

## THE 2005-2006 STATE BUDGET

## K-12 Education

## Department of Education

*Major Provisions***Overall Proposition 98 funding**

The Governor's proposed budget provides a total increase of \$2.9 billion in Proposition 98 funding<sup>1</sup> for K-12 schools and community colleges. This funding level meets the Proposition 98 minimum funding requirements for education for fiscal year 2005-06, absent any changes in the fiscal year 2004-05 education spending level. The proposed increase is a 6 percent increase over the amount provided in last year's budget for K-12 schools and community colleges. The Governor proposes a total Proposition 98 increase for K-12 programs<sup>2</sup> of approximately \$2.5 billion, or 6 percent, and an increase for community colleges of \$360 million, or 7.5 percent. These figures are detailed below in Figure 1.

**Figure 1: Proposed Proposition 98 Appropriations (dollars in millions) (a)**

	2004-05 (b)	2005-06	Change from 2004-05	
			Amount	Percent
<b>K-12 Proposition 98 (Department of Education) (c)</b>	\$42,178	\$44,705	\$2,527	5.99%
<b>Community colleges</b>	\$ 4,804	\$ 5,163	\$359	7.47%
<b>Other agencies</b>	\$101	\$100	- \$1	-1.24% (a)
<b>Total Proposition 98</b>	<b>\$47,083</b>	<b>\$49,968</b>	<b>\$2,884</b>	<b>6.13%</b>
General Fund	\$34,124	\$36,532	\$2,409	7.06%
Property tax revenues	\$12,959	\$13,435	\$ 476	3.67%

(a) Figures may not compute due to rounding.

<sup>1</sup> Proposition 98 funding includes state General Fund revenue and property tax revenues that are redirected to schools.

<sup>2</sup>

(b) These figures are slightly different than those enacted in the 2004 Budget Act. Changes are mostly due to updated information on population, which differed from the estimates used in the 2004 Budget Act. The main adjustment was a \$100 million increase for K-12 discretionary funds (which are continuously appropriated), due to population adjustments. Total Proposition 98 appropriations in the 2004 Budget Act were \$46.989 billion, whereas the Governor's proposed budget shows total Proposition 98 appropriations for the 2004-05 fiscal year at \$47.083 billion.

(c) K-12 Proposition 98 funding includes funding for childcare and development and the state preschool program.

**K-12 growth and COLA.** For K-12 programs (which include childcare and state preschool), the Governor proposes that \$2 billion of the total \$2.5 billion increase be used to fully fund growth and cost-of-living adjustments (COLA.) Total growth funding is proposed at \$395 million, or about 0.8 percent, with \$246 million for discretionary funds and \$149 million for categorical programs (which are earmarked for specific purposes). K-12 COLA funding is proposed at about \$1.6 billion, or 3.93 percent. Of this amount, \$1.22 billion is for the COLA for discretionary funds, and \$428 million is for COLA funding for categorical programs.

### **Governor's proposed changes to Proposition 98**

As part of his budget reform proposal, the Governor proposes some major changes in Proposition 98, which is a provision on the constitution that requires the state to pay a certain amount of state funds for education. Proposition 98 was approved in 1988 by California voters, and later amended in 1990. It was intended to protect education from the cuts that often accompany down-cycles in state budget revenues.

**Current provisions of Proposition 98.** The current Proposition 98 ensures that, over time, education funding for K-12 schools and community colleges grows in proportion to the California economy (as measured by per-capita personal income growth) and student enrollment. However, in years in which the state's General Fund revenues happen to grow slower (by at least 0.5 percent) than the overall economy, Proposition 98 has a budget-protection clause that allows the state to provide a funding level that is lower than the growth in the overall economy, as long as that funding level: a) provides for enrollment growth, b) is at least as high as the previous year's funding level for K-12 schools and community colleges, c) grows in proportion to the state's General Fund revenues, and d) grows at least as fast as non-education funding per-person. (This provision is commonly referred to as Test 3.)

In those "budget protection" (Test 3) years, the provisions of Proposition 98 also record a "maintenance factor," which is the difference between the lower amount the state is required to provide to K-14 education under the budget-protection provisions of Test 3 (when General Fund revenues don't keep up with the growth in the economy) and the higher amount of what the minimum requirement would

be if the growth in budget revenues were keeping pace with the growth in the economy (Test 2). This maintenance factor is gradually added to the Proposition 98 minimum required spending level in subsequent years as budget revenues improve. The effect of this gradual adding in of the maintenance factor is to get education spending back to the long-term trend in which education funding grows in proportion to the economy. In recent year, the budget protection provisions of Proposition 98 have been in effect, allowing the state to provide a lower level of funding to education.

