

AGENDA – Part III**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE**

Assembly Member Mervyn Dymally, Chair

TUESDAY, MAY 18, 2005
STATE CAPITOL, ROOM 437**ITEMS TO BE HEARD**

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ITEM 6110 DEPARTMENT OF EDUCATION**ISSUE 1: MAY REVISE GROWTH AND COLA ADJUSTMENTS**

The issue for the subcommittee to consider is the Governor's May Revision to the amount going to K-12 revenue limits and categorical programs for growth and Cost-Of-Living-Adjustments (COLA).

BACKGROUND:

The Governor's May Revise contains the following proposals to adjust for changes in the growth and COLA rate for the budget year:

Decreased K-12 Growth for Various Proposition 98 Items, Local Assistance (Various Issues) The May Revision includes a decrease in total K-12 growth of \$310,981,000 as a result of less than anticipated growth in average daily attendance at a rate of 0.69 percent which is down from 0.79 percent for most programs estimated in January. Those programs that were funded based on alternative statutory rates are: Regional Occupation Centers/Programs, Adult Education, Adults in Correctional Facilities, Special Education, Child Care, and K-12 and County Office Apportionments.

Increase in K-12 COLA rate for Various Proposition 98 Items, Local Assistance (Various Issues) The May Revision includes an increase in total K-12 COLA of \$113,083,000 as a result of the change in the rate from 3.93 percent to 4.23 percent.

The Governor's May Revise also contains adjustments to current year (2004-05) attendance, and various adjustments in the revenue limit, which result in savings, as follows:

6110-601-0001, Local Assistance, School District Apportionments, Continuous Appropriation, Education Code Section 42238, 2004-05 Local Property Tax Offset and Revised Growth Adjustments (Issues 123 and 124) It is noted that this item is reduced to reflect a decrease of \$132,070,000 due to revised estimates of ADA, costs of the Public Employee's Retirement System offset, unemployment insurance reimbursements and other miscellaneous changes. This reduction is partially offset by an increase of \$6,070,000 due to a decrease in offsetting local revenue estimates. The total change nets to a decrease in General Fund commitments of \$126,000,000.

6110-608-0001, County Offices of Education Apportionments, Growth and Local Property Tax Offset (Issues 482 and 485) It is requested that this item be increased by \$5,374,000 to reflect an increase in the estimated growth of the apportionments and increased by \$6,111,000 to offset changes to local property tax revenue allocations to county offices of education.

COMMENTS:

Staff recommends approval, without prejudice to any adjustments in the estimates of property tax revenues that may be made by Subcommittee No. 4.

ISSUE 2: MAY REVISION TECHNICAL ADJUSTMENTS RELATED TO COLA

The issues for the subcommittee to consider are May Revision technical adjustments related to the COLA increase.

BACKGROUND:

The Governor's May Revise proposes the following technical adjustments related to the increase in the COLA:

1. **6110-107-0001, Local Assistance, County Offices of Fiscal Oversight, (Issues 100 and 101)** It is requested that the following provisional language be amended as follows due to revised growth and COLAs:

"11. Of the funds appropriated in Schedule (6) of this item, \$840,000 ~~\$854,000~~ is for the purpose of providing staff development to local education agency school finance and business personnel, as provided in Section 42127.8 of the Education Code. The funds appropriated in Schedule (6) shall be allocated by the Controller directly to a county office of education selected pursuant to subdivision (a) of Section 42127.8 of the Education Code to oversee FCMAT's responsibilities with respect to these funds. \$337,000 ~~\$343,000~~ of the funds appropriated in Schedule (6) is for the purpose of providing training that shall be developed and facilitated pursuant to Section 42127.8 of the Education Code to increase school district and school-level capacity to implement and manage site-based budgeting and decision-making governance structures."

2. **6110-232-0001, High School Class Size Reduction (Issue 903)** No change is requested for Item 6110-232-0001. However, it is noted that a COLA change to 4.23 percent would have increased this item by \$621,433, but due to low program participation, no funds were added to the item.

It is requested that provision (1) of this item be amended as follows:

"1. Schools participating in this program shall receive a per-pupil rate of \$191 ~~\$192~~ pursuant to Section 52086 of the Education Code, based on a cost-of-living adjustment at a rate of 3.93 ~~4.23~~ percent."

