# AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Susan Bonilla, Chair

**MONDAY, FEBRUARY 7, 2011**
STATE CAPITOL, ROOM 444
9:00 AM

## ITEMS TO BE HEARD

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ITEMS TO BE HEARD

6120  CALIFORNIA STATE LIBRARY (CSL)

ISSUE 1: REDUCTIONS TO LOCAL ASSISTANCE BUDGET

The issue before the Subcommittee is the Governor's proposal to reduce the State Library local assistance budget by $30.4 million.

PANELISTS

- Stacie Aldrich, California State Library
- Debbie Newton, California State Library
- Steve Boilard, Legislative Analyst’s Office
- Lenin Del Castillo, Department of Finance
- Lisa Mierczynski, Department of Finance

BACKGROUND

The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library: (1) administers and promotes literacy outreach programs; (2) develops technological systems to improve resource sharing and enhance access to information; and, (3) administers the Public Library Foundation, which, via a statutory formula, distributes state funding to support basic services at local libraries.

State Library Budget - General Fund Only

(dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2010-11</th>
<th>2011-12 Proposed</th>
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</thead>
<tbody>
<tr>
<td>State Operations</td>
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<tr>
<td>Operating Budget</td>
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<td>Local Assistance</td>
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<td>Public Library Foundation</td>
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<td>California Library Services Act</td>
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<td>English Acquisition and Literacy Program</td>
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<tr>
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The Governor's budget proposes to eliminate all state General Fund support for local libraries, with the exception of two small programs (the California Civil Liberties Public Education Program and the California Newspaper Project). The programs that would lose all state funding are the Public Library Foundation Act, the California Library Services Act, and the English Acquisition and Library Program. This reduction provides the state with a $30.4 million General Fund savings.

**Public Library Foundation.** This program provides core operational assistance to local libraries and is used to support library staffing; maintain hours of operation; develop and expand library-based programs such as after-school reading programs and homework assistance centers; and purchase books and materials. The Public Library Foundation Act is a funding formula under which the state contributes funding for basic local library services under specified conditions. At its peak (in 2000-01), the state appropriated $56.9 million to the Public Library Foundation. The Governor's budget would eliminate state funding of $12.9 million for this program.

**California Library Services Act.** The California Library Services Act (CLSA) promotes resource sharing and reimburses public libraries for loans to people living outside their jurisdiction. The Governor's budget would eliminate state funding of $12.9 million for this program.

**English Acquisition and Literacy Program.** The California Library Literacy and English Acquisition Services Program provides community-centered literacy assistance to English-speaking adults who have missed the opportunity to learn to read English in traditional learning settings. This program includes funding for the mobile library program. Combined, these literacy programs serve 42,497 adults and 46,983 children in 105 different local library jurisdictions. The Governor's budget would eliminate state funding of $4.6 million for this program.

**Local Library Reliance on State Funds.** Some local libraries are far more reliant on state funds than others. California has 181 local library jurisdictions that receive some state funds, of which only 14 get more than ten percent of their total funding from the state (and another 35 get more than five percent of their total funding from the state). Those local libraries that receive a greater share of their funding from the state rely on state support heavily and may be forced to close or take drastic measures (such as charging patrons for book loans) if they lose state funding.
Federal Maintenance of Effort. During the 2011-12 fiscal year, California will receive about $19.7 million in federal funds for the State Library. These funds require a state match. The amount of the federal grant is calculated based on the past three years of state funding support. If California discontinues state support for local libraries, in 2012-13, the state will begin losing federal funds for libraries and by 2014-15, the federal government will no longer provide library grants to California.

However, some of the State Library programs that will continue to receive funding can count toward the federal maintenance of effort (MOE) requirement. The State Library calculates that by providing $3.9 million, General Fund above the Governor’s proposed level for 2011-12; California would meet its federal MOE and receive the full grant for 2012-13.
6110 DEPARTMENT OF EDUCATION

ISSUE 1: GOVERNOR’S 2011-12 PROPOSAL: CATEGORICAL PROGRAM FLEXIBILITY

The issue for the Subcommittee to consider is the Governor’s proposal to extend various “flexibility options” for an additional two years.

