proposal to require annual reporting by CDE on federal funds available for appropriation. Staff recommends that the Subcommittee request the LAO to work with staff from CDE, DOF and the Legislature on the development of specific statutory language for their proposal. Staff further recommends that the Subcommittee consider this language at the May 6<sup>th</sup> hearing.

**ISSUE 4: NO CHILD LEFT BEHIND ACT (NCLB): TITLE I FUNDING FOR PROGRAM IMPROVEMENT SCHOOLS AND DISTRICTS**

The issues for the Subcommittee to consider are:

- The build-up of one-time carryover funds and the increase in federal funds for this purpose.
- Proposals related to corrective action for districts in Program Improvement (PI) and the need for budget authority to implement these proposals.

**PANALISTS:**

- Legislative Analyst's Office
- California Department of Education
- Department of Finance

**BACKGROUND:**

**Adequate Yearly Progress and Program Improvement.** Pursuant to the federal No Child Left Behind (NCLB) act, each year, schools, and school districts must meet four sets of requirements to make Adequate Yearly Progress (AYP). The requirements include: (1) student participation rate on statewide tests, (2) percentage of students scoring at the proficient level or above in English-language arts and mathematics on statewide tests, (3) API Growth, and (4) graduation rate (if high school students are enrolled). Numerically significant groups of students at a school or school district also must meet participation rate and percent proficient requirements.

LEAs that receive federal Title I funds that do not meet AYP targets for two consecutive years within specific areas are identified for Program Improvement (PI). LEAs in PI must implement additional federal requirements. An LEA is eligible to exit PI if it makes AYP for two consecutive years. Sanctions and interventions required under NCLB for districts in PI are as follows:

Year 1 in PI:

- Revise/develop LEA Plan within three months of identification.
- Implement plan immediately in current school year following plan development.
- Reserve not less than 10 percent of its Title I, Part A funds for high-quality professional development.

Year 2 in PI: Implement plan from year one.

Year 3 in PI: State may take corrective action at any time during improvement process, if necessary, but must take action during Year Three. Corrective action options:

- Defer programmatic funds or reduce administrative funds  
Institute new curriculum and professional development for staff.
- Replace LEA staff.
- Remove individual schools from jurisdiction of LEA and arrange for governance.
- Appoint trustee in place of superintendent and school board.
- Abolish or restructure LEA .
- In conjunction with one of the above, SEA may authorize student transfers to a school not in PI in another LEA, with paid transportation

**97 LEAs in PI Year 3.** Currently, 97 local educational agencies, which include 96 school districts and one county office of education, have advanced to PI Year 3 status based upon failure to make AYP for at least five years and are now subject to corrective action and technical assistance. In anticipation of these districts needing assistance, last year's budget set aside \$23.9 million in Title I "set-aside" funds. This included accompanying budget bill language specifying that the funds may be programmed pursuant to legislation adopted during the 2007-08 regular legislative session. Legislation was not adopted and carryover funds remain for this purpose.

**Sources of funding to assist PI schools.** NCLB allows states to set aside four percent of their total Title I grant to help schools improve their performance. Both ongoing and one-time carryover funds are currently available under this set-aside. \$65.2 million is available in ongoing funds and a total of \$47.2 million in one-time carryover is available (\$18.1 million of this money will revert to the federal government if it is not spent by September 2008.)

The state has also received federal funding under the new School Improvement Fund (SIF). The state received a grant of \$16.6 million in 2007 that went unexpended and is now carrying over to this budget year. In addition, the state received \$60.4 million in ongoing funds under the 2008 grant providing a total of \$77 million in the budget year. According to California's application for funding, the state will provide funds on a competitive basis to districts starting with districts in Year 5 of Program Improvement. 104 districts are eligible under this criteria. The following chart details the funding sources available.