COMMENTS:

CDE indicates that it may have some proposed changes to the first proposal.

ISSUE 3: NO CHILD LEFT BEHIND ACT REVIEW OF CALIFORNIA'S TESTING SYSTEM

The issue for the subcommittee to consider is a May Revision proposal to spend \$2 million to do a federally-required review of California's state testing system.

BACKGROUND:

The Governor's May Revision proposes the following augmentation to do a review of the state's testing systems, pursuant to requirements of the federal No Child Left Behind Act:

Issue 166: Independent Study of the State's Assessments—It is requested that Item 6110-001-0890 be increased by \$2.0 million for the State Board of Education to contract for an independent evaluation to determine whether California has met the assessment requirements of the federal No Child Left Behind Act. This evaluation is required to comply with federal student monitoring requirements.

It also is requested that provisional language be added as follows:

- X. *Of the funds appropriated in this item, \$2,000,000 from federal Title I funds shall be available for the State Board of Education to contract for an independent evaluation to determine whether California has met the assessment requirements of the federal No Child Left Behind Act. The expenditure of these funds shall be contingent on approval of an expenditure plan and request for proposal by the Department of Finance.*

COMMENTS:

DOF and CDE indicate that the review will look at how California's system compares with that of other states. Will the review address California policy of testing English learners and whether it is appropriate to test them in English before they are proficient?

The proposal is for the State Board of Education to administer the contract, yet CDE normally administers contracts.

ISSUE 4: NO CHILD LEFT BEHIND ACT FLEXIBILITY – ALTERNATIVE ASSESSMENT FOR MODERATELY DISABLED STUDENTS.

The issue for the subcommittee to consider is a May Revision proposal to provide funds to allow the state to take advantage of a recent federal offer of flexibility in the implementation of the No Child Left Behind Act.

BACKGROUND:

The Governor's May Revise proposes the following augmentation to provide CDE with a position to plan for an alternate assessment for moderately disabled students. This proposal is in response to recent offers by the federal government to allow states to expand the number of special education students that can be tested with alternative assessments.

Issue 181: Alternate Assessment for Moderately Disabled Students—It is requested that Item 6110-001-0890 be increased by \$100,000 in federal Title VI funds and that one Education Program Consultant be approved to support new workload for the Standardized Testing and Reporting Program (STAR) generated by new flexibility provisions from the U.S. Department of Education. This flexibility is expected to allow states to develop an alternate assessment for students who have been unable to reach grade level because of disabilities such as moderate mental retardation or severe emotional disturbance. This assessment would be an alternative to the current California Alternate Performance Assessment for students with significant cognitive disabilities.

COMMENTS:

CDE indicates that California has until June 1 to indicate to the federal government whether it is interested in taking advantage of the federal government's recent offer to allow states to expand the number of special education students that can be tested with alternative assessments.

The subcommittee may wish to consider appropriating up to \$650,000 in available Title VI funds originally included for reporting Adequate Yearly Progress for the development of this test, should the federal government approve the state's request for flexibility. The Governor's May Revise proposes to delete this funding because it is no longer needed for its original purpose (May Revise, Issue 180).

ISSUE 5: NO CHILD LEFT BEHIND ACT REQUIREMENT TO EXPAND CALIFORNIA ENGLISH LANGUAGE DEVELOPMENT TEST TO K-1

The issues for the subcommittee to consider is a proposal to add money to expand the California English Language Development test to kindergarteners and first graders.

BACKGROUND:

The Governor's May Revise proposes the following adjustments related to expanding the California English Language Development Test to kindergarten and grade one, due to a No Child Left Behind Act requirement:

- 1. \$1.4 million in Title III funds for expansion of California English Language Development Test (Issue 188)** It is requested that item 6110-001-0890 be decreased by \$1.4 million in federal Title III funds and that item 6110-113-0890 be increased by a corresponding \$1.4 million for the development of reading and writing assessments for English language learners in Kindergarten and Grade 1 to comply with the federal No Child Left Behind (NCLB) Act, which requires assessments of English proficiency to include an assessment of progress in attaining English reading and writing skills.