PANELISTS

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

BACKGROUND

In an effort to ease local impacts of state budget cuts, the February and July 2009 budget packages included a number of significant flexibility provisions intended to loosen program funding restrictions and to give school districts more control over spending decisions. Most of these flexibility provisions were authorized for a five year period -- from 2008-09 through 2012-13. A description of these proposals is as follows:

- **Categorical Flexibility.** Beginning in 2008-09 through 2012-13, prior restricted funds for more than 40 categorical programs were combined into a “flex item” which allows these funds to be spent on any educational purpose. Under categorical flexibility, a district’s allocation for each program is based on its share of total program funding either in 2007–08 or 2008–09, with the earlier year being used for certain participation-driven programs.

- **Instructional Days.** Beginning in 2009-10, school districts were authorized 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.

- **Instructional materials.** In 2008-09, the budget suspended the LEA requirement to purchase newly adopted instructional materials through 2010-11. In the July 2009 package, this requirement was suspended through 2012-13. The State Board of Education (SBE) was also prohibited from adopting materials during this period.

- **K-3 Class Size Reduction.** 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.
• **Access to prior-year fund balances.** For the 2008-09 and 2009-10 fiscal years, provided LEAs with access to prior-year fund balances for the following 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.]

• **Sale of surplus property.** 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.

• **Routine maintenance reserve.** 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.

• **Deferred maintenance.** 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:**

• **Reserves of Economic Uncertainty.** 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.
GOVERNOR’S 2011-12 PROPOSAL

The Governor’s budget proposes legislation to extend various flexibility options for school districts for two additional years. The chart below shows these expanded timeframes.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Original flexibility timeframe</th>
<th>Governor’s 2011-12 Proposal</th>
<th>Total years of Flex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior-year ending balances</td>
<td>2008-09 and 2009-10</td>
<td>No change</td>
<td>2 years</td>
</tr>
<tr>
<td>K-3 Class Size Reduction</td>
<td>2008-09 through 2011-12</td>
<td>Extend to 2013-14</td>
<td>6 years</td>
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<tr>
<td>Categorical Flexibility</td>
<td>2008-09 through 2012-13</td>
<td>Extend to 2014-15</td>
<td>7 years</td>
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<tr>
<td>Instructional Materials</td>
<td>2008-09 through 2012-13</td>
<td>Extend to 2014-15</td>
<td>7 years</td>
</tr>
<tr>
<td>Deferred Maintenance</td>
<td>2008-09 through 2012-13</td>
<td>Extend to 2014-15</td>
<td>7 years</td>
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<tr>
<td>Instructional Days</td>
<td>2009-10 through 2012-13</td>
<td>Extend to 2014-15</td>
<td>6 years</td>
</tr>
<tr>
<td>Sale of Surplus Property</td>
<td>2009-10 through 2012-13</td>
<td>Extend to 2014-15</td>
<td>6 years</td>
</tr>
<tr>
<td>Routine Maintenance Reserve</td>
<td>2009-10 through 2012-13</td>
<td>Extend to 2014-15</td>
<td>6 years</td>
</tr>
<tr>
<td>Reserves of Economic Uncertainty</td>
<td>2009-10 through 2011-12</td>
<td>Extend to 2013-14</td>
<td>6 years</td>
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LAO RECOMMENDATIONS

The LAO will present findings of a recent survey of school districts on the issues of fiscal flexibility. The LAO will make recommendations on additional flexibility options and also provide recommendations on how the state should begin engaging in long-term improvements to the school finance system. The LAO also will revisit some of their recommendations from prior years, for example moving additional items into the “flex item”, such as K-3 CSR, Home-to-school transportation and the After School Education Safety (ASES) program.
SUGGESTED QUESTIONS

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

2) What are the benefits of continuing this flexibility? Any drawbacks/concerns?