Proposition 98 also allows the state to suspend its minimum funding obligation to education, with a 2/3 vote of the Legislature. In this case the difference between the funding level for the year of suspension and the minimum funding level is budget revenues were keeping pace with the growth in the economy is recorded as a maintenance factor, and this amount is gradually added to the Proposition 98 minimum funding levels in subsequent years, as budget revenues improve. Last year the state suspended its obligation to provide the Proposition 98 minimum funding level for education. While technically it was not the first suspension of Proposition 98, it was historic, and saved the state \$2 billion in expenses to help address the budget crisis. The amount of savings grows to \$3.1 billion each year, if one uses the Governor's revenue estimates, under which last year's Proposition 98 minimum guarantee grows by \$1.1 billion due to improved revenues (see below for more details.)

**The Governor's proposed changes to Proposition 98.** As part of his budget reform proposal, the Governor proposes several major changes to the constitutional provisions of Proposition 98, all of which could affect total education funding for decades to come. The major changes are:

- **Re-benches the base funding level, long-term \$4 billion cut to schools.** Under the Governor's revenue estimates, after 2005-06, the state will owe education funding approximately \$3.7 billion in maintenance factor funds, which roughly represent the amount we need to provide in order to ensure that education funding keeps up with the growth in the economy. The Governor proposes to pay back the \$3.7 billion over a 15-year period, but the \$3.7 billion would not become part of base education funding, which is a major departure from the current maintenance factor pay-back provisions of Proposition 98. The effects of this proposal is a) a delay in the re-payment of the \$3.7 billion, which would be paid back to schools sooner under the existing provisions of Proposition 98 and b) a downward shift of at least \$3.7 billion plus growth in the long-term funding trend of Proposition 98 in which education funding tracks the growth in the economy. This downward shift is due to fact that the \$3.7 billion would not become part of base funding for purposes of calculating subsequent years' Proposition 98 minimum funding requirements.

- **Eliminates the budget protection provisions of Proposition 98** which allow for slower growth in education spending when the growth in budget revenues isn't keeping up with the growth in the economy. The Governor also proposes to eliminate the ability of the state to suspend the minimum funding requirements of Proposition 98, as the state did year. The effect of these provisions may be higher funding levels for education in certain years, but potentially at the expense of the rest of the budget.
- **Education funding in included autopilot across-the-board cuts that become automatic** under the Governor's other budget reform provisions. Under those provisions, the Governor may call a special session if expenditures exceed revenues by \$250 million. If the Legislature does not act to address the fiscal emergency within 30-45 days of the beginning of the special session, indiscriminate across-the-board cuts immediately take effect, based on the gap between expenditures and revenues. It is possible that the Governor's proposal to eliminate the budget protection provisions of Proposition 98 could exacerbate or even precipitate budget crises, which could then end in across-the-board cuts, including cuts to education. Therefore, even though the Governor is proposing to eliminate the ability for the state to suspend Proposition 98, the across-the-board cuts provisions could end up having the same effect or worse as the suspension provisions of Proposition 98.

Other changes of note include: 1) The proposed 15-year pay-back of outstanding mandate claims and prior-year settle up funds (which the state owes because of unintentional underfunding of the Proposition 98 minimum in prior years). 2) A proposal that any education appropriations above the Proposition 98 minimum would not automatically be counted as base funding for the purpose of calculating minimum funding levels in subsequent years, unless specified by the Legislature. This is a departure from current law, in which over-appropriations are automatically included in base funding levels. 3) The inclusion of current statute regarding "Proposition 98 settle-up funds" in the constitution. Under current law, if the Proposition 98 minimum required spending level is re-adjusted upwards after a budget is passed, the state must pay the difference – these are commonly referred to as "Proposition 98 settle-up funds." The Governor's proposal would make these payments a continuous appropriation. The proposal would then place these and other changes in the state constitution, which would make the provisions difficult to amend if there are implementation problems.

### **Unpaid \$2.3 billion "debt" to education funding.**

In addition to the above Proposition 98 changes, the Governor's budget does not propose to fund what education advocates cite as a \$2.3 billion amount that is owed to K-12 education and community colleges, per a deal that they struck with the Governor last year as part of the 2004-05 budget. The \$2.3 billion estimated

"debt" is composed of two parts, (1) \$1.1 billion for 2004-05 and (2) \$1.2 billion for 2005-06. This amount is linked to the amount in 2004-05 because if the state increases 2004-05 funding for education by \$1.1 billion, it increases the minimum spending requirement for education in fiscal year 2005-06 by \$1.2 billion. Each of these components are explained below.

- **\$1.1 billion for fiscal year 2004-05.** Last year the Education Coalition agreed to a pre-budget deal with the Governor, the intent of which was to ensure a modest funding level for education while also capturing \$2 billion in savings to help the state address its fiscal problems. (The Legislature was not a formal party to that deal). That deal allowed for a historic suspension of the state's minimum spending requirement to education, which is allowed under times of fiscal distress under the provisions of Proposition 98. That suspension of Proposition 98 allowed the state to spend \$2 billion less than the amount normally required to be spent on education in fiscal year 2004-05, thereby saving the state \$2 billion, and helping solve its fiscal problems. (Even though the state spent \$2 billion less than the Proposition 98 guarantee for the 2004-05 year, it was still able to provide growth and COLA for education programs, plus additional education funding.)