It also is requested that provisional language specifying the allowable uses of these funds be added to Item 6110-113-0890, as follows:

- X. Of the funds appropriated in Schedule (5), \$1,400,000 is available for the development of reading and writing assessments for English language learners in Kindergarten and Grade 1 to comply with the federal No Child Left Behind Act, which requires assessments of English proficiency to include an assessment of progress in attaining English reading and writing skills.*
- 2. \$2.2 million in Prop. 98 reversion account funds for start-up costs.** The May Revise proposes \$2,227,000, on a one-time basis, to the State Department of Education to cover start-up costs associated with the new California English Language Development Test contract.

COMMENTS:

Last year the administration had a similar proposal. It was rejected by the Legislature due to concerns that the state might obtain a waiver from the federal government to not have to implement the requirement that K-1 English learners be tested for English proficiency. According to CDE, the federal government turned down the state's waiver request, and California now has to implement the requirement.

ISSUE 6: CDE STATE OPERATIONS RELATED TO FEDERAL NO CHILD LEFT BEHIND ACT

The issue for the subcommittee to consider is a May Revision proposal to provide additional positions to CDE and the State Board of Education to implement the federal No Child Left Behind Act.

BACKGROUND:

The Governor's May Revise contains the following proposal:

Issue 170: District Accountability and Program Improvement—It is requested that Item 6110-001-0890 be increased by \$500,000 in federal Title I School Improvement funds for increased workload due to the revised district accountability program and the number of additional schools identified as Program Improvement pursuant to the federal No Child Left Behind Act. These funds will support five new positions for SDE's School Improvement Division and one new position for the State Board of Education.

ISSUE 7: TITLE I SCHOOL IMPROVEMENT – MAY REVISE PROPOSAL

The issue for the subcommittee to consider is a May Revision proposal to increase Title I funding available for program improvement schools.

BACKGROUND:

The Governor's May Revise contains the following proposal related to Title I funding set aside for school improvement:

6110-136-0890, Local Assistance, Title I School Improvement (Issues 164 and 182) It is requested that this item be increased by \$2,231,000 to make it consistent with available federal Title I School Improvement Program funds.

It also is requested that the provisional language for this item be amended as follows to accommodate a projected increase in the number of II/USP state-monitored Title I schools.

"3. Of the funds appropriated in Schedule (3) of this item, up to \$8,600,000 ~~\$10,000,000~~ shall be made available to support school assistance and intervention teams that enter into a contract with a school pursuant to subdivision (a) of Section 52055.51 of the Education Code. These funds shall be allocated in the amount of \$75,000 for each school assistance and intervention team assigned to an elementary or middle school, and \$100,000 for each team assigned to a high school. The State Department of Education and Department of Finance may approve applications with justification for a total funding level of \$125,000.

4. Of the funds appropriated in Schedule (3) of this item, up to \$13,600,000 ~~\$20,000,000~~ shall be made available to provide \$150 per pupil for each pupil 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.

5. Of the funds appropriated in Schedule (3), \$34,809,000 ~~\$29,240,000~~ shall be available pursuant to Article 3.1 (commencing with Section 52055.57) of Chapter 6. 1 of Part 28 of the Education Code, for Title I district accountability."

COMMENTS:

The above proposal increases funding for support services to schools identified for program improvement under the No Child Left Behind Act. It also reduces funding available for the "Early Warning Program."

ISSUE 8: MAY REVISION PROPOSAL TO PROVIDE FUNDS FOR LEGAL DEFENSE OF HIGH SCHOOL EXIT EXAM

The issue for the subcommittee to consider is a May Revision proposal to provide \$2 million in non-Proposition 98 General Funds for the legal defense of the California High School Exit Exam.

BACKGROUND:

The Governor's May Revise contains the following proposal:

Issue 171: High School Exit Exam Legal Costs—It is requested that this item be increased by \$2.0 million on a one-time basis for legal representation from the Attorney General's Office in litigation related to the High School Exit Exam (Chapman, et. al. v. CA Department of Education, et. al.). Cases were filed in both State and federal court, with the plaintiffs challenging that the exam discriminates against pupils with learning disabilities. The case in federal court has been fully resolved and dismissed in favor of the State. The case in State court is on stay until June 1, 2005, and the litigation is anticipated to resume at that time.