3) Does the Administration and CDE have any thoughts on how the state should proceed once these flexibility provisions expire?
ISSUE 2: GOVERNOR’S 2011-12 PROPOSAL: K-3 CLASS SIZE REDUCTION PROGRAM

The issues for the Subcommittee to consider are:

1) An estimated shortfall in program funding for 2010-11 and potential impacts on overall Proposition 98 funding.

2) The Governor’s proposal to provide $1.27 billion for the program in 2011-12 and move the item from a statutory appropriation to a budget appropriation.

PANELISTS

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

BACKGROUND

In 1996, the state established the K-3 Class Size Reduction (CSR) program (Chapter 163, Statutes of 1996). The CSR Program is a voluntary program. The state provides per pupil funding for each child in grades K-3 who receives instruction in a class of 20 or fewer pupils. The program has two options. Option One provides full funding for pupils who receive the 20-to-1 instruction all day at a rate of $1,071 per pupil. Option Two provides half funding for pupils who receive the 20-to-1 instruction for half of the instructional minutes per day at a rate of $535 per pupil. All pupils must receive this instruction from a certificated teacher, not an instructional aide. Each CSR class must be in a separate, self-contained classroom or the equivalent square footage provided before CSR.

In 1996-97, $771 million was allocated for operation costs (hiring teachers) and $200 million was allocated separately for school facilities to districts that implemented CSR. By 2009-10, the state was providing an annual appropriation of $1.7 billion for the program.

CSR Flexibility and effects on 2010-11 funding. Beginning in 2008-09, the state allowed school districts to increase class size above the previous 20-to-1 cap but provided reduced levels of funding to those who chose to do so.

Previously, reductions in funding were imposed for classes that received class-size reduction funding but exceeded 20.44 students. The previous penalties had the effect of eliminating funding when a class was greater than or equal to 21.9. Under the 2008-09 flexibility provisions, the maximum penalty is 30 percent of funding, and it is applied only when class size is 25 or more. The budget package did not change the existing provision that limits reimbursement to 20 pupils in a class.
As some districts increased K-3 class sizes for the 2009-10 school year these funding reductions led to estimated statewide savings. The 2010-11 Budget Act assumed savings of $550 million for the K-3 CSR program and assumed a funding level of $1.27 billion.

At the time the budget was negotiated, however, it was not clear how much of the estimated savings would actually materialize. As a result, the appropriation for this program was removed from the budget bill and instead the education trailer bill (AB 1609), included a statutory appropriation for this program. This change from a budget appropriation to a statutory appropriation ensured that the program would be fully funded based on actual program participation.

Last week, the California Department of Education (CDE) notified the Legislature that they intend to certify with the Controller on February 25, 2011, that entitlements for the program total $1.36 billion. This leaves a shortfall of $43.3 million in Proposition 98 funding for 2010-11. The Legislature does not need to take action to make this adjustment.

### GOVERNOR’S 2011-12 PROPOSAL

The Governor’s 2011-12 budget proposes to provide $1.27 billion for the K-3 CSR program. This is the same funding level assumed for 2010-11. The Administration also proposes to move the appropriation of this program back to the budget bill rather than allow for a statutory appropriation.

According to CDE estimates, the Governor’s funding level provides $42 million less than the program is anticipated to need for 2011-12.
Options for the Subcommittee to consider:

1) Assume the Governor’s funding level for 2011-12, which could result in a cut of $42 million for the program. According to CDE, if 2011-12 final claims equal the amount applied for in 2010-11, CDE would prorate total funding by about 6.3% ($85 million/$1.36 billion). This would be equivalent to reducing the rates from $1,071 and $535 per pupil to approximately $1,004 and $501.