The \$2 billion amount of under-funding of the Proposition 98 minimum guarantee was based on estimates of General Fund revenue. However General Fund revenues have grown faster than earlier estimated, thereby increasing the minimum required spending level on education (Proposition 98 guarantee) for fiscal year 2004-05 by \$1.1 billion using the Governor's estimates. This increased the gap between education expenditures and the minimum Proposition 98 guarantee to \$3.1 billion, up from the original \$2 billion when the 2004-05 budget was passed.<sup>3</sup> Education advocates argue that the gap between fiscal year 2004-05 education funding and the fiscal year 2004-05 Proposition 98 minimum guarantee was not supposed to exceed \$2 billion, and thereby argue that the state should increase spending by \$1.1 billion for fiscal year 2004-05, to reduce the funding gap back down to \$2 billion.

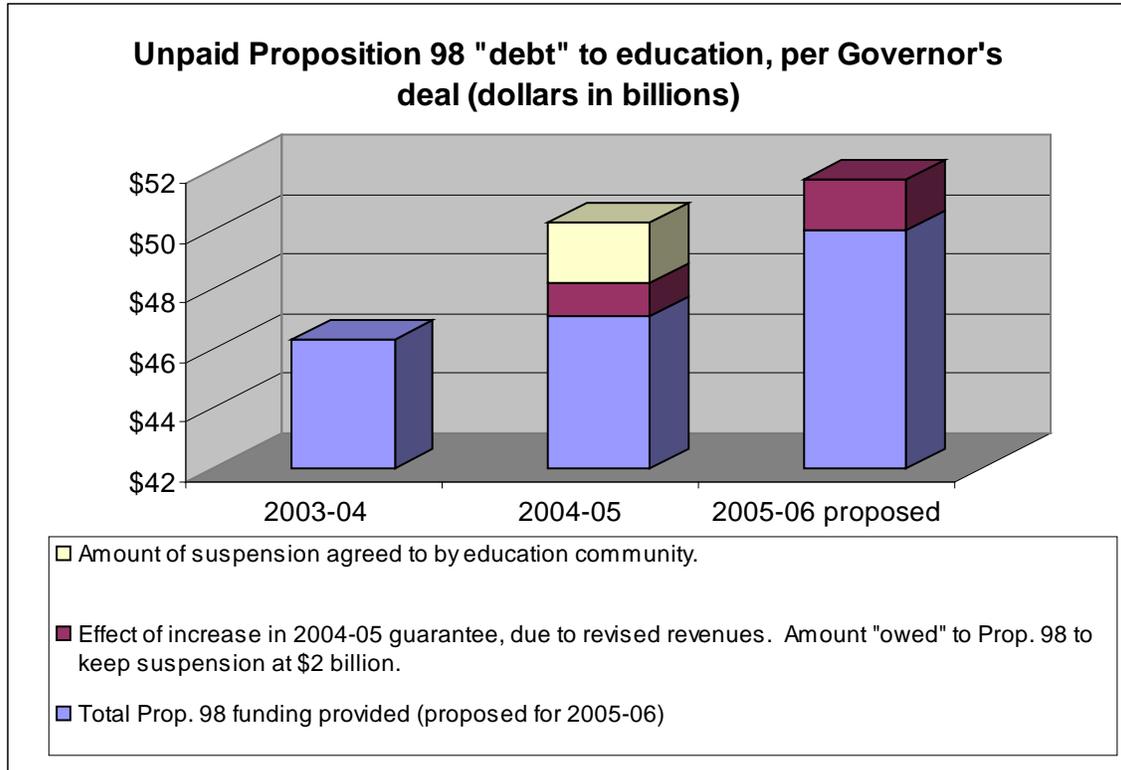
Since the state suspended its obligation to fund the minimum Proposition 98 spending level on education last year, technically it is not obligated to pass on the \$1.1 billion increase in fiscal year 2004-05 Proposition 98 guarantee, as it would be had it not suspended its provisions. However, education advocates argue that their deal with the Governor limited the amount of savings from the suspension to \$2 billion, and that the state is

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<sup>3</sup> Actually, when the 2004-05 budget was passed, the gap between education spending and the 2004-05 Proposition 98 guarantee was \$2.3 billion, but when the Governor signed the budget he indicated that the amount above \$2 billion (\$300 million) would be earmarked for future education spending as a Proposition 98 reserve.

obligated to pass on the \$1.1 billion increase in the Proposition 98 minimum guarantee. This phenomenon is illustrated in Figure 2 below.