It also is requested that provisional language be added as follows:

X. Of the funds appropriated in this item, \$2,000,000 is provided on a one-time basis for legal representation from the Attorney General's Office in litigation related to the High School Exit Exam (Chapman, et. al. v. CA Department of Education, et. al.). The Department of Education shall provide a report to the Department of Finance and the Legislature detailing the expenditures of these funds and providing an update on this litigation on November 1, 2005, and every four months thereafter, with the final report due on June 30, 2006.

COMMENTS:

CDE indicates that it contracts with the Attorney General's office for the defense of the exam. CDE recommends the addition of the following language to the above language:

"The office of the Attorney General shall provide the Department of Education any information, including budget and expenditure data, necessary for the Department of Education to complete its reports to the Department of Finance and the Legislature."

ISSUE 9: SPECIAL EDUCATION

The issues for the subcommittee to consider are a number of issues heard at earlier hearings but left open, and the Governor's May Revision adjustments.

BACKGROUND:

Governor's May Revise adjustments. The Governor's May Revise makes a number of adjustments related to federal special education funding. Namely, he decreases the proposed increase for a new formula for out-of-home care placements for special education students, and he increases the amount of federal funds that are passed through as an increase to special education local planning agencies. The Governor's May Revise proposes the following technical changes to conform with the adjustments:

The LAO will make a presentation today on the Governor's proposals, the issues facing the Legislature, and their alternative.

6110-161-0001, Local Assistance, Special Education, Baseline Adjustment (Issue 063), Property Tax Adjustment (Issue 064), Federal Fund Offset Adjustment (065), Out-of-Home Care Funding Formula (Issue 066), and Provisional Language Change (051 and 052)

It is requested that this item be amended to increase the Proposition 98 General Fund for the Special Education program by a net total of \$3,519,000 to provide (1) an increase of \$15,000,000 as an adjustment to the Out-of-Home Care funding formula, (2) a decrease of \$10,316,000 in General Fund needed as a result of an increase in local property tax, (3) a baseline related adjustment decrease of \$29,141,000, and (4) an adjustment of an increase of \$23,138,000 in the use of federal funds pursuant to the statutory funding formula.

It is also requested that the provisional language in Item 6110-161-0001 be amended as follows:

"2. Of the funds appropriated in Schedule (1) of this item, \$11,492,000 \$11,448,000, plus any COLA, shall be available for the purchase, repair, and inventory maintenance of specialized books, materials, and equipment for pupils with low-incidence disabilities, as defined in Section 56026.5 of the Education Code.

3. Of the funds appropriated in Schedule (1) of this item, \$8,879,000 \$8,842,000, plus any COLA, shall be available for the purposes of vocational training and job placement for special education pupils through Project Workability I pursuant to Article 3 (commencing with Section 56470) of Chapter 4.5 of Part 30 of the Education Code. As a condition of receiving these funds, each local educational agency shall certify that the amount of nonfederal resources, exclusive of funds received pursuant to this provision, devoted to the provision of vocational education for special education pupils shall be maintained at or above the level provided in the 1984-85 fiscal year. The Superintendent of Public Instruction may

waive this requirement for local educational agencies that demonstrate that the requirement would impose a severe hardship.

4. Of the funds appropriated in Schedule (1) of this item, \$4,631,000 ~~\$4,612,000~~, plus any COLA, shall be available for regional occupational centers and programs that serve pupils having disabilities, and \$78,075,000 ~~\$77,055,000~~, plus any COLA, shall be available for regionalized program specialist services, \$2,171,000 ~~\$1,807,000~~, plus any COLA, for small special education local plan areas (SELPAs) pursuant to Section 56836.24 of the Education Code.

6. Of the funds appropriated in Schedule (1), a total of \$180,804,000 ~~\$179,489,000~~, plus any COLA, is available to fund the costs of children placed in licensed children's institutions who attend nonpublic schools based on a the funding formula authorized in Chapter 914, Statutes of 2004 (AB 1108).

7. Of the amount appropriated in Schedule (2) of this item, \$592,000 ~~\$514,000~~, plus any COLA, shall be available for infant program growth units (ages birth-two years). Funds for infant units shall be allocated pursuant to Provision 11 of this item, with the following average number of pupils per unit:

(a) For special classes and centers--16.