2) Increase the 2011-12 appropriation by $42 million to provide what is anticipated to be needed to fully fund the program. This action would require the Subcommittee to make a reduction to another area of Proposition 98 to offset this restoration.

3) Fund the program through a statutory appropriation as was done in 2010-11. This would ensure the program was fully funded but could potentially leave a whole in the 2011-12 program once final entitlements are determined.

SUGGESTED QUESTIONS

1) How will DOF adjust Proposition 98 for the 2010-11 shortfall of $43 million?

2) Does the LAO and CDE have any recommendations on this issue?
ISSUE 3: GOVERNOR’S 2011-12 PROPOSAL: SPECIAL EDUCATION: SPECIAL DISABILITIES ADJUSTMENT

The issue for the Subcommittee to consider is the Administration’s proposal to remove $74 million in Proposition 98 funds from special education to reflect a sunset on the provisions that authorized the Special Disability Adjustment (SDA).

PANELISTS

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

BACKGROUND

The AB 602 special education funding formula, implemented beginning in 1998, created a system designed to fund all Special Education Local Planning Areas (SELPAs) based on the total number of average daily attendance (ADA) in the area, regardless of the number of students receiving special education services. This total-ADA approach was intended to eliminate fiscal incentives for identifying students for special education. However, some argued that the “one size fits all” AB 602 formula failed to account for the fact that the need for special education services might differ across SELPAs. Based on the findings of an American Institutes for Research (AIR) study, beginning in 1998 the Legislature provided an additional Special Disabilities Adjustment (SDA) appropriation to certain SELPAs found to have higher incidences of severe and/or high-cost special education students residing in their attendance areas in 1997. An attempt to update the study was made in 2004 however, because of concerns with the data; the adjustment continues to be based on 1997 factors.

In 2009-10, the state provided a total of $69.8 million to 32 of the state’s 121 SELPAs for the SDA. Los Angeles Unified received $22 million, San Diego Unified received $9 million, and Garden Grove Unified received $6 million. Most of the remaining SELPAs that received SDA funding got less than $2 million.

2010-11 Budget Act. During 2010-11 budget negotiations, it was agreed that there was merit in looking at the SDA formula given that the data for the current formula was outdated. The budget provided authorization for the existing SDA formula but sunsetted the provisions of authorizing statute effective July 1, 2011.
The budget also included $300,000 in one-time federal funds for CDE to work with a contractor to do the following:

1) Provide a summary of the extent to which incidences of severe disabilities are evenly or unevenly distributed across the state.

2) Provide a determination of whether any observed differences in incidences have a significant effect on the relative costs to special education local plan areas (SELPAs) for providing special education services.

3) Provide suggested methods for adjusting the state’s funding formula that do not create inappropriate fiscal incentives for identifying students as needing special education or for placing students in particular programs.

Before entering into the contract, CDE is required to the Department of Finance and the Legislative Analyst regarding the specific scope and design, and anticipated cost, of the study. The study is due to the Legislature on or before April 1, 2011.

CDE is continuing to work with Legislative staff, DOF and LAO to define the scope of the study.

GOVERNOR’S 2011-12 PROPOSAL

The Governor’s budget proposes to reduce the special education budget by $74 million in Proposition 98 funding to reflect the July 1, 2011 sunset of the statutory provisions that authorize the SDA.

**CDE concerns.** CDE estimates total funding for the SDA for 2011-12 will be $70 million, not $74 million as the Governor’s budget assumes. CDE also has federal maintenance of effort (MOE) concerns with removing this funding from the special education budget.

**MOE requirements.** Under federal IDEA, states must abide by specific MOE requirements that do not allow states to reduce current year state funding below spending levels for the previous year. States face the loss of federal funds if these requirements are not met. Ironically, while states are held to this federal MOE, the federal government has not met their commitment to assist states in fully funding special education.