**Figure 2: Unpaid Proposition 98 "debt" to education**



- \$1.2 billion for fiscal year 2005-06.** The Proposition 98 minimum required spending level in any one year is partially dependent on the spending level of the previous year. The \$1.2 billion portion of the \$2.3 billion debt the education community feels it is owed is the second-year effect of the \$1.1 billion increase in the fiscal year 2004-05 Proposition 98 minimum guarantee. That is, if the state provides the \$1.1 billion increase and makes it counts toward fiscal year 2004-05 education spending level, the minimum required spending level for fiscal year 2005-06 will increase by \$1.2 billion. However, if the state does not provide the \$1.1 billion increase for fiscal year 2004-05, the 2005-06 guarantee will not increase by \$1.2 billion.
- Suspension savings ongoing.** The savings from last year's suspension of the Proposition 98 minimum guarantee go beyond the \$2 billion amount suspended, if one considers the next few years. This is because it will take several years for the state to get back to the funding level that would exist had the state not suspended, per the provisions of Proposition 98. Because of this long payback period, the state will continue to save approximately \$2-3 billion or more each year over the next few years.

### **Cuts to Employee Retirement funds**

The budget proposes to eliminate the current state contribution to the State Teachers Retirement System (STRS), for a savings to the state of \$469 million. It then proposes to shift this cost to school districts, although it authorizes school districts to try to pass this cost on to teachers via collective bargaining agreements. The \$469 million represents about two percent of teacher salaries. Since salaries are the largest expenditure that districts have, this cut would translate to at least a one percent cut to districts' discretionary funds, or a two percent cut in teacher salaries if districts choose and succeed in passing the cost on to teachers. This 1-2 percent cut to school districts partially offsets the 3.93 percent COLA increase and the \$328 million increase the Governor proposes in discretionary funds.

The state currently uses non-Proposition 98 General Fund to make its payments to STRS. By cutting this non-Proposition 98 amount and shifting the cost to school districts, is the Governor proposing to shift a non-Proposition 98 expenditure into Proposition 98 expenditure? State law requires an adjustment in the Proposition 98 base when non-Proposition 98 expenditures are changed to Proposition 98 expenditures.

In addition, the Governor proposes major changes to the retirement benefits received by future public employees that participate in STRS and PERS retirement systems. Mostly, the Governor proposes to end the system whereby employees are guaranteed a defined benefit. These changes will affect future employees hired by school districts, and the reduced benefits could affect the desirability of positions that school districts must fill.

### **Increase in discretionary funds (deficit reduction)**

The Governor's budget proposes a \$328 million increase in discretionary funds for school districts and county offices of education. The increase partially restores a COLA to discretionary funds (revenue limits) that was denied in fiscal year 2003-04, due to budget constraints. Last year's budget provided an increase of \$270 million for a similar partial payment of the denied COLA of fiscal year 2003-04. The Governor's budget includes a corresponding \$1.26 million increase to basic aid districts, in the form of an adjustment to a categorical program deduction that was first levied in fiscal year 2003-04 on basic aid districts, to mimic the COLA denial of the same fiscal year (since basic aid districts do not receive discretionary funds from the state).

This increase in discretionary funding corresponds to a portion of the pre-budget deal the Education Coalition made with the Governor last year. That deal specified that first priority for any funds above growth and COLA should go toward restoring the cuts that were levied in fiscal year 2003-04. Last year's

budget fully restored 2003-04 cuts made to instructional materials and building maintenance funds

The Governor's budget does not propose any new funds for revenue limit equalization. Last year's budget provided \$110 million to adjust school districts' revenue limits according to a formula that, in general, gave more funding to school districts with low excused absence rates, and less funding to districts with high excused absence rates.

### **Funding for Williams Settlement**

The Governor's education budget proposes two augmentations in line with the state's settlement last year of the *Elizer Williams et. al. v. State of California* lawsuit. Plaintiffs in that lawsuit argued that the state does not do enough to ensure that all students have access to a) adequate instructional materials, b) clean and sufficient facilities and c) adequately trained teachers.

- **Emergency repairs program.** The first augmentation is \$100 million in one-time (reversion account) funds for an emergency facility repairs program, which was created by SB 6 (Alpert et. al.) of last year. That program reimburses the lowest performing third of all schools statewide for the costs of emergency repairs to their facilities, when those facilities are in a condition that poses a threat to the health and safety of pupils or staff at that school. The budget also proposes increases to the Office of Public School Construction, to assist districts in administering the emergency repairs program.

SB 6 established that each budget shall dedicate at least half of all Proposition 98 reversion account funds for emergency facility repairs, until a total of \$800 million has been disbursed. The Governor's budget proposes to dedicate more than half of all Proposition 98 reversion account funds for this purpose. His \$100 million proposal would account for 74 percent of funds available in this account (Proposition 98 reversion account funds are unexpended Proposition 98 funds from prior years. They are one-time.)

- **Increase to High Priority Grant Program.** The second major augmentations in compliance with the Williams settlement is an increase of \$45.5 million for the High Priority Grant (HP) program, which provides improvement grants to the lowest performing schools in the state. The augmentation will allow new schools to enter the program. This is significant since a large number of new schools have not entered the program since the program's inception three years ago. The Williams settlement required that any savings from the phase-out of another state program for low-performing schools, the Immediate Intervention in Under-performing schools program (II/USP), be used to increase participation in

the HP program. In accordance with the settlement, the \$45 million increase for HP comes from a savings of equal amount in the II/USP program, due to the expiration of some of the earlier grants in that program.