<b>Federal Funding for School Improvement</b> (in thousands)			
<b>Funding Sources</b>	<b>One-time</b>	<b>On-going</b>	<b>Total</b>
Title I Set-Aside (2008)		\$65,206	\$65,206
Title I Carryover (reverts in 2008)	\$18,170		\$18,170
Title I Carryover (reverts in 2009)	\$29,188		\$29,188
School Improvement Fund (SIF) Grant (2008)		\$60,492	\$60,492
SIF Grant (2007)	\$16,620		\$16,620
<b>TOTAL</b>	<b>\$63,978</b>	<b>\$125,698</b>	<b>\$189,676</b>

**Current proposals for expending school improvement funds.** As the previous chart shows, a total of \$189.6 million is available in the budget year for school improvement activities. There are several proposed uses for these funds. The LAO will present a handout on the various proposals and the funding associated with each proposal. The following is a brief summary of these proposals:

- State Board of Education actions.** In March, the State Board of Education adopted a series of corrective actions submitted by the Superintendent of Public Instruction (SPI) aimed at improving the 97 LEAs identified under NCLB as in need of immediate intervention and assistance. The districts were divided into four categories of need: Intensive, Moderate, Light and Other. Districts in the "light and other" categories were seen as needing very little intervention assistance. 44 of the districts were categorized in the moderate or intensive categories and will be provided additional funding for a District Assistance and Intervention Team (DAIT). Since the SBE does not have the authority to appropriate funding, this proposal was adopted without a specific funding source for these activities. The administration is proposing to use the \$47 million in one-time carry-over funding for these purposes, pursuant to an appropriation by the Legislature.

SBE/Administration Proposal for LEAs in Corrective Actions			
Tier	Sanction	Funding	Districts
Tier 1: Intensive Intervention	- Implement a new curriculum, amend LEA Plan - SBE-assigned DAIT - Additional monitoring and reporting - Possible additional corrective actions as determined by CDE and SBE	\$250,000 plus \$20.99 per-pupil <sup>a</sup>	7 districts <sup>b</sup>
Tier 2: Moderate Intervention	- Implement a new curriculum, amend LEA Plan - LEAs allowed to select DAIT in consultation with County Office	\$250,000 plus \$20.99 per-pupil <sup>a</sup>	37 districts
Tier 3: Light Intervention	- Implement a new curriculum, amend LEA Plan - Access technical assistance to analyze LEA needs	\$20.99 per-pupil <sup>a</sup>	45 districts
Other	- Implement a new curriculum, amend LEA Plan - Target student groups responsible for failure of LEA to make Adequate Yearly Progress (AYP) targets	\$20.99 per-pupil <sup>a</sup>	8 districts <sup>c</sup>
<sup>a</sup> with a \$50,000 minimum level of funding for small districts <sup>b</sup> A Trustee will be appointed to Coachella <sup>c</sup> Two of these districts will merge			

- ◆ **SB 606 (Perata).** This bill, pending in the Assembly Appropriations Committee, is similar to the SBE adopted plan and appropriates the \$47 million in carry-over.
- ◆ **School Improvement Grant.** A total of \$77 million is available in the budget year through this federal grant. These funds are not currently in the Governor's budget however, the Administration has proposed an adjustment through the April Finance Letter. According to the Department of Finance Letter, approval of specific program criteria by the State Board of Education is still pending.

### **DOF April Letter - Item 6110-134-0890, Local Assistance, Title I Set Aside Funds (Issues 564, 566, and 571)**

**Align Appropriation with Available Federal Funds (Issue 564)**—It is requested that this item be decreased by \$10,794,000 federal Title I Set Aside funds to align the appropriation with available federal funds. LEAs will use these funds for services to improve low-income student academic performance.

**Establish the Federal Title I School Improvement Grant (Issue 566)**—It is also requested that Schedule (7) be added to appropriate \$77,113,000 federal Title I School Improvement Grant (SIG) funds for grants to LEAs. Of this amount, \$16,620,000 reflects the availability of one-time carryover funds. The SIG program will provide funds to LEAs with schools in program improvement or corrective action that demonstrate the greatest set of academic challenges and the greatest commitment to raising student achievement. The department submitted an application and received approval from the U.S. Department of Education for the expenditure of these funds; however, approval of specific program criteria by the State Board of Education is still pending.

