

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Mervyn Dymally, Chair

WEDNESDAY, MARCH 29, 2006

STATE CAPITOL, ROOM 447

9:00 AM

ITEMS TO BE HEARD

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ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: CALIFORNIA LONGITUDINAL PUPIL ACHIEVEMENT DATA SYSTEM (CALPADS)

The issues for the subcommittee to consider are:

- The Governor's proposed budget for the California Longitudinal Pupil Achievement Data System. (CALPADS)
- An update by CDE on the progress of the development of the system.
- A proposal for improving districts' data capacity.

BACKGROUND:

CALPADS. The budget proposes an increase of \$940,000 to begin the next phase of the California Longitudinal Pupil Achievement Data System (CALPADS). Most of this increase is proposed for systems integration and software purchases related to the next phase of development. In addition, the administration proposes to continue \$844,000 in federal funds (Title VI) to support the system. This system was initiated in 2002 to track individual student progress over time, in compliance with federal law; CALPADS is also expected to provide more accurate information on dropout rates.

Background on program. SB 1453 (Alpert) of 2002 was approved by the Legislature to create the CALPADS system. It requires the development of an information technology system to track individual student progress over time, in compliance with No Child Left Behind (NCLB) Act requirements. Specifically, it establishes the following goals:

- To provide school districts and CDE access to data necessary to comply with the federal reporting requirements under NCLB (which requires reporting of dropout and graduation rates).
- To provide a better means of evaluating educational progress and investments over time.
- To provide local education agencies information that can be used to improve pupil achievement.
- To provide an efficient, flexible and secure means of maintaining longitudinal statewide pupil level data.

Under the terms of SB 1453, CALPADS "shall be developed and implemented in accordance with all state rules and regulations governing information technology projects." Accordingly, CDE was required to submit a feasibility study review (FSR) to the Department of Finance, to assess the technical feasibility of such a project. Under state rules and regulations, CDE must competitively bid for the development of CALPADS.

Current status of the project: student identifiers. A longitudinal database system requires individual student identifiers that are given to each student enrolled in the public K-12 system. Two years ago, districts were provided some incentive funding to create these identifiers and to set up systems to maintain them over time. To date, almost all students in the state's public school system have been assigned individual student identifiers. Districts must now maintain these. The budget provides districts not participating in California School Information Services (CSIS) with funding to support the maintenance of these identifiers. Specifically, it provides 25 cents a pupil for this purpose.

Dropout data soon available? According to CDE, to ensure that student identifiers are properly maintained, school districts will soon have to report on the location of all students that were assigned identifiers in the fall of 2004. This process could yield accurate dropout data for one year, as early as the fall of this year.

Current status of the project: implementation status. To date, CDE has completed the following steps in the process of developing the system.

- Feasibility study review completed – August 20, 2004
- Feasibility study conditionally approved by DOF – June 24, 2005
- Conditional report completed – October 21, 2005

Next steps. CDE must complete the following steps in order to get a system up and running by December, 2008.

- CDE must complete RFP (target date: June, 2006)
- DGS must approve RFP (target date: August 16, 2006)
- CDE must convene an evaluation team (including CDE and other agencies, parties), send out RFP. The evaluation team must evaluate bids and select the vendor (target date: July, 2007)
- DOF must approve any special project report (amendment to the FSR), before contract awarded.
- CDE must oversee vendor in its development of the system (target completion date for system to be completed: December 2008)

COMMENTS:

Proposal to increase districts' data capacity. As noted above, the budget provides districts not participating in CSIS with 25 cents a pupil to support the maintenance of student identifiers. Some advocates and CDE staff have questioned whether this amount is adequate to support maintenance of these identifiers that ensures that quality data goes into CALPADS. They propose increasing this amount to better support districts' maintenance of the identifiers and to increase districts' capacity to manage and maintain quality data.

ISSUE 2: CALIFORNIA SCHOOL INFORMATION SERVICES (CSIS)

The issue for the subcommittee to consider is the Governor's proposal to provide \$2.8 million to fund a new cohort of districts to participate in CSIS.

BACKGROUND:

CSIS. The Governor's budget proposes a \$2.8 million increase to the California School Information Services Program (CSIS) for a new cohort of districts to participate in the program. CSIS was initiated several years ago to help school districts electronically transfer student records and complete statewide reporting requirements electronically.

Background on CSIS. CSIS is a multi-year information technology project with three goals: 1) to build local capacity to use student information systems to inform education decisions; 2) to enable districts to electronically transfer student records between each other and to higher education institutions and 3) to assist districts in electronically transmitting state-required reports to CDE. CSIS is administered by the Fiscal Crisis Management Assistance Team (FCMAT). The project was initiated several years through budget bill language. Later, the Legislature adopted trailer bill language stating the goals of the program. It is a voluntary program in which districts receive incentive funding and technical assistance to participate. A number of districts participate in CSIS, and FCMAT notes that it has a number of districts in the pipeline to participate fully. There are also a number of districts that do not participate in CSIS. According to the administration, the state has spent a total of almost \$63 million to date on the development of CSIS.

COMMENTS:

CSIS and CALPADS. Staff notes that CSIS is an important part of CALPADS. In particular, CSIS is charged with managing the process of districts' development and maintenance of the individual student identifiers that are an integral part of CALPADS. CSIS' management of that process has gone well, with almost all students having individual student identifiers. Eventually the two systems are expected to be integrated into one system.