### **Improving low-performing schools**

*The Governor's Budget Summary* cites a two-pronged approach to address the needs of low-performing schools that fail to make progress after state intervention and assistance:

- 1) Convert these schools to charter schools – the Administration intends to create a public-private partnership to achieve this proposal.
- 2) Assign school recovery teams to manage the schools – Under current law, the state assigns School Assistance and Intervention Teams (SAIT) to schools that are struggling. The SAIT teams help schools evaluate where they are failing and come up with a plan for improvement. It is unclear what relationship these new teams will have to the SAIT teams.

State law and the federal No Child Left Behind Act require the state to establish benchmarks for student achievement and identify schools and districts that fail to meet those benchmarks. In particular, the federal law requires all students to reach a minimum proficiency level in the next several years. California's state standards are considered among the highest in the nation, and among those standards the State Board of Education has chosen a relatively high performance level as its statewide benchmark that all students will be expected to meet under the federal No Child Left Behind Act requirements.

Under current law, the Superintendent of Public Instruction and the State Board of Education have a number of options to pursue for schools that have received state intervention and assistance and still don't make progress. It is unclear what relationship the charter conversion proposal will have with those existing options.

**Unspent federal funds?** The federal government allows states to set aside a portion of their federal Title I funds to help struggling schools and districts improve. California has chosen to do this and passed legislation last year, AB 2066 (Steinberg), dictating how some of those funds are to be spent. Due to the expectation that the need for these funds will increase over the years, the state's plan for spending those funds is conservative in early years. However, like other federal funds, these funds will revert to the federal government unless they are spent within three years. The Legislature may wish to ask the administration and the Department of Education for an update as to any anticipated unspent funds (carryover) from this program, for fiscal year 2004-05 and the next several years, and any plans for spending it.

## **Special Education**

The Governor's budget reflects a \$65 million increase in federal special education funds compared to last year. This increase accompanies the re-authorization of the federal special education law, which contains a number of protections and requirements regarding the way states educate students identified with learning differences. The re-authorized law includes a number of changes, including the prohibition of the long-standing practice of using federal funds to help offset the cost of growth and COLA.

The Governor's budget proposes to allocate this \$65 million federal fund increase as follows:

- \$24.8 million passed on to school districts, to increase the amount per pupil that school districts receive to serve special education students.
- \$963,000 for increased transportation costs at state special schools (see "Other Key Provisions" below).
- \$332,000 to the Department of Education to pay for additional monitoring of non public schools and licensed child institutions, per a bill approved last year to increase accountability at these schools.
- \$38 million increase to special education preschool programs, for a total funding level of \$59 million. This increase appears to constitute a substantial increase for this particular provision. It is unclear what effect the proposed increase will have.

In addition, the Administration proposes to suspend the existing state mandate that counties provide mental health services for special education children enrolled in K-12 schools. This is a mandate that dates back several years but has run into trouble recently due to rising costs and budget problems among counties. It is unclear what effect the suspension of this mandate will have on school districts.

## **Charter Schools**

- **Charter school categorical block grant.** The Governor's budget proposes to increase funding for the charter school categorical block grant by \$10 million, for a total funding level of \$67 million. In addition, the Administration proposes to change the way the block grant amount is calculated. The charter school categorical block grant was created several years ago to address an inequity that charter schools complained of because they often did not receive categorical funds. The block grant attempts to provide charter schools with funding comparable to the funding that non-charter schools receive from categorical programs.

However, unlike categorical funding which comes with restrictions as to how it can be spent, categorical block grant funding is completely discretionary for charter schools

The Administration's proposed changes to the block grant would establish the proposed fiscal year 2005-06 funding level as a base level, and provide enrollment growth and COLA in subsequent years relative to this base level. This is a departure from the existing method of calculating the block grant, under which there are certain categorical programs considered within the block grant and other categorical programs for which charters are required to apply separately in order to receive funding. The current formula considers the total amount of funding for categorical programs that are within the block grant, and grows the block grant in accordance with the growth of those programs. The administration's proposal would de-link the amount of the block grant from the growth in categorical funding, severing any relationship between the amount of the block grant and the programs that charters are required to apply separately for.

Last year, the Legislature approved budget control language to suspend the current formula for one year, due to concerns about the complexity of the formula and the reliability of the calculation results. That language required a working group to propose a new formula. It is unclear whether the administration intends its proposal to supersede the work of the working group, or whether it is proposing something for the group's consideration.

- **Expansion of charter schools.** The Administration states that it intends to create a public-private partnership to expand charter schools to serve students attending low-performing schools. It proposes this as part of an effort to address failing schools and improve overall student achievement.
- **Alternative authorizers for charter schools.** *The Governor's Budget Summary* states the Administration intends to pursue legislation to allow colleges and universities to be regional authorizers of charter schools, subject to approval by the State Board of Education.