It is further requested that a new schedule and provisional language be added as follows to conform to this action:

(7) 10.30.004 – School Improvement Grant..... 77,113,000

X. The funds appropriated in Schedule (7) shall be available for requirements as specified in the federal No Child Left Behind Act of 2001 (20 U.S.C. Sec. 6303(g)) and are contingent upon approval of local educational agency and school site selection and participation criteria by the State Board of Education after April 1, 2008.

X. Of the funds appropriated in this item, \$16,620,000 is provided in one-time carryover funds to support the program.

**Shift Funding from Schoolsite to Local Educational Agency Corrective Action Activities (Issue 571)**—It is also requested that \$20.0 million be shifted from Schedule (3) to Schedule (5), to eliminate funding for Immediate Intervention Underperforming Schools Program (II/USP) corrective action activities and provide funding to LEAs for federal No Child Left Behind corrective action and technical assistance activities. Although the II/USP ended in 2004-05, a handful of schools have not exited the program and continue to receive grants of \$150 per-pupil to implement improvement plans prepared by external evaluators. Instead, it is requested that these funds support the State Board of Education's action to impose corrective action and technical assistance activities on 97 LEAs that recently received federal No Child Left Behind (NCLB) corrective action status. This shift will: (1) eliminate funding for a program that has been replaced by other state and federal programs, (2) improve the nexus between NCLB funding and its requirements, and (3) establish baseline funding for current and future corrective action LEAs.

It is further requested that Provision (3) be deleted as follows to conform to this action:

~~“3. The funds appropriated in Schedule (3) shall be made available to provide \$150 per pupil pursuant to Section 52055.54 of the Education Code in a school that is managed in accordance with paragraph (3) of subdivision (b) of Section 52055.5 of the Education Code or that contracts with a school assistance and intervention team pursuant to subdivision (a) of Section 52055.51 of the Education Code.”~~

**COMMENTS:**

According to CDE projections, it is expected that another 50 schools will be entering Year 3 of program improvement in 2008-09. Given that the number of schools needing assistance is projected to continue to grow, the Legislature should consider a comprehensive plan for addressing the needs of schools currently in PI and for those who will enter in the future.

**ISSUE 5: LAO PROPOSAL: REDUCE STAR TESTING**

The issue for the Subcommittee to consider is the LAO proposal to eliminate the norm-referenced portion of the Standardized Testing and Reporting (STAR) program to achieve budget year savings of \$2.5 million (federal Title VI funds). (Reduce item 6110-113-0890 by \$2.5 million).

**PANALISTS:**

- Legislative Analyst's Office
- California Department of Education
- Department of Finance

**BACKGROUND:**

The Administration's workload budget proposes \$117 million in state and federal funds for the state's assessment program in 2008-09. This includes \$71 million for the Standardized Testing and Reporting (STAR) program (\$62 million Proposition 98, \$8.6 million federal Title VI). This is virtually the same spending level as in the current year (after accounting for one-time expenditures in 2007-08).

Under STAR, students in grades 2 through 11 take at least two tests each year—mathematics and English language arts. In grades 3 and 7, students also take a national norm-referenced test in the same subjects. In addition, students may be assessed in writing, history, and science depending on the grade level. The STAR program also includes tests for special education and Spanish-speaking students.

**LAO proposes to eliminate the Norm-Referenced Tests (NRTs).** According to the LAO, the NRTs no longer serve a critical statewide purpose and could therefore be eliminated, saving the state about \$2.5 million annually. As originally enacted, the STAR tests included *only* national norm-referenced tests. The norm-referenced tests, however, are not aligned with California's content standards. For this reason, the state developed the California Standards Tests (CSTs) and norm-referenced testing continued only in grades 3 and 7. Since the early 2000s, the state has relied on the CSTs to assess student progress based on the state standards. These tests have been proven accurate and aligned to standards.

One rationale for continuing the norm-referenced tests is to provide information on how students in California perform compared to the rest of the nation. However, the state would continue to test students through the federal National Assessment of Educational Progress (NAEP) which annually assesses a sample of 4th and 8th grade students in each state. While it is not perfect and only tests a sample, NAEP represents an assessment of the relative progress of the state's students compared to students in other states.