ISSUE 3: MICROSOFT SETTLEMENT DOLLARS

The issue for the subcommittee to consider is the potential availability of money from a lawsuit settlement involving Microsoft, and questions about what the funding can be used for.

BACKGROUND:

In November of 2004, a lawsuit by California consumers against Microsoft Corporation was tentatively settled. The face value of the settlement was \$1.1 billion, issued to consumers in the form of vouchers. Some of the vouchers were not redeemed by consumers, and some of the funds from these unredeemed vouchers went to K-12 schools for a grant program to support and implement education technology that fosters effective teaching and promotes student achievement in eligible schools. Schools are eligible to receive vouchers if 40% of the attending students are eligible to receive free or reduced price meals. Schools within school districts or county offices of education, direct-funded charters and state special schools, are eligible to receive funding as long as they meet the poverty criteria above. Although the exact amount available for this program will not be known at the time the request for applications is available, it is estimated to be from \$400 million to \$600 million. While the amount per pupil will vary depending on the total amount and the number of applications, it is estimated to be between \$98 and \$250 per pupil.

Potential uses for the vouchers. In order to receive vouchers from the settlement, eligible schools must have a current district technology plan that meet CDE criteria and has been approved through a state review process. According to CDE, vouchers will be issued in two categories:

- General purpose vouchers – allowable purchases include specific types of hardware, non-custom software for that hardware, evaluation tools, information technology services and professional development (the latter two must be obtained from approved providers)
- Software vouchers – allowable purchases include specific categories of software that are published or sold by any software provider.

Eligible schools will have six years to redeem the vouchers.

CDE's responsibilities. CDE is responsible for issuing the request for applications, reviewing applicants for eligibility and monitoring the program. A Settlement Claims Administrator, selected by the Court, will be responsible for issuing the vouchers. Distribution of the vouchers will be delayed until after the resolution of all outstanding appeals of the settlement. Currently, seven appeals have been filed. It is unclear when they will be resolved.

COMMENTS:

Can the state set aside a portion of these funds for statewide information technology initiatives that benefit all districts, such as CALPADS, or the High Speed Network?

What criteria do the district technology plans have to meet?

ISSUE 4: HIGH SPEED NETWORK

The issues for the subcommittee to consider are:

- An update by the State Auditor on a recent audit of the state's high speed network.
- Whether to provide state funding to support the network, and what functions to support.

BACKGROUND:

The Governor's budget does not propose funding for the High Speed Network, but includes language specifying that budget decisions for the program will be made pending the results of the JLAC audit (see below.) Last year the Governor proposed \$21 million for this network, but the Legislature deleted the funding because of a) savings available from the prior year's \$21 million appropriation, b) a pending JLAC audit pending on the cost-effectiveness of the system.

Background on system. This program funds the creation and maintenance of a statewide high-speed, optical fiber internet network for K-12 education, which is part of a larger network that also serves private and public universities (Cal-REN 2). Currently, the program funds the maintenance of the network, including "nodes" which school districts must link up to in order to gain access to the network and use the high-speed internet service. The nodes are housed mostly at county offices of education, which have free access to the system. Since the inception of the program, the state has spent roughly \$112 million to build and maintain the system. While state appropriations have been the largest source of revenue, other funding sources include the federal and state discounts that the managing non-profit receives from certain telecommunication carriers (E-rate and the California Teleconnect Fund, respectively).

High-speed internet is intended to provide faster, more reliable service than traditional internet. Speed and reliability are not as crucial for everyday applications, such as e-mail and webpages, but become more important for more complex applications, large databases, or activities such as videoconferencing.

Program history, governance. The state began funding for this program in 2000-01, with a \$32 million appropriation to University of California. There was no legislation or budget bill language accompanying the new appropriation, only a line item within UC's budget. UC contracted with an independent non-profit, Corporation for Education Network Initiatives in California (CENIC), to develop and administer the network. However, when the administration proposed shifting the cost of the K-12 portion of the program from UC's budget to Proposition 98 funds in 2004-05, the Legislature decided to provide the funds to CDE to contract with a local entity to administer the program. Through a competitive process, it selected Imperial County Office of Education to

administer the program. Imperial COE now contracts with CENIC to provide services related to the program.

Results of the audit. Last year, members requested that the State Auditor determine whether the state would be efficiently using its resources by supporting the maintenance of the High-Speed Network. The audit was completed within a few months and released in January. The findings include:

Positives:

- The state spent less on building and operating the network by expanding the existing UC infrastructure than it would have spent for a separate network with comparable services. There is potential for growth, but the system is not overbuilt.
- The auditor's technical consultant found no compelling technical or financial reason to abandon the existing network. The network architecture is sound.

Concerns to address:

- From the beginning, state law has provided little or no guidance or oversight of the network. It is difficult to determine whether the network is meeting its goals, since these were never specified by the Legislature.
- Some issues have arisen with the managing non-profit's (CENIC's) fees and its use of High-Speed Network funds. (For example, CENIC earned \$1.5 million in interest from funds provided by UC for network services. Because CENIC sees itself as a service provider, it considers the \$1.5 million in interest earnings as available for activities other than those related to UC's contract. Also, almost \$7.2 million was transferred out of an account designated solely for the High-Speed Network into CENIC's general operations account.)
- The current agreement between Imperial County Office of Education and the nonprofit that currently operates the network (CENIC) could be strengthened to better protect the state's interest. Specifically, its agreements lack detailed service-level agreements, which does not ensure that it retains ownership of tangible assets, and do not ensure that interest earned on advance payments made to the non-profit or funds held by the non-profit on its behalf accrue to the benefit of the High-Speed Network.
- Ownership of the network is still uncertain. Despite the fact the state appropriated more than \$93 million to UC for the development of the High-Speed Network, ownership of the network is unclear, and all education entities that use the network currently contract with CENIC, the non-profit that operates the network, under terms that it establishes.