### **Proposed changes to English Language Acquisition Program**

*The Governor's Budget Summary* cites the Administration's intent to re-route existing funds for the English Language Acquisition Program into a new program that would focus on improving reading skills among English learners. The existing program is proposed to be funded at \$57.6 million, roughly the same amount provided last year except for growth and COLA adjustments. The program currently provides funds to school districts for English learners in grades 4-8. Under existing law, school districts have discretion as to how to use these

funds for English learners, as long as they a) conduct assessments of English learners to ensure appropriate placement, b) provide a program to help English learners achieve state-approved English language development standards, c) provide support outside of the regular school day to help children learn English and d) coordinate services and funding sources available to English learners.

Administration officials note that under the new proposal, school districts would not receive different amounts than what they receive now. Only the requirements associated with the money would change. The proposed changes would require legislation. According to the budget summary, the new program would be modeled after the federal Reading First program, which currently entails a state-designed program including teacher training, reading coaches, assessment data and state-approved materials. The program is intended to improve how reading instruction is taught.

***What is the local impact of these changes?*** Staff notes the need to collect more information on how school districts currently use this money, to understand this proposal's fiscal effect on school districts and the English learners they serve.

### **After school programs**

- **Federal after school money – will we have to send some back?** The budget proposes a total funding level of \$136 million in federal funds for after school programs. In the past, the state has been faced with significant amounts of unused funding (carryover) in this program, due to way the program is structured and delays in administration. In some cases, if the state fails to spend federal money within a three year period the funding expires. In order to avoid losing federal after school funding, the Legislature may wish to ask the Administration and the Department of Education for an estimate of unused funds and a plan for spending them in a timely manner. Due to the potential amount at risk of reverting to the federal government, the Legislature may wish to ask for an update within the month.
- **Proposition 49.** California voters approved Proposition 49 in 2002. It requires the state to provide a total of \$550 million in state funding for after school programs when General Fund spending reaches a certain trigger level. The trigger is reached when non-Proposition 98 expenditures are \$1.5 billion higher than the base year of 2001-02, when non-Proposition 98 expenditures were \$54.7 billion. The LAO estimates that this trigger will not be reached until fiscal year 2008-09, under current budget conditions. When that trigger is reached, the state will have to provide approximately \$430 million in additional non-Proposition 98 General Fund to after school programs, and this amount will be rolled into the Proposition 98 base funding level the subsequent fiscal year. Proposition

49 did not include a corresponding revenue increase to pay for the additional expenditure.

### **Addressing school district financial crises;**

*The Governor's Budget Summary* cites a need for improved financial management by school districts. Last year, the Legislature enacted AB 2756 (Daucher), which strengthened and clarified the role of county offices in overseeing school district finances.

- **Business officer training.** *The Governor's Budget Summary* states that the Administration intends to pursue legislation to establish a training program for the chief business officers of school districts and county offices of education. The Administration intends for the new program to provide training to over 1000 chief business officers, with the goal of ensuring that fiscal staff have the skills to effectively manage district budgets. The budget proposes \$1.05 million in one-time<sup>4</sup> (Proposition reversion account funds to pay for the program. The budget summary states that state-approved providers will provide the training and priority will be given to a) districts that are under state takeover due to a recent fiscal crisis necessitating a state emergency loan and b) districts that are in danger of fiscal crisis as measured by a negative of qualified interim fiscal certification in the past five years.
- **School district fiscal reporting.** *The Governor's budget summary* also cites a \$68,000 increase in federal funds for a new position within the Department of Education to support financial reporting by school districts and county offices of education. Assemblymember Lynn Daucher recently introduced a constitutional amendment that would require all school districts to provide annual reports on certain financial information, by school-level, including revenues, expenditures, salaries and benefits of all employees by classification, contracts for services and supplies, outstanding obligations and reserve balances. It is unclear whether the position cited in the summary is proposed to support the constitutional requirements in Assemblymember Daucher's proposal.
- **Background: reserve requirement relief about to expire.** Two years ago, as part of the package of education reductions, the 2003-04 budget education trailer bill contained language to soften the reserve requirements of school districts. Specifically, it reduced by half the amount that districts were required to reserve for economic uncertainties, for two fiscal years: 2003-04 and 2004-05. For the budget year, 2004-05, the reserve requirements will go back up to their original levels. The 2003-04 education trailer bill also gave school districts other budget

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<sup>4</sup> Proposition 98 reversion account funds

flexibility provisions, but only for fiscal year 2003-04, including: a) the ability to reduce their maintenance reserves from 3 to 2 percent and b) the ability to access 100 percent of their ending balances from the previous fiscal year for certain categorical programs.

- **Background: recent emergency state loans to school districts.** Current law allows the state to provide emergency loans to financially troubled school districts, provided those districts accept state management. Last year, the Legislature approved a \$60 million emergency loan to Vallejo City Unified. Other recent emergency loans include \$100 million for Oakland Unified (2003), \$2 million for West Fresno Elementary (2003) and \$2.3 million for Emery Unified (2001).