(b) For resource specialist programs--24.

(c) For designated instructional services--16.

16. Of the funds appropriated in Schedule (1) of this item, up to \$1,117,000 shall be used for a personnel development program. This program shall include state-sponsored staff development, local in-service components, bilingual, student study team, and core curriculum components for special education personnel to have the necessary content knowledge and skills to serve children with disabilities. This funding may include training and services targeting special education teachers and related service personnel that teach core academic or multiple subjects to meet the applicable special education requirements of the Individuals with Disabilities Education Improvement Act of 2004.

19. Of the amount provided in Schedule (1), \$153,655,000 ~~\$162,716,000~~ is provided for a COLA at a rate of 3.23 ~~4.23~~ percent.

20. If the amount provided in Schedule (2), \$2,953,000 ~~\$3,165,000~~ is provided for a COLA at the rate of 3.93 ~~4.23~~ percent.

21. Pursuant to Chapter 493, Statutes of 2004 (SB 1895), of the funds appropriated in Schedule (1) of this item, \$4,000,000 shall be used to contract for the provision of mental health services provided during the 2005-06 fiscal year and that are included within an individual education program pursuant to the Federal Individuals with Disabilities Education Act (IDEA) of 2004.

21.22. Of the amount specified in Schedule (1) of this item, \$24,840,000 ~~\$39,235,000~~ shall be appropriated in the following priority sequence:

(a) The Superintendent of Public Instruction shall allocate any additional amount, if needed, to augment the amounts appropriated in Schedules (1) and (2) of this item to ensure full funding for the 2005-06 fiscal year.

(b) Once the Superintendent of Public Instruction has determined that none of the programs in Schedules (1) and (2) of this item require any additional funding pursuant to the statutory formulas contained in Chapter 854 of the Statutes of

1997, the remaining amount shall be allocated pursuant to Section 56836.158 of the Education Code."

6110-161-0890, Local Assistance, Special Education, and Federal Funds Available (Issues 050, 051, 052, and 054) It is requested that this item be decreased by a net total of \$4,590,000. This adjustment is necessitated by a decrease in the Part B IDEA grant by \$5,200,000, a decrease in Section 611 Preschool Grant by \$390,000, and a decrease in local assistance authority of \$443,000 to provide state operations for increased mental health monitoring associated with SB 1895. These decreases are offset by an increase in carryover funding of \$1,443,000.

It is also requested that the provisional language in Item 6110-161-0890 be amended as follows:

"1. If the funds for Part B of the federal Individuals with Disabilities Education Act that are actually received by the state exceed ~~\$1,137,773,000~~ \$1,132,573,000, at least 95 percent of the funds received in excess of that amount shall be allocated for local entitlements and to state agencies with approved local plans. Up to five percent of the amount received in excess of ~~\$1,137,773,000~~ \$1,132,573,000 may be used for state administrative expenses upon approval of Department of Finance. If the funds for Part B of the federal Individuals with Disabilities Education Act that are actually received by the state are less than ~~\$1,137,773,000~~ \$1,132,573,000, the reduction shall be taken in other state level activities.

3. Of the funds appropriated in Schedule (4) of this item, \$2,500,000 shall be allocated directly to special education local plan areas for a personnel development program that meets the highly qualified teacher requirements and ensures that all personnel necessary to carry out this part are appropriately and adequately prepared, subject to the requirements of section 612(a)(14) of the Individuals with Disabilities Education Improvement Act of 2004 and section 2122 of the Elementary and Secondary Education Act of 1965. The local in-service programs shall include a parent training component and may include a staff training component, and may include a special education teacher component for special education services personnel and paraprofessionals consistent with State certification and licensing requirements. Use of these funds shall be described in the local plans. These funds may be used to provide training in alternative dispute resolution and the local mediation of disputes. All programs are to include evaluation components.

9. Pursuant to Chapter 493, Statutes of 2004 (SB 1895), of the funds appropriated in Schedule (4) of this item, ~~\$69,000,000~~ \$65,000,000 shall be used to support contract for mental health services provided during the 2005-06 fiscal year pursuant to Chapter 26.5 (commencing with Section 7570) of Division 7 of the Government Code and that are included within an individualized education program pursuant to the Federal Individuals with Disabilities Education Act (IDEA) of 2004."