**COMMENTS:**

**Elimination of NRT would reduce testing time.** In terms of testing time, according to the LAO, elimination of the NRT would save 2.5 hours of testing in third grade and three hours in seventh grade. This represents about a 30 percent reduction in testing time for most students in these grades.

**CDE and DOF positions on recommendation to eliminate NRTs.** According to the CDE, national NRTs have been losing their appeal among many states because they are now aligning tests to state standards. Furthermore, since NRTs are not a requirement of NCLB, CDE has identified elimination of this test as a possible way to offset the Governor's proposed across-the-board reduction to student assessments.

The administration has indicated that they would be supportive of eliminating the NRT and would prefer that the reduction could be used to offset the proposed across-the-board reduction. They would not support the LAO proposal to redirect savings from elimination of this program to fund CALPADS, which is discussed in the next issue.

**ISSUE 6: STATEWIDE DATA SYSTEMS -- CALIFORNIA LONGITUDINAL PUPIL ACHIEVEMENT DATA SYSTEM (CALPADS)**

The issues for the Subcommittee to consider are:

- ◆ The Governor's proposal to use General Fund (non-98) dollars to support CALPADS.
- ◆ LAO's proposal to use federal funds instead of general fund for this purpose.

**PANALISTS:**

- Legislative Analyst's Office
- California Department of Education
- Department of Finance

**BACKGROUND:**

The federal No Child Left Behind (NCLB) Act of 2001, requires states to hold all schools and districts accountable for making "Annual Yearly Progress" (AYP) on specified indicators, including statewide assessments and graduation rates.

In order to determine whether schools are meeting the NCLB accountability measures, the Legislature recognized the need to collect and maintain longitudinal student-level data in order to track students over time to assess academic achievement and determine more accurate dropout and graduation rates. To meet this need, SB 1453 (Chapter 1002, Statutes of 2002), and later SB 257 (Chapter 782, Statutes of 2003) were enacted. SB 1453 requires: (1) all students to have an individual, non-personally identifiable student identification number; and (2) the CDE to contract for the development of CALPADS—a "data system" to collect, maintain, and report longitudinal student assessment and other data required to meet federal NCLB reporting requirements, to evaluate education programs, and to improve student achievement.

The CALPADS system has been in the development process for several years. According to CDE, CALPADS will be operational in 2009.

**Governor's budget.** The Governor's budget proposes to spend \$10.9 million from various sources for the development and administration of CALPADS. Of this amount, the budget includes \$3.2 million in non-Proposition 98 General Fund dollars. These funds are proposed to pay for CDE operational costs (\$1 million) and for hardware and software purchases and other development costs for the program (\$2.2 million). The Governor's budget request is consistent with 2008-09 costs outlined in CDE's recently signed contract for the development of CALPADS.

**April Letter adjustments to Title VI and the LAO proposal to use these federal funds for CALPADS.** The LAO recommends that the Legislature approve the Governor's proposed amount for CALPADS. The LAO recommends however, that the Legislature support the data system with federal funds. Given the state's fiscal situation, the Legislature should take every opportunity to use federal to pay for program activities in the coming year. Title VI is an appropriate funding source to pay for CALPADS. By using federal funds for non-Proposition 98 support for CALPADS, the LAO recommendation would free-up \$3.2 million to reduce the impact of other budget reductions.

The April letter submitted by the Department of Finance requests an increase of \$3.927 million for Title VI bringing the total funding for this item to \$35.2 million. The LAO recommends that the Legislature approve the federal fund increase however they recommend that carryover funds be added to a new schedule in the budget. The new schedule would include \$6.427 million and would specify that \$3.2 million be used to fund CALPADS in 2008-09 with the remainder being reserved for use in 2009-10.

**ISSUE 7: MANDATES**

The issue for the Subcommittee to consider is the Governor's budget proposal regarding funding for education mandates.