### **Policy proposal: merit-based pay**

While *The Governor's Budget Summary* does not refer to any proposal to introduce merit-pay for teachers, the Governor cited this proposal in his state-of-the-state address, which preceded his release of the budget. Senator George Runner has recently introduced a constitutional amendment that would require school districts, county offices of education and charter schools to make employment decisions solely based on employee performance, which would include a combination of annual performance evaluations and improvements in student scores on statewide tests, as determined by the local governing board. It would prohibit the consideration of seniority in any employment decisions, and would override existing collective bargaining agreements. Under the measure, tenure could only be granted if an employee's ten most recent annual performance assessments were satisfactory.

During his Administration, former Governor Pete Wilson attempted to require merit pay for teachers. His proposal was rejected by the Legislature due to many concerns. One concern was that the focus on student test scores as a means of evaluating teacher performance might unjustly punish teachers in schools serving economically-disadvantaged children and students not yet proficient in English (since state tests are in English), making it harder for school districts to recruit teachers to serve these students.

### **Policy proposal: career-technical education**

*The Governor's Budget Summary* cites a major initiative to promote and improve career-technical education opportunities in middle and high schools and community colleges. The Administration plans to propose legislation to implement this initiative. While there appears to be no budget augmentations in K-12 related to this initiative, there is funding provided to community colleges for a program to serve high school and community college students. The budget summary cites the following components of the reform initiative:

- A new requirement that all middle school students take an introductory level career-technical education course in lieu of existing electives.
- A \$20 million augmentation to the community colleges to establish “Tech Prep Model” courses that begin at high school and continue at community colleges, culminating in an associate degree or certificate in a career field. (Funding is one-time from the Proposition 98 reversion account.)
- Proposed revisions to the School Accountability Report Card, so that it includes additional information regarding the availability of career-technical coursework, the success of students that take these courses and the quality of career technical teachers.
- A re-alignment of credential requirements for middle, high school and community college career-technical educators.
- Exemption of career-technical courses from the existing 75 percent full-time faculty requirement at community colleges. The budget summary states that this is intended to increase the availability of educators with up-to-date knowledge of industries.
- A proposal to refocus the efforts of the California Occupational Information Coordinating Committee, to ensure that they distribute career information to all middle and high school counselors.

### **Policy proposal: School-site budgeting**

*The Governor's Budget Summary* cites the Administration's intent to pursue legislation to delegate budgetary and academic decision-making and accountability to the school site. Currently, school districts make budget decisions and distribute funding to school sites, usually based on formulas that consider student population and needs. The summary states that the Office of the Secretary of Education will sponsor the legislation, and that it will be a voluntary pilot program named the California Local Education Accountability Reform (CLEAR) program. The summary states that the intent of the proposal is to increase local control, local participation and creativity in tackling local goals. Last year, the Administration cited its intent to move forward with a similar concept. The summary or budget documents do not cite any budget changes related to this proposal, although details are likely to be forthcoming from the Administration.

### **Policy proposal: Categorical Reform**

*The Governor's Budget Summary* cites his intent to further the efforts the state made last year to provide more funding flexibility to school districts. Specifically, the state approved AB 825 (Firebaugh) last year, which consolidated a number of

categorical programs into five new block grants, relieving school districts from the individual program requirements of each program. The Administration intends to combine two of the block grants, the professional development block grant and the teacher credentialing block grant, and add more programs into it, as outlined below in Table 3. The proposed total funding level of the new combined block grant would be \$362 million. The Administration also proposes that school districts could use funds from the professional development and teacher credentialing block grant to expand participation in the Advancement Via Individual Determination program, which is proposed to be cut by the Administration (see below) and provides teacher training and education support to improve the college attendance rate of economically disadvantaged students.

**Table 3: Current block grant law and the Administration's proposed changes**

<b>Current block grants created by AB 825</b>	<b>Former programs folded into current block grants, per AB 825</b>	<b>Additional programs proposes to be rolled into prof. dev. block grant</b>
Professional Development Block Grant	<ol style="list-style-type: none"> <li>1. Instructional Time and Staff Development Reform Program(staff development buy out days)</li> <li>2. Teaching as a Priority Block Grant</li> <li>3. Intersegmental programs</li> </ol>	<ol style="list-style-type: none"> <li>1. Teacher Credentialing Block Grant per by AB 825. (\$84 million)</li> <li>2. Peer Assistance and Review (\$27 million)</li> <li>3. Bilingual Teacher Training (\$2 million)</li> <li>4. Teacher Dismissal Apportionment (\$.04 m)</li> </ol>
Teacher Credentialing Block Grant	<ol style="list-style-type: none"> <li>1. Beginning Teacher Support and Assessment</li> </ol>	
Pupil Retention Block Grant	<ol style="list-style-type: none"> <li>1. Supplemental instruction (various programs)</li> <li>2. Continuation high schools</li> <li>3. High-Risk Youth Education and Public Safety</li> <li>4. Tenth Grade Counseling</li> <li>5. Opportunity programs</li> <li>6. Dropout prevention and recovery</li> <li>7. Early Intervention for School Success</li> <li>8. At-Risk Youth (LAUSD)</li> </ol>	
School Safety Consolidated Competitive Grant	<ol style="list-style-type: none"> <li>1. Safe school planning and partnership minigrants</li> <li>2. School community policing</li> <li>3. Gang-risk intervention</li> </ol>	