COMMENTS:

Governor's proposal to repeal mandate that counties provide mental health services for special education students. The Governor's May Revise also proposes trailer bill language to repeal the existing mandate that counties provide mental health services to special education students. The January 10 budget proposed to suspend the mandate. The effect of both proposals would be to shift the responsibility for providing the services to school districts, since federal law requires that special education students receive these services.

ISSUE 10: MAY REVISION PROPOSAL FOR POSITIONS FOR CDE TO INCREASE MENTAL HEALTH MONITORING

The issue for the subcommittee to consider is a May Revision proposal to increase positions for CDE to improve mental health monitoring.

BACKGROUND:

The Governor's May Revise contains the following state operations augmentation related to a mandate that counties provide mental health services to special education students.

6110-001-0001 and 6110-001-0890, State Operations (Issue 057, 084, 166, 170, 181, 658, 663, and 809) Issue 057: Mental Health Monitoring—It is requested that Item 6110-001-0890 be increased by \$443,000 and 3.0 positions associated with increased mental health monitoring pursuant to Senate Bill 1895.

It is further requested that Provision X be added as follows:

X. Of the funds appropriated in this item, \$443,000 is for 3.0 positions within the Department of Education for increased monitoring associated with Chapter 493, Statutes of 204 (SB 1895).

COMMENTS:

SB 1895 (Burton, Chapter 493, Statutes of 2004) directed \$69 million in federal special education funds to counties to help defray the cost of a state mandate that they provide mental health services to special education students. It also provided Proposition 98 funds to school districts to provide preventative services.

ISSUE 11: MAY REVISION PROPOSAL TO RESTORE JAN 10 CUT TO AVID

The issue for the subcommittee to consider is a May Revision proposal to restore the Governor's Jan 10 cut to the Advancement Via Individual Determination (AVID) program. The subcommittee already took action to restore this cut.

BACKGROUND:

The Governor's May Revise contains the following proposal to restore a January 10 proposed cut to AVID:

6110-130-0001, Local Assistance, Increase Advancement Via Individual Determination (AVID) (Issue 677)

It is requested that this item be increased by \$840,000 to provide funds for advanced placement teacher training, tutoring services, district grants, and the AVID center training and technical assistance to prepare students for college.

It is further requested that the provisional language be amended as follows:

"1. Of the funds appropriated, \$1,200,000 \$1,300,000 is available for administration of the Advancement Via Individual Determination (AVID) centers."

COMMENTS:

Staff notes that the subcommittee already took action to restore this cut at a hearing prior to May Revise.

ISSUE 12: GOVERNOR'S MAY REVISION PROPOSAL TO INCREASE AMOUNT FOR NEW COHORT OF HIGH PRIORITY SCHOOLS GRANT PROGRAM

The issue for the subcommittee to consider is a May Revision proposal to increase to \$60 million the amount for a new cohort of the High Priority Schools Grant program.

BACKGROUND:

The Governor's May Revise includes the following proposal:

6110-123-0001, Local Assistance, Public Schools Accountability Act, (Issue 183) It is requested that Provision 2 of this item be amended as follows to provide funding for schools sanctioned pursuant to the High Priority Schools Grant Program (HPSGP). Beginning in 2005-06, schools participating in the HPSGP will either receive a fourth year of implementation funding or enter the sanctions process, depending on whether or not they meet their growth targets or make significant growth.

"2. (a) Funds appropriated in Schedule (2) are provided solely for the purpose of implementing the High Priority Schools Grant Program pursuant to Article 3.5 (commencing with Section 52055.600) of Chapter 6.1 of Part 28 of the Education Code. Of these funds, \$45,000,000 up to \$60,000,000 shall be available to fund a second cohort of schools under the program., and \$10,000,000, or whatever greater or lesser amount is necessary, shall be available to support schools working with school assistance and intervention teams or schools subject to state sanctions by the Superintendent of Public Instruction as part of the High Priority Schools Grant Program.

(b) Funds for a second cohort shall not be released until legislation is enacted authorizing that cohort and clarifying the criteria and timeframes for participating schools to exit the program. Funds for sanctions shall be contingent upon legislation defining those sanctions and authorizing the allocation of funding for that purpose."