Auditor recommendations:

- Enact legislation to prescribe the goals and outcomes of the network.
- Ensure that the Imperial County Office of Education improves its agreements with CENIC to include service-level agreements (which are considered a standard part of contracts with information technology providers) and obtain lower fees for commodity internet service.
- Ensure that the Imperial County Office of Education amends its agreement with CENIC to stipulate the allowable uses of any interest earned from state funds that are provided to CENIC for the network.
- Direct the Imperial County Office of Education to transfer ownership of tangible, nonshared assets to the state.
- Ensure that the Imperial County Office of Education develop a method to measure the success of the network.

Representatives of the Bureau of State Audits will present the findings of their audit at today's hearing.

Amount of funding used to sustain network last year. Due to the Legislature's request for an audit of the program, last year's budget did not contain any funds for the program. Instead, the program was maintained using prior-savings that had gone unspent. Specifically, as of June 30, 2005, the amount of funds available for the network, according to CENIC's accounting records, was \$13.6 million. During the current year, CENIC expects to receive an additional \$3.6 million related to telecommunication discounts. CENIC is maintaining the K-12 portion of the network with these funds during the current year.

COMMENTS:

Fund applications? Should the subcommittee support funding for the network, it may wish to consider what functions it will support. In the past, CENIC and Imperial County Office of Education used part of the state funding to provide grants to create applications for the network. For example, the audit found that in February 2002, CENIC contracted with the Sacramento County Office of Education at a cost of roughly \$211,000 to develop a network website as a one-stop location to access on-line resources closely aligned to California's academic content standards. It appears that the website was not launched because CDE and the State Board expressed concerns about the review of resources to be placed on the website and whether those resources are aligned to state standards, according to the audit. If the state is going to fund a high speed internet, should it fund the development of applications or should this be locally funded? If the state funds applications development, will this lead to more state involvement in the types of applications and materials that go on the network, and less

local control? On the other hand, how can the state ensure that any applications that are developed do not result in higher state costs down the line?

Districts use network to access the "regular" Internet. According to some advocates, districts currently rely on the network to access the commodity Internet. In effect, the state's support of the High Speed Network subsidizes districts' access to the commodity internet. CENIC negotiates contracts with Internet service providers, and then charges Imperial County annual fees for this service. However, the audit found that the fees that CENIC charges for commodity internet use could be lower, thereby saving the state money.

ISSUE 5: INTEGRATED TEACHER DATA SYSTEM

The issues for the subcommittee to consider are:

- An update on the development of an integrated teacher data system.
- Whether to provide funding in 2006-07 for the development of this system.

BACKGROUND:

Governor's budget. Last year's budget included \$350,000 in federal funds for CDE to contract for a feasibility study for a new teacher data system. A feasibility study is the first step in the development of a major information technology initiative. The study is due March 31, 2006. The Governor's budget does not continue the funding for the feasibility study, since it is scheduled to be completed this year. The administration indicates that it is waiting for the feasibility study review to determine whether it will propose any funding to further continue the development of the system.

Background on proposal. Last year's budget contained language specifying the parameters of the feasibility study. The language required the study to inventory existing teacher data elements currently collected by state agencies and county offices of education, identify redundancies, identify these agencies data needs, and identify the most cost-effective approach for converting existing multiple data systems into an integrated, comprehensive, longitudinally linked teacher information system that can yield high-quality program evaluations.

According to the LAO, the earliest any such system could be ready is December, 2009. Total one-time costs to develop the system are estimated at \$12 million.

COMMENTS:

Because the feasibility study is not yet due, the subcommittee may wish to hear this item, and then ask CDE to return at a later date once the FSR is completed.

ISSUE 6: GOVERNOR'S EDUCATION TECHNOLOGY PROPOSAL

The issue for the subcommittee to consider is whether to fund the Governor's new education technology proposal.

BACKGROUND:

Governor's proposal. The Governor proposes \$25 million for a new Digital Classroom Grant Program "to implement, support and advance the effective use of information technology to improve instruction and academic achievement." The administration is sponsoring AB 1548 (Pavley) to implement this proposal.

- **How funding is distributed.** Grants would be one-time in nature, and would be based on an allocation of \$3,000 per classroom, based on the number of classrooms in schools that receive the grant. The Department of Education would randomly select school districts and charter schools from lists of small and large elementary, high school and unified districts within each of 11 California Technology Assistance Project regions. Once districts and charters are selected, those schools within the district or charter designed as having highest priority to receive grants would receive the one-time funding. In future years, schools not yet funded would receive the grants, until all schools have received the one-time grants.
- **Allowable expenses.** Receiving districts and charter schools would be allowed to use the funding for any one-time expenditures, including, but not limited to, purchase of computer hardware or software, or professional development for teachers and principals on the use of classroom technology.