	<ol style="list-style-type: none"> <li>4. Safety plans for new schools</li> <li>5. School community violence prevention</li> <li>6. Conflict resolution</li> </ol>	
Targeted Instructional Improvement Block Grant	<ol style="list-style-type: none"> <li>1. Targeted instructional improvement grants (formerly desegregation funding)</li> <li>2. Supplemental grants</li> </ol>	
School and Library Improvement Block Grant	<ol style="list-style-type: none"> <li>1. School library materials</li> <li>2. School improvement programs</li> </ol>	

AB 825 created a number of complications for school districts that merit clean-up legislation, particularly regarding the pupil retention block grant. In addition to consideration of the Governor's proposed changes, the Legislature may wish to consider these needed clean-up issues, potentially on an urgency basis.

### **Policy proposal: Promoting smaller learning communities**

*The Governor's Budget Summary* cites the Administration's goal to convert the state's largest elementary, middle and high schools into smaller learning environments, or schools-within-schools. It states that the administration intends to pursue these goals via;

- Changes in the School Facility Program, which provides state bond funds to school districts to modernize existing school facilities and construct new ones;
- Partnerships between the Office of the Secretary for Education, foundations and the private sector to promote the use of small learning environments and;
- Technical assistance available to school districts to aid in the implementation of a small schools approach.

The summary or budget documents **do not** provide more details as to the budget components related to this proposal, although details are likely to be forthcoming from the administration.

Last year, the Legislature approved AB 1465 (Chan), and the Governor signed it. This bill set aside bond funds for the construction of smaller high schools around the state. The bill was promoted based on research that shows various benefits from smaller schools, including greater parental involvement, higher attendance and improved academic performance. The Gates Foundation is active in

promoting the construction of smaller high schools, and has provided millions of dollars of start-up grants to school districts in California.

### **Policy proposal: California Obesity Initiative**

*The Governor's Budget Summary* cites an interdepartmental initiative to improve the health of California's children, one third of whom are overweight or at risk of being overweight. It cites the Administration's intent to introduce legislation to increase the availability of healthy food at schools sites and increase opportunities for physical fitness in schools. While there does not appear to be any K-12 budget augmentations related to this initiative, a number of augmentations in the health and human services area are cited.

### ***Other Key Provisions***

- **Advancement Via Individual Determination (AVID).** The Governor's budget proposes to reduce funding for the AVID program by \$840,000. This would be a 9 percent cut, leaving \$8.2 million for the program. The AVID program is designed to improve the likelihood that economically disadvantaged children attend college. It provides teacher training and educational support in participating schools. Last year the Governor proposes a similar cut to AVID as part of his May Revise revisions to the budget; the proposed cut was rejected by the Legislature.
- **High-speed Network.** The Governor's budget provides \$21 million for the High-speed network program. This is the same level of funding provided last year. Last year was the first time that this program was supported with Proposition 98 funds; it has previously been supported with General Funds provided to CSU and UC. Last year, the Legislature adopted budget control language to require that future legislation establish a governance structure for the network. The Governor's proposed budget alludes to this legislation in the budget control language corresponding to the high-speed network.
- **Sunnyvale desegregation costs.** The Governor budget proposes an increase of \$4.9 million in one-time funds to Sunnyvale Unified School District, to pay the district for unjustified reductions in desegregation claims prior to 1991, according to the administration. Prior to 1991, districts were reimbursed for their costs related to desegregation based on annual claims they submitted to the Controller. According to the administration, the district filed a lawsuit challenging the reduced reimbursements they received. A settlement is pending.
- **CSIS.** *The Governor's Budget Summary* cites a \$2.9 million federal fund increase for the California School Information Services program to pay for the second year of funding for districts participating in CSIS. CSIS was

created to help school districts electronically transfer student records and complete statewide reporting requirements electronically. The summary also cites a \$1.3 million augmentation in federal funds to pay for CSIS' support of student identifiers, which are an essential component of a new statewide system to track changes in individual students' testing data over several years.

- **State special schools.** The Governor's budget proposes a \$963,000 increase in federal funds for the transportation costs of children attending state special schools. State special schools serve hearing and visually impaired children. Education officials suggest that increased transportation costs are related to a new federal requirement that teachers accompany students on their visits home.
- **Student Council for Vocational Education program.** The Governor's budget proposes a \$48,000 reduction to this program, which was also cut in last year's budget. The Governor's budget summary states that the proposed cut would leave \$464,000 for the program.