According to a report from the LAO, IDEA set forth a policy that the federal government would cover a maximum of 40 percent of excess special education costs, with states and local education agencies to cover remaining costs. (This target is often referred to as “full funding”). To determine how much of the excess cost it is covering, the federal government estimates the total nationwide cost of educating students with disabilities in excess of the cost of non–special education students, and then determines the percent covered by the IDEA appropriation.
According to the LAO, using the IDEA's own method for approximating the excess cost of educating students with disabilities nationwide, the federal government has covered far less than 40 percent in recent years. Despite the federal government more than doubling its share of costs between 1995 and 2005, IDEA has never covered more than 19 percent of excess costs.

Some states have applied for and received MOE waivers. IDEA allows for a waiver of state’s MOE requirements if it “would be equitable due to exceptional or uncontrollable circumstances such as an unforeseen decline in the financial resources of the State.” Kansas, Iowa, and West Virginia have applied for and received a partial waiver under these circumstances.

STAFF COMMENTS

If the Subcommittee wishes to restore the Governor’s reduction of $74 million, this action would require the Subcommittee to make a reduction to another area of Proposition 98 to offset this restoration.

SUGGESTED QUESTIONS

1) Does DOF share the same concerns as CDE regarding MOE issues? Can DOF comment on CDE’s estimates for funding the SDA in 2011-12?

2) Has DOF considered seeking an MOE waiver for California?

3) Does CDE or LAO have recommendations related to the continuation of the SDA?
ISSUE 4: GOVERNOR'S 2011-12 PROPOSAL: ELIMINATION OF THE OFFICE OF THE SECRETARY FOR EDUCATION AND INCREASED FUNDING FOR THE STATE BOARD OF EDUCATION

The issue for the Subcommittee to consider is the Governor's proposal to:

1) Eliminate the Office of the Secretary for Education (OSE) resulting in a decrease of $1.9 million non-Proposition 98 General Fund; and,

2) Shift $274,000 in non-Proposition 98 General Fund to the State Board of Education (SBE) state operations.

PANELISTS

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

BACKGROUND

The Secretary of Education, a member of the Governor's Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation. The Office of the Secretary of Education (OSE) is funded through the Governor's Office of Planning and Research. The office was created in the early 1990's under Governor Pete Wilson.

GOVERNOR’S 2011-12 PROPOSAL

The Governor's budget proposes to eliminate OSE and shift resources to the SBE for a net decrease of $1.6 million non-Proposition 98 General Fund for 2011-12 and a decrease of $400,000 in the current year.

- For 2010-11, the Governor assumes $400,000 in savings, which is a little less than half of the OSE budget for the current year. More savings could be realized once DOF determines final transition costs.

- For 2011-12, the Governor assumes a decrease of $1.9 million for the elimination of OSE, however, proposes to use $274,000 of that savings to increase state operations at the State Board of Education.

The Governor's budget proposes to shift three permanent full-time positions from CDE to the SBE. This increases SBE staff from nine to twelve. The Administration cites increased workload as a reason for providing these positions and funding.
According to the Administration, the increase in funding for the SBE will achieve the following:

- Accept new responsibilities as a result of the elimination of OSE. While assignment of specific responsibilities are still being worked out, the Board President has already been contacted regarding issues that the Secretary of Education would normally have addressed. Other possible increases in workload include legislation analysis and special projects/programs.

- Improve SBE’s responsiveness to informational requests from the public, the Legislature, the Administration and other entities.

- Provide necessary analytical support for Board activities.

- Improve timeliness of required Board meeting activities. For example, the last approved minutes posted online are from the May 2010 meeting. 6 meetings have been held since. Provide staff support for an increasing number of meetings. In 2010, 6 meetings were originally scheduled and 9 were actually held.

**STAFF COMMENTS**

The Legislature has advocated for the elimination of the Office of the Secretary on several occasions deeming it redundant and unnecessary. California already has an elected Superintendent of Public Instruction and a State Board of Education, appointed by the Governor. Further, the office was never established in statute and is the only Secretary without a department to oversee.