LAO recommendation: The LAO recommends against funding this and six other new programs proposed by the Governor totaling over \$400 million in new funding. Specifically, they recommend redirecting this money to the General Fund (non-Prop. 98), because they think the Governor's proposed total Proposition 98 spending level is unsustainable in out years, and adds to the state's structural deficit. However, if the Legislature decides to adopt the Governor's spending level, they recommend redirecting the \$400 million to fiscal solvency block grants.

In addition to the LAO's beliefs that there are higher priorities for the \$400 million the Governor earmarks for the seven new programs, including this one, the LAO recommends rejection of the new programs because: 1) it is a reversal of the recent trend toward categorical consolidation, 2) the proposals have some basic flaws, and 3) the proposals have no planning, reporting, evaluation or accountability.

COMMENTS:

Microsoft settlement money. As noted above, schools will eventually receive hundreds of millions of dollars in information technology vouchers, per the Microsoft settlement agreement reached with plaintiffs representing consumers. What is the relationship between that funding and this funding?

**ISSUE 7: DISTRICT FINANCIAL HEALTH – FCMAT PRESENTATION
(INFORMATION ONLY)**

The issue for the subcommittee to consider is

- A presentation by the Fiscal Crisis and Management Assistance Team on the overall fiscal health of districts, as reported by districts as part of their first interim status report.

BACKGROUND:

The Fiscal Crisis and Management Assistance Team (FCMAT) will give a presentation today on the latest report that districts have filed to reflect their financial status. FCMAT provides financial and management assistance to school districts that request their assistance, and particularly those with negative or qualified financial certifications.

School districts required to file financial reports, reviewed by county offices.

Under current law, local educational agencies (LEAs) are required to file two reports during a fiscal year (interim reports) on the status of the LEA's financial health. The first interim report is due December 15 for the period ending October 31. The second interim report is due March 17 for the period ending January 31. County superintendents are to report to the Superintendent of Public Instruction and the State Controller the certification for all districts in their county within 75 days after the close of the reporting period.

The interim reports must include a certification of whether or not the LEA is able to meet its financial obligations. The certifications are classified as positive, qualified, or negative, as follows. In addition, the Superintendent of Public Instruction may reclassify any county office of education or appeal of a school district certification.

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

Results of First Interim Status report for the current year. The latest report available on CDE's website shows that for the period ending October 31, 2005, there were 5 districts that received a negative certification. All of these had received a negative certification at the end of last year as well (as part of the second interim status report for 2004-05). Total budgets for these five districts totaled more than \$600 million. Thirty-two districts received a qualified certification. The table below summarizes these

results, as well as results from last year's two reports (first interim and second interim status reports).

Results from 2004-05 and 2005-06 fiscal status reports

	First Interim Status report, 2004-05	Second interim status report, 2004-05	First Interim Status report, 2005-06
Number of districts receiving negative certification	10	14	5
Number of districts receiving qualified certification	63	48	32

ISSUE 8: DISTRICT FINANCIAL HEALTH (LAO PRESENTATION)

The issue for the subcommittee to consider is a presentation by LAO on district financial health, specifically the issue of school districts' liabilities related to retiree health benefits.

BACKGROUND:

Overall health. In its 2005-06 Analysis of the Budget, the LAO examined the fiscal health of school districts. They found a range of challenges facing districts, including low reserves, internal borrowing, falling revenues due to declining enrollment, and liabilities related to retiree health benefits. The LAO asserts that "the financial health of districts has not improved significantly, and may have even worsened somewhat, over the past year."

LAO findings regarding districts' liabilities for retiree health benefits. In a recent survey, sixty-percent of districts statewide reported that they provide some form of health benefits for retirees. However, unlike other retiree benefits (such as pensions), until this year, the national Governmental Accounting Standards Board's (GASB) policies did not encourage districts to budget for retiree health benefits the same way they budget pensions costs. This year a new GASB policy will require district to identify the normal cost of retiree health benefits for current employees, as it does for pension costs. The normal cost is the amount that should be deposited in the benefit fund during an employee's working life to fully cover the cost of the benefits when an employee retires. The new GASB policy also requires districts to identify their outstanding liabilities for these benefits. Since many districts haven't been putting money away before employees retire to pay for these health benefits, some have large unfunded liabilities. The table below is from the LAO Analysis and summarizes information from a recent survey on districts' unfunded liabilities related to retiree health benefits.

Figure 1					
Estimated K-12 Retiree Health Benefits Unfunded Liabilities					
<i>(Dollars Per Student Enrollment)</i>					
Benefit	Number of Districts	Per-Pupil Liabilities^a			
		High	Average	Low	
Lifetime	76	\$13,624	\$4,075	\$84	
Over age 65, not lifetime	116	5,144	1,706	61	
Up to age 65	431	5,061	2,668	5	

a These estimates are based on a subset of districts that provide the given benefit.

The LAO believes that these unfunded liabilities pose a major financial threat to the fiscal health of school districts down the line, particularly if districts chose to continue paying on a pay-as-you-go basis and wait until employees retire to begin paying for benefits. For example, under LAUSD's estimate of its unfunded liability, the LAO estimates that its cost for retiree health benefits on a pay-as-you-go basis will more than double in the next ten years, increasing from \$275 per student to \$575. By 2020, costs climb to \$755 per student. Even if districts change from a pay-as-you go basis, and begin paying down their existing liabilities, the costs may be high. For example, the average district that provides lifetime benefits currently faces liabilities of about \$4,000 per student. To fund this amount over 30 years, a district would have to set aside roughly \$400 per student each year, or 8% of general purpose funds from state funds and local property taxes.