**PANALISTS:**

- Legislative Analyst's Office
- California Department of Education
- Department of Finance

**BACKGROUND:**

Since 2001-02, the state has delayed reimbursing schools and community colleges for mandate claims. The LAO estimates the annual costs of funding existing mandated activities would be around \$209 million (\$180 million for K-12 education and \$29 million for community colleges). While the state made a large payment for outstanding mandate claims in 2006-07—eliminating debts from several prior years—in recent years it has provided virtually no funding for *ongoing* mandate costs. As a result, the balance of outstanding mandate claims continues to grow, as shown in the figure below.

<b>K-14 Unfunded Mandate Claim Balance</b>			
Governor's Budget (In Millions)			
	2006-07	2007-08	2008-09
<b>K-12 Education</b>			
Outstanding from prior years	\$1,018	\$226	\$398
Ongoing cost	165	172	180
Payment	-957	—	-125
Subtotals, K-12 outstanding claims	(\$226)	(\$398)	(\$453)
<b>California Community Colleges (CCC)</b>			
Outstanding from prior years	100	89	114
Ongoing cost	29	29	29
Payment	-40	-4	-29
Subtotals, CCC outstanding claims	(\$89)	(\$114)	(\$114)
Totals, Outstanding Claims	<b>\$315</b>	<b>\$512</b>	<b>\$567</b>
Totals, Mandate Claim Payments	<b>\$997</b>	<b>\$4</b>	<b>\$154</b>
<i>Source: LAO</i>			

**Governor's Budget.** The Governor's budget includes \$150 million in one-time funds to reimburse districts for prior-year mandate costs (\$125 million for K-12 and \$25 million for community colleges). These one-time General Fund payments are scored as meeting Proposition 98 settle-up obligations from 2002-03 and 2003-04.

The annual budget has not contained ongoing funding for K-12 mandates since 2001-02. The Governor's budget proposes to defer the costs of state-mandated local programs in K-12 education in 2008-09. The LAO estimates that under the Governor's proposal the total outstanding mandate obligation will grow to \$567 million at the end of 2008-09 and that district claims for 2008-09 for reimbursable mandates will total about \$180 million.

The Administration, however, proposes to change the timing of mandate payments. If adopted, the 2008-09 mandate payment for K-12 education would be \$165 million (the amount claimed by districts for the 2006-07 fiscal year) rather than \$180 million.

**LAO recommends mandates be part of the Base K–12 Budget.** Unlike K–12 mandates, the state is constitutionally barred from deferring local government mandate payments. Proposition 1A, passed in 2004, requires the state to reimburse local governments each year for mandated costs or relieve the local agencies of the required activities. In November 2007, five school districts and the California School Boards Association sued the Department of Finance and the State Controller seeking payment of past mandate claims and an end to deferrals.

The LAO has recommended in the past that the Legislature pay for the annual expected cost of mandates as part of the budget act. Mandates represent programmatic activities the state requires districts to perform each year—such as collective bargaining, state testing programs, and student health screenings. The LAO recommends the Legislature add funding to the *2008-09 Budget Bill* to pay for the ongoing costs of reimbursable state–mandated local programs.

**Commission Approves Two New Mandates.** The chart below displays the two new mandates approved by the Commission on State Mandates in 2007 and the associated costs. Neither of the new mandates is recognized in the *2008-09 Governor's Budget*.

<b>New K-12 Mandates Approved by the Commission on State Mandates in 2007</b>			
(In Millions)			
Mandate	Requirement	Accrued Costs Through 2007-08	Estimated Cost in 2008-09
Stull Act Teacher Evaluation	Evaluate teacher performance in specific areas	\$165.8	\$22.0
High School Exit Exam	Administer state test to high school students	37.4	7.7
<b>Totals</b>		<b>\$200.2</b>	<b>\$29.7</b>

The Stull Act requires districts to evaluate teachers periodically. Originally passed in 1971, the commission determined that updates of the law passed in 1983 and 1999 created new reimbursable mandates. The CSM reports total district claims of \$166 million for the Stull Act mandates for the period 1997–98 through 2007–08. Based on these reported claims, the LAO estimates the budget–year cost of the Stull Act mandates at about \$22 million.