**SUGGESTED QUESTIONS**

1) Does the LAO have a recommendation on the proposal to eliminate OSE? Does the LAO have any comments regarding the increased funding and position shift to the SBE?

2) Does CDE have comments related to the shift of positions from the CDE to the SBE?
This issue will provide the Subcommittee with an update on the status of the development of a state plan for the purposes of applying for the federal Striving Readers Comprehensive Literacy Program. This item is for information only.

PANELISTS

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

BACKGROUND

The Striving Readers Comprehensive Literacy Program is authorized as part of the FY 2010 Consolidated Appropriations Act (Public Law No. 111-117) under the federal Title I demonstration authority (Part E, Section 1502 of the Elementary and Secondary Education Act (ESEA).

The federal program will provide a total appropriation of $200 million in fiscal year (FY) 2010 to advance literacy skills for children from birth to grade 12. These funds are awarded on a competitive basis. It has been estimated that California could receive up to $50 million of these funds.

The federal program also reserved $10 million for formula grants to assist states in creating or maintaining a State Literacy Team with expertise in literacy development and education for children from birth through grade 12 and to assist states in developing a comprehensive literacy plan.

In October 2010, the California Department of Education (CDE) was awarded a formula grant for $841,329 to support a Striving Readers State Literacy Team (SRSLT) to develop California’s state literacy plan. The Legislature was notified of this award in December through a Section 28 letter. A Section 28 letter can be used to authorize the expenditure of unanticipated funds that are available after the enactment of the budget act and need to be spent in the current year.

In January, the Legislature provided expenditure authority to CDE for the formula grant funds. Along with this approval, the Legislature requested the state plan be submitted to the Joint Legislative Budget Committee and education policy committees when the plan is submitted to the State Board of Education (SBE) for approval. Further, the Legislature requested notification when the federal government completes review of the plan and announces availability of federal funds.
Program Status. Applications are not yet available but the federal government indicates they plan to provide awards for the competitive grants this spring. State plans were originally due in February but the federal government has given California an extension of April 1, 2011 to apply for the competitive grant.

Striving Readers State Literacy Team (SRLST). On February 2, 2011, the State Board of Education released the names of the members of the SRLST. The role of the SRLST is to advise the SBE, in consultation with the California Department of Education (CDE), on the development and implementation of a comprehensive state literacy plan, for birth through grade twelve. The first meeting was originally scheduled for February 11 but has been cancelled. No meetings have been rescheduled at this time.

STAFF COMMENTS

The Striving Readers Comprehensive Literacy Program is an exciting opportunity for California to develop a model literacy program. It is an opportunity for the SBE to work collaboratively with CDE as well as engage the Legislature and various stakeholders in the process. This collaboration was lacking in the development of prior literacy programs.

The SRLST has the unique challenge of designing a program that spans from birth to 12th grade, in this diverse state of California. As the SRLST considers core principles and guidelines for development of this program, the team should consider the following:

- A multilingual and multicultural design in order to foster the 21st Century skills needed by children to succeed in college and career.
- The opportunity to focus on early childhood education and include strategies for helping families develops early childhood literacy.
- The incorporation of students with disabilities and English learners into the core program, not just through interventions and additional support.
- Allow for the provision of direct services to students as well as professional development and technical assistance.
SUGGESTED QUESTIONS

1) What assurances were made to the federal government in order to receive the initial formula grant?

2) What criteria was used in the selection of the participants of the Striving Readers State Literacy Team (SRSLT)? Who selected the team?

3) Will the SRSLT work from a preliminary plan or framework and if so can the Administration or CDE share the components of that framework?

4) What are the strategies for addressing the needs of English learners and students with disabilities?

5) Will the plan include a detailed expenditure form outlining uses of the funds?

6) Any updates from the federal government on the release of the competitive application?