LAO recommendations to address district liabilities for retiree health benefits.

Given districts' overall financial health, coupled with declining revenues in many districts due to declining enrollment (see below), the LAO believes it is "unlikely that most districts will have the fiscal flexibility to make serious inroads towards resolving the retiree health issue in the near term." In addition, they believe that districts face little incentive to address the issue. The LAO has two sets of recommendations to address this problem:

- **Long-term plans.** Require districts to develop long-term plans for addressing these liabilities and provide these plans and their GASB-required actuarial studies of total liabilities to county offices. It also recommends that county offices be required to take these plans into account when they annually review districts' budgets.
- **Use of federal funds to pay liability.** Direct CDE to work with the federal government to allow federal funds to be used to pay for retiree health benefits liabilities. Most districts appear to be paying for retiree benefits with their own general purpose money, yet federal regulations permit local governments to use federal funds to pay for a share of these benefits. Specifically, the LAO recommends that CDE develop a template that districts could use to take advantage of this flexibility.

The LAO also recommends directing CDE to develop regulations that would allow districts to use state categorical funds to pay for these liabilities.

LAO block grant recommendation to address fiscal solvency. Due to the issues highlighted above, the LAO recommends that if the Legislature decides to provide funding at the level proposed by the Governor, that it deny the \$411 million the Governor proposes for new programs and redirect this money to establish fiscal solvency block grants. Block grants would be provided on a per-pupil basis to all districts and county offices and would be ongoing for five years, after which time the funding would be rolled into the revenue limit, to provide some predictability of funding.

Districts would be required to use the funds to address fiscal problems, in the following priority order:

- 1) Pay-back internal borrowing and set aside funds for the normal cost of retiree health costs of current employees (the amount that should be set aside to pay for their benefits when they retire).
- 2) Districts could use half of any remaining funds after Step 1 for short-term costs related to declining enrollment, for only five years. After five years they would have to use these funds to reduce their liability for long-term retiree health benefits.
- 3) Districts would have to use the other half of funds remaining after Step 1 to reduce their retiree health benefit liability (for the liability accrued in prior years).

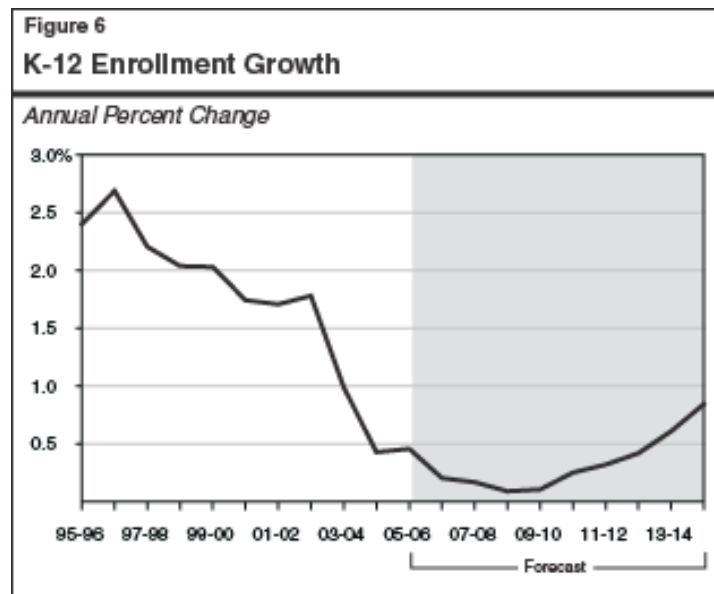
Districts would first submit plans on their use of the funds to county offices, who would then review and approve them. Counties would submit plans to CDE for review and approval. Districts with none of the above problems would be free to use the funds free of any restrictions.

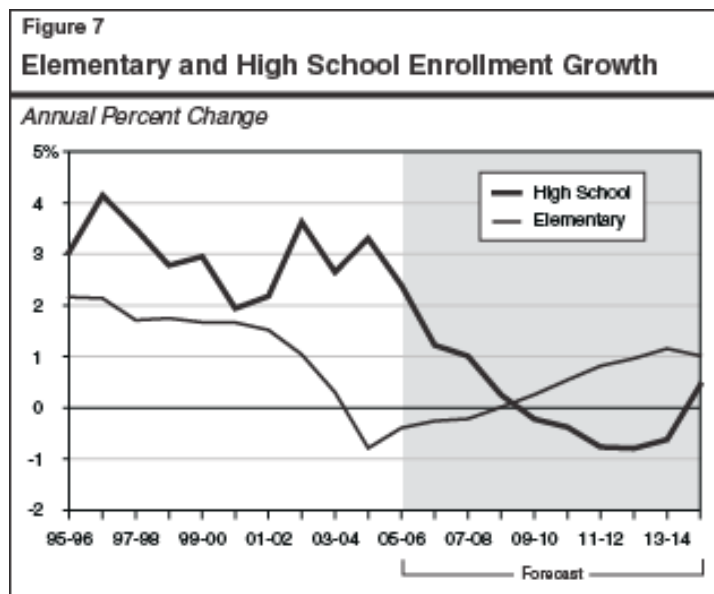
ISSUE 9: DECLINING ENROLLMENT

The issue for the subcommittee to consider is that of the growing number of districts with declining enrollments, and the effect this has on district budgets.