The commission also approved a finding of reimbursable costs for administering the California High School Exit Examination (CAHSEE). Districts submitted \$37 million in claims for eight years of costs. Presumably, these claims represent costs on top of the \$5 per test the state apportions to districts each year through the budget. The LAO projects costs of \$7.7 million in 2008-09 based on the district data.

**LAO proposal regarding Stull Act mandates.** With regard to the Stull Act decision, the LAO recommends the Legislature adopt trailer bill language requesting the Commission on State Mandates to review its “statement of decision” in the Stull Act mandate to determine whether there are offsetting savings to the mandated costs identified by the commission.

Our review of the new mandates raised only one issue with the commission’s decisions. Specifically, the commission failed to recognize that the 1999 statute that created the mandated Stull Act costs also created savings for school districts. The original Stull Act was passed in 1971—before the passage of the constitutional provision requiring the state to reimburse local governments for new mandate costs. This original law required districts to evaluate most teachers every two years.

Ensuing legislation, passed in 1983 and 1999, expanded the scope of the evaluation process, which the commission determined created new reimbursable mandates. The 1983 law focused the required evaluations on instructional techniques and strategies and required districts to conduct annual evaluations of employees who receive an unsatisfactory performance review. The 1999 changes required districts to review student test results as part of each teacher’s performance evaluation.

The 1999 law, however, also *reduced* the scope of the original mandate by scaling back the frequency of evaluations for more experienced teachers beginning in 2004. The legislation reduced evaluation requirements to every five years for “highly qualified” teachers (as defined by federal law) with at least ten years of experience. The CSM decision fails to recognize the reduction in district workload that is created by this change. Specifically, senior teachers, who were subject to evaluations every other year under the *original* Stull mandate now, must undergo reviews once every five years. Since many teachers have ten years of experience and meet the federal definition of highly qualified, the district savings may be considerable.

When the Legislature believes the commission has erred in its assessment of a mandate, the standard procedure is to refer the mandate back to CSM with a request to reconsider its previous statement of decision. In this case, the appropriate action would be to request the commission review whether the 1983 or 1999 legislation created offsetting savings that should be reflected in district claims. Because the Stull Act is a new mandate, the Legislature should also make clear that it expects the reconsideration would apply to district claims back to 1997–98.

**LAO proposal to develop a reasonable reimbursement methodology (RRM).** In the development of statewide cost estimates for the two new mandates, CSM found a number of problems with district claims. For the CAHSEE mandate, for example, CSM reports that a significant number of districts—including large districts—failed to submit a claim for specific years. This suggests that districts do not have the cost documentation they need to submit a valid claim for those years. The CSM also reports widely different cost estimates from districts for the same required activities. Underlying assumptions in some claims also appear to conflict with the commission’s parameters and guidelines. The CSM also found claims that failed to recognize offsetting revenues that are available to pay for mandated activities. The State Controller’s Office (SCO) audits of school district mandate claims also find these same problems.

The LAO recommends that instead of requiring all districts to develop detailed expenditure reports to justify their annual mandate claims, the state develop a reasonable reimbursement methodology (RRM).

State law permits the use of an RRM as a way of simplifying mandate claims based on a representative sample of local cost data. The underlying concept of the RRM is to develop an average cost estimate that establishes a fair, but approximate, reimbursement level for state-mandated local programs.

The development of an RRM for STAR for example offers a way to resolve the backlog of payments for this mandate. Districts have filed STAR claims totaling about \$200 million for the years 1997-98 through 2004-05. In 2005, however, CSM determined the STAR mandate applied to only a small portion of the testing program. As a result, it appeared likely that district STAR mandate claims included reimbursement for activities that are not recognized as a reimbursable mandate by the commission. This concern was validated by the SCO audits. Unless school districts and the state agree on an RRM, the state has little recourse but to withhold payment on STAR until district claims are audited.

Therefore, the LAO recommends the Legislature add trailer bill language requiring the State Controller to submit to the commission a proposed RRM based on district "cost profiles" as part of the reconsideration of the cost guidelines for the STAR and CAHSEE mandates.