COMMENTS:

Williams settlement. The administration indicates that the above proposal is part of the Williams settlement, which specified that any savings from the II/USP program that resulted from schools exiting the program, must be redirected to the expansion of the HP program. The Williams settlement also requires that half of the Proposition 98 reversion account, or \$100 million, whichever is greater, must be set aside for facilities repairs for Williams schools. The Governor proposed \$100 million in his January 10 budget for this purpose.

ISSUE 13: GOVERNOR'S MAY REVISE PROPOSAL REGARDING CHARTER SCHOOL FACILITIES

The issue for the subcommittee to consider is a May Revision proposal to provide new funds to support the costs of charter school facilities leasing costs.

BACKGROUND:

The Governor's May Revise contains the following proposals to support charter school facilities – both construction and leasing costs:

1. **Charter School Facility Grant Program -- (X1)** \$9,000,000 in Proposition 98 reversion account funds to the State Department of Education, on a one-time basis, for the Charter School Facility Grant Program.
2. **New federal funds to the California School Finance Authority for charter school facilities.** \$19.475 million in new federal fund grant awards for the lease or construction of charter school facilities. The California School Finance Authority (housed in the Treasurer's office) has secured a five-year grant to support charter school facility costs. The first year of grant funding is the current year. Therefore, the administration proposes two federal years of funding be provided in the budget year. The administration proposes the following language for the item:

Add Provision 1 to Item 0985-101-0890:

1. Of the amount appropriated in this Item, \$9,725,000 shall be used to reimburse charter schools for facility costs incurred in 2004-05. The remainder shall be used to reimburse charter schools for facility costs anticipated in 2005-06. These funds shall only be available for reimbursing 2004-05 costs and 2005-06 costs if \$9 million is made available as matching funds for charter facility lease costs through Item 6110-485 of this Act and trailer bill legislation is enacted to codify regulations consistent with this provision. No charter school receiving funds under the program authorized under this provision shall receive funding in excess of 75 percent of annual lease costs through this program or in combination with any other source of funding provided in this or any other act.

COMMENTS:

According to the administration, the first issue is meant to be the state match for the federal grant. The second issue is under the jurisdiction of Subcommittee No. 4.

ISSUE 14: MANDATES

The issue for the subcommittee to consider is a May Revision proposal to defer the costs of four new mandates and the LAO's recommendation to use one-time Proposition 98 settle-up funds to pay off mandate claims.

BACKGROUND:

The Governor's May Revision contains the following proposal:

6110-295-0001, Various Mandates (Issue 172)

It is requested that this item be increased by \$4,000 to cover costs of deferring four newly adopted mandates (Charter Schools II, Immunization Records – Hepatitis B, Criminal Background Checks II, and School District Reorganization).

COMMENTS:

The LAO recommends using one-time Proposition 98 settle-up funds to pay off prior-year mandate claims.

ISSUE 15: GOVERNOR'S MAY REVISE PROPOSAL REGARDING CONTROL SECTION 24.30

The issue for the subcommittee to consider is a May Revise proposal to amend control section 24.30 regarding the state relocatable classroom program.

BACKGROUND:

The Governor proposes the following changes to control section 24,30 regarding the State Relocatable Classroom Program. The proposed changes would authorize the Department of Finance to determine the amount of transfer of rental income from the State School Building Aid Fund to the General Fund. The administration requests this flexibility so that sufficient funds remain in the account for the Office of Public School Construction to meet the projected needs for moving relocatable classrooms from one school site to another as local needs change. The funds will also be used to reimburse school districts for site preparation costs and to make essential repairs to the classrooms. Currently, this need is estimated to be at least \$2.8 million. The administration proposes authorizing the Office of Public School Construction is authorized to expend revenues in the State School Building Aid Fund per Education Code Section 17088 (f) in an amount as specified by the Department of Finance.

*SEC. 24.30. Notwithstanding any other provision of law, the Controller, upon order of the Director of Finance, shall transfer rental income received in the 2005-06 fiscal year pursuant to Section 17089 of the Education Code, **in an amount as determined by the Department of Finance**, from the State School Building Aid Fund to the General Fund.*