BACKGROUND:

Statewide enrollment trends. Since 2001-02, the number of districts experiencing declining enrollment has increased each year. The LAO estimates that 40% of districts experienced declining enrollment in 2004-05. This trend will only worsen over the next five years, with statewide enrollment eventually slowing down to less than one percent. While overall statewide growth may be flat over this period, many areas of the state will see declines. The administration's enrollment estimates through 2009-10 show declines in 30 of the state's 58 counties. These declines are projected in some of the state's biggest counties: Los Angeles, Orange, San Francisco and Alameda. The graph below is from the LAO's analysis, and shows overall growth rates from 1995-96 and 2013-14, as well as growth rates for the elementary and high school populations.





Governor's estimate of declining enrollment adjustment and LAO recommendation. The Governor's budget assumes that the declining enrollment adjustment under current law will cost the state approximately \$268 million. Under current law, school districts receive their apportionments based on the higher of their current year's average daily attendance or their prior year's average daily attendance. For districts with declining enrollment, this formula holds them harmless for any decline for one year. DOF estimates the cost of this provision to be \$268 million. They calculated this amount using last year's cost, and inflating it by growth and COLA. The LAO believes this calculation is too low, since recent years of slow enrollment growth have led to large year-to-year increases in the cost of the declining enrollment adjustment. The LAO believes that the Legislature should set aside \$75 million for the real cost of the adjustment in the budget year. (Since apportionments go out on a continuous appropriation basis, the Legislature does not need to actively appropriate money for the declining enrollment adjustment, but only anticipate its final cost.)

COMMENTS:

As noted above, the LAO's recommendation for addressing the financial problems created by declining enrollment is to create a fiscal solvency block grant, which districts could use to address their declining revenues.

Education advocates are sponsoring legislation to change the current declining enrollment adjustment, to smooth out the drop in revenues that districts currently experience.

Staff notes that the Assembly Education Committee's Working Group on Education Finance is studying the issue of declining enrollment.

ISSUE 10: FCMAT BUDGET

The issue for the subcommittee to consider is the Governor's proposed funding level for the Fiscal Crisis and Management Assistance Team.

BACKGROUND:

The Governor's budget provides a total funding level of \$11.1 million for the Fiscal Crisis and Management Assistance Team (FCMAT). This is a \$500,000 increase over last year's funding level. The administration notes that the increase reflects a cost of living adjustment for the agency.

The Fiscal Crisis and Management Assistance Team provides financial and management assistance to all districts, and particularly those with qualified and negative certifications, and those that request assistance. It is housed in Kern County Office of Education.

COMMENTS:

Staff is not aware of anyone having raised issues with the Governor's proposed funding level for FCMAT.

ISSUE 11: GOVERNOR'S CHIEF BUSINESS OFFICER TRAINING PROGRAM

The issue for the subcommittee to consider is whether to provide \$1.05 million in one-time Proposition 98 Reversion Account funds to continue the School Chief Business Officer Training Program that was initiated last year.

BACKGROUND:

Chief Business Officer Training Program. The Governor's budget proposes \$1,050,000 in one-time funding from the Proposition 98 Reversion Account for the purpose of funding the Chief Business Officer Training Program, pursuant to legislation passed last year, creating the program. The Governor proposed the amount in one-time funding for this purpose in last year's budget, and this was included in the final budget.

Background on program. Last year the Legislature approved SB 352 (Scott), Chapter 356, Statutes of 2005. That bill was sponsored by the Governor, and was part of a three-year plan to train all school business officers in the state. That bill requires the State Board of Education, in consultation with FCMAT, to begin developing rigorous criteria for the approval of state-qualified training providers, and to establish an application process for training providers. SBE is then responsible for approving applications from public and private entities to provide the training. SBE is also responsible for approving applications from districts and county offices to receive funding for the training. The training must be at least 200 hours, with at least 40 of these involving intensive individualized support and professional development in the following areas:

- School finance, including revenue projections, cash-flow management, budget development, financial reporting, monitoring controls and average daily attendance projections, and accounting.
- School operations, including matters relating to facilities, maintenance, transportation, food services, collective bargaining, risk management, and purchasing.
- Leadership, including organizational dynamics, communication, facilitation, and presentation.

Background on funding. The terms of last year's legislation specify that each year's funding is intended to serve 350 eligible training candidates per year. The program then provides funding to districts or county offices based on the number of training candidates, at \$3000 per candidate.

COMMENTS:

Subcommittee's action on this item last year. Staff notes that last year the Subcommittee approved the \$1 million in one-time funds proposed by the Governor for this program. The amount approved was subject to legislation, which was not finalized at the time of the subcommittee's action.

ISSUE 12: GOVERNOR'S PHYSICAL EDUCATION PROGRAM

The issue for the subcommittee to consider is whether to fund the Governor's proposal to create two new programs related to physical education.

BACKGROUND:

The Governor proposes a total of \$85 million for two new programs related to physical education.

- **Physical Education Block Grant.** The Governor proposes \$60 million for a new block grant to increase physical activity and implement a comprehensive standards-based physical education programs in grades kindergarten through eight. Minimum grants would be \$3,000 per site for schoolsites with 10 or fewer students, and \$5,000 per site for schoolsites with more than 10 students but less than 421 students. Schools with more than 420 students would then receive an additional amount per-pupil, depending on the amount of funding available after providing minimum grants. Receiving schools could use the funding for purposes relating to support physical education programs, including but not limited to: hiring staff, providing standards-aligned professional development, reducing class size, purchasing equipment, and developing or purchasing standards-aligned curriculum. The administration has indicated that it intends to introduce broad physical education legislation, which would implement this proposal as well as eliminate the current exemption from physical education for students 16 and over.
- **Physical Education Teacher Recruitment Incentives.** The Governor proposes \$25 million for new incentive grants to 1,000 elementary, middle or junior high schools, to support the hiring of more credentialed physical education teachers. Funding would be distributed to 1000 schools in the amount of \$25,000 per schoolsite, and would require a local match of equal value. Charter schools as well as non-charter elementary, middle and junior high schools would be eligible for funding. Funding could only be used to hire additional credentialed physical education teachers. The selection of schools to receive funding would be based on a random selection or qualified applicants, with some assurance that the funding be equitably distributed based on type of school, size and geographic location. The administration has indicated that it intends to introduce legislation to implement this and the above proposal.

LAO recommendation. The LAO recommends rejecting this program, along with five other new programs proposed by the Governor. Specifically, they recommend redirecting this money to the General Fund (non-Prop. 98), because they think the Governor's proposed total Proposition 98 spending level is unsustainable in out years, or, if the Legislature decides to adopt the Governor's spending level, they recommend redirecting the \$400 million to fiscal solvency block grants.

In addition to LAO's beliefs that there are higher priorities for the \$400 million the Governor earmarks for the seven new programs, including this one, the LAO recommends rejection of the new programs because: 1) it is a reversal of the recent trend toward categorical consolidation, 2) the proposals have some basic flaws, and 3) the proposals have no planning, reporting, evaluation or accountability.

COMMENTS:

Really a shortage of physical education courses and teachers? The LAO notes that this block grant is predicated on the belief that the number of physical education course offerings in elementary and middle schools has been drastically reduced. Yet, the data for middle schools shows that the number of physical education courses has increased in this area since 2001-02. The proposal also presumes that there is a shortage of physical education teachers, yet physical education is not one of California's officially designated teacher shortage areas.

ISSUE 13: GOVERNOR'S PROPOSAL TO PROVIDE NUTRITIOUS FRUIT AND VEGETABLES FOR BREAKFAST

The issue for the subcommittee to consider is whether to fund the Governor's proposal for a new program to provide nutritious fruit and vegetables for breakfast.

BACKGROUND:

Governor's proposal. The Governor proposes \$18.2 million in ongoing funding to continue a program initiated last year to include more canned and fresh fruits and vegetables in subsidized school breakfasts. The California Fresh Start Pilot Program was created by Chapter 236, Statutes of 2005, (SB 281 (Maldonado)) of last year. It allows school districts and charter schools to apply for an additional reimbursement of \$0.10 per meal, to supplement funding they receive through the state and federal School Breakfast Programs. Receiving districts must spend at least 90 percent of the funding for the direct purchase of "nutritious" fruits and vegetables, which may be canned or fresh, but may not be juice or deep-fried. Districts may spend the remaining 10% on costs related to providing the required nutrition education and taste testing, and for related administrative costs. Receiving districts must also agree to serve one or two servings of fruits or vegetables at breakfast, and include tasting and sampling as part of nutrition education. Districts must use the funds to provide either an additional serving of nutritious fruit or vegetables or a larger quantity or better quality of serving. Districts must use the funds at breakfast, unless they already have two servings of nutritious fruits or vegetables during breakfast, in which case they can use the money to provide the supplement during the after school snack. Last year's funding contained \$300,000 for a county office of education to do an independent evaluation of this program, and \$100,000 for the development of an online training program on how best to prepare, store and serve fresh fruits and vegetables.

Basis of the \$18.2 million. The proposed funding level assumes 100% participation by districts that currently serve breakfast. The \$18.2 million is based on the fact that 180,000 school breakfasts are served statewide. Approximately 1,100 school districts and charter schools currently participate in the breakfast program.

Status of last year's funding. Last year's budget contained one-time funding for this proposal. This year's proposed amount would continue the program as the same level as last year, but with ongoing money. According to CDE, the emergency regulations necessary to begin the program were recently approved by the Office of Administrative Law. CDE indicates that it can now begin approving reimbursements to districts for providing the additional fruits and vegetables.

COMMENTS:

Are canned fruits nutritious? The Governor states that the purpose of the new program is to offer more nutritious foods during breakfast, in part to address the obesity

crisis among school-age children. However, SB 281 specifies that districts may use this funding to purchase “nutritious” fruit or vegetables, which is defined as including fresh **and canned** fruit and vegetables. Nutrition experts note that canned fruit is not as nutritious as fresh fruit, because it may contain syrup. Syrup can double the amount of calories per serving relative to fresh fruit, thereby contributing to the obesity crisis, not addressing it.

Rejected by subcommittee last year. Staff notes that the Governor proposed this program last year during the May Revise, proposing to fund it with one-time funds. The subcommittee rejected the Governor’s proposal, along with a number of new programs proposed in last year’s May Revise, and instead redirected the funding to pay off prior-year mandates. As a result of final budget negotiations, the proposal was included in the final budget but funded with one-time funds (Proposition 98 Reversion Account funds).

Other nutrition issues to consider. CDE staff has suggested that the state might want to provide an increase in the amount the state provides to supplement the federal funds school districts receive for free and reduced price lunches. Specifically, CDE argues that the state supplemental rate of 14.5 cents per meal has not been increased for about 10 of the last 15 years, and has therefore not kept pace with growing costs. CDE accordingly proposes an increase of about 6.5 cents per meal in the amount of supplemental funding the state provides. Also, during the fire disaster that occurred in October, 2003, a number of districts in southern California offered free meals to students who were rendered homeless as a result of the fires. CDE suggests reimbursing those districts for the free meals they offered, at a total cost of \$2.7 million.

ISSUE 14: HEALTHY START

The issue for the subcommittee to consider is whether to re-instate funding for the Healthy Start program, a long-standing program that did not receive funding in last year's budget.

BACKGROUND:

Last year's budget. Last year, the Governor proposed to delete funding for the Healthy Start program, which provides competitive grants to school sites to provide support to families of children attending the schools. In response, the Legislature approved \$2 million for the program, along with \$468,000 and 4.6 positions to CDE's state operations to administer the program – the same level that been provided in the previous year's budget for the program. The Governor vetoed this funding, leaving no funding for new grants. The Governor's action did not affect districts that had already been awarded grants, because previous appropriations had paid for the entire costs of these districts' grants up front. Two years ago, the Governor had similarly proposed to delete funding for the program, but the Legislature restored base funding for new grants with \$2 million in one-time Proposition 98 reversion account money.

Background on program. The Healthy Start program was initiated in 1991 by then-Governor Pete Wilson. The purpose of the program is to establish local systems of comprehensive school-community integrated services that meet the needs of the children and families attending the school. The premise of the program is that schools are a key place where the needs and strengths of children and youths are known and where they can most easily be served. Students and families are more likely to use services that are close by and that are associated with the school, rather than an unfamiliar service agency that may be miles away. Services are determined locally based on the community's needs, but may include tutoring, adult education, English language or citizenship classes, parenting education, nutrition education services, health care, dental care, mental health counseling, child welfare services, employment services, child care, information regarding health program eligibility, and other services intended to help families support their children in their educational needs. (More intensive services, such as medical services, may be provided off site. Limited-term grants are provided to help schools and other family-serving agencies to streamline and integrate their programs to make them more effective and accessible to families at the school site.

Grantees receive \$400,000 operational grants. These grantees have between three and five years to spend their grant money, after which time they are required to sustain their operations by obtaining funding on their own to continue their programs. The program also provides \$50,000 two-year planning grants to prospective participants. All grants are competitive. Receipt of a planning grant does not guarantee receipt of an operational grant down the road. Most grant funds are targeted to schools with a large proportion of students who are low income, limited-English-proficient or both.

According to CDE, since its inception, Healthy Start has provided planning grants to more than 1380 schools and operational grants to more than 1700 schools, benefiting more than 2 million children and their families throughout California. While most of these grants have expired, many Healthy Starts continue to operate with local support from the school district and community. A 2001 UCLA study found that 80-84% of Healthy Start sites continued to operate beyond the grant-funded period.

Evaluation results. The program has been evaluated twice and showed positive results related to education performance, behavior, overall health, and test scores. For example, the percentage of students receiving Healthy Start services who finished above the 25th percentile on the SAT9 for Total Reading was 6.5 times greater than for the rest of the pupils in the state. There were also statistically significant schoolwide improvements in Healthy Start sites related to parent participation, improvements in students' grade point averages and lower student mobility. The program has also been credited with leveraging private and public funds. Information requested of and provided by CDE suggests that for every state dollar provided, Healthy Start returns an estimated \$4 in otherwise untapped local, county and federal funds.

History of funding. Prior to 2002-03, the state provided \$39 million a year for this program, to fund planning and operational grants. Funding was dropped to \$2 million in 2002-03, due to overall budget constraints. The administration proposed deleting funding for this program in last year's and this year's budget. As noted above, the Legislature restored \$2 million for this program in last year's budget, but the funding was vetoed.

COMMENTS:

Staff notes that the deal between the Governor and the Education Coalition specified that new funding should be used to restore base funding levels that existed prior to the cuts of 2003-04.

At the beginning of the year, the Governor announced a multi-million dollar plan to maximize enrollment of eligible children in the Medi-Cal and Healthy Families programs.

ISSUE 15: HIGH SCHOOL COACHES TRAINING PROGRAM

The issue for the subcommittee to consider is whether to provide funding for a new type of training for high school coaches, as proposed by the Governor.

BACKGROUND:

Governor's budget. The Governor's budget proposes \$500,000 in one-time Proposition 98 Reversion Account funds for the high school coaches training program, pursuant to legislation passed last year, creating the program (Chapter 673, Statutes of 2005, SB 37 (Speier). Last year's budget did not contain funding for this purpose. The program uses a train-the-trainer model, and the proposed funding level would provide \$400 per trainer to take the train-the-trainer course.

Details on the new program. Last year the Legislature approved SB 37 (Speier), Chapter 673, Statutes of 2005. That bill requires, effective December 31, 2008, that each high school sports coach complete a coaching education program developed by his or her school district or the California Interscholastic Federation that includes education on the use of steroids and performance-enhancing drugs. Prior to the passage of that bill, there was a coaching education program, but it was not funded in the state budget.

COMMENTS:

Subcommittee's action last year. Last year the Governor proposed the same level of one-time funding for the same purpose as part of his May Revise proposal. The subcommittee rejected the proposal, along with millions of dollars of one-time funding for other new programs. The final budget did not contain funding for this purpose.