Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

Monday March 3, 2003
1:30 p.m. — Room 113

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Item 6600 – Hastings College of Law

The Governor's Budget proposes a total 2003-04 General Fund budget of $11.383 million for Hastings College of Law; included in this amount is an ongoing $1 million unallocated reduction beginning in the current year.

GOVERNOR'S BUDGET PROPOSAL. The Governor proposes $4.087 million in both unallocated and targeted budgetary reductions in 2003-04. Included in this proposal is an additional $2.031 unallocated base reduction and reductions targeted at the following programs and services: Replacing visiting professors with adjunct professors ($579,000); reducing staff development ($251,000); reducing the amount of support available for law library materials and scholarly journal acquisitions ($130,000); eliminating funds for the replacement of capital equipment ($51,000); and reducing travel costs for students participating in Moot Court ($46,000). Further, the Governor's Budget assumes that $4.5 million in student fee revenue will be available -- due to proposed student fee increases – to offset the proposed reductions.

STUDENT FEE INCREASES. In contrast to the University of California, which increased fees for law students in December, Hastings chose not to impose an increase on students mid-year. For 2003-04, Hastings proposes to increase fees for *new* students by 35 percent (this amount corresponds to the increase proposed for UC law school students) but intends to mitigate the impact on continuing students by imposing a lesser, 28 percent, fee increase. According to Hastings, the amount of the fee increase will allow the college to recoup all but 7 percent of the proposed reductions. However, staff notes that a 7 percent reduction is significantly greater than the General Fund reductions (approximately 4.5 percent) being imposed on the UC or CSU, **before** factoring in student fee increases at those segments.

Staff recommends that reductions for Hastings be examined at a level equivalent to the reductions taken by the other higher education institutions. Further, staff recommends that, regardless of the level of reduction, the cuts be designated as "unallocated" rather than targeted at specified programs.

Item 6420 – California Postsecondary Education Commission

GOVERNOR'S BUDGET PROPOSAL The Governor's 2003-04 Budget for the California Postsecondary Education Commission (CPEC) proposes General Fund expenditures of $695,000 and federal fund expenditures of $5.33 million for the Eisenhower Professional Development Program. This represents a General Fund decrease of $1.5 million, or 69 percent, from estimated current-year expenditures. (Note: The Legislature rejected the Governor's December proposal to decrease current year funding for CPEC by $108,000).

As part of the Governor's proposal, the budget eliminates 23.5 staff positions and related operating expenses and equipment, leaving five positions (three of which are funded with General Fund and include the Director, Executive Secretary and Postsecondary Education manager in the External Affairs Unit; the remaining two positions are funded with federal funds and include the Chief Associate and the Office Technician in the Federal Programs unit).

While the Administration proposes to substantially reduce the budget of CPEC, it does not (as of yet) propose any change to the statutory responsibilities of the organization; DOF would note that it intends to work with CPEC in the future to determine the focus of its responsibilities in light of a significantly reduced budget.

DETERMINING ROLE OF CPEC. As part of last year's budget process, the Legislature expressed its interest in trying to determine the role of CPEC by requesting that the Legislative Analyst convene a working group to develop recommendations concerning the alignment of CPEC's responsibilities to its overall funding level. The final report, entitled *The California Postsecondary Education Commission: A Review of Its Mission and Responsibilities,* was recently issued by the Analyst with the input of the working group and is now available from the Office of the Legislative Analyst. The LAO notes that its report was "informed" by the discussions of the working group, since the group was unable to reach consensus on many of the issues.

In summary, the LAO determined that there is indeed a mismatch between CPEC's statutory responsibilities and their budgeted resources that needs to be aligned, first by determining where CPEC should focus its efforts/resources and then determining a funding level appropriate to those activities. Further, the LAO noted that there is an inherent "tension" between CPEC's role as an independent analyst and a coordinator of higher education information and policy. Specifically, the LAO believes that it is difficult for CPEC to serve both as a part of the higher education system's infrastructure while also serving as an objective analyst of that same structure.

Staff notes that the question before the committee appears to be: How does the legislature better align CPEC's responsibilities with its level of funding; and in particular, what tasks and responsibilities does the legislature want/need from CPEC and what are the costs associated with those responsibilities.

If the committee instead chooses to determine a dollar figure first (as in the case of the Governor's Budget), the LAO notes that, if the appropriation level for CPEC is to be reduced to $695,000, it would be most useful for CPEC to focus its limited resources in the area of data collection and management.

Item 6440 – University of California – Capital Outlay

GOVERNOR'S BUDGET PROPOSAL The Governor's Budget proposes to fund 37 University of California capital projects (17 previously approved projects and 20 new projects) using $307.5 million in General Obligation Bonds approved by the voters in November of 2002.

RESEARCH SPACE. Of the 37 projects, the LAO singles out two, and recommends their deletion based on concerns regarding the amount of research space already available on the campus (the remainder of the projects are proposed for consent). Based on its own examination of research space at 100 universities throughout the county, the LAO found that the UC has a significantly greater proportion of research space than the amount of space found in what it deems to be

comparable institutions. Staff notes that the data used by the LAO for this examination appears to be substantially different from the research space standards available from CPEC. Specifically, staff is unclear how one would draw comparisons given that the LAO's data contains research space associated with the health sciences (CPEC's does not) which has the potential to severely distort the data. Nor is it clear how the LAO is able to compare 100 universities nationwide to the University of California system, when at least 85 percent of the institutions on the list would likely be defined as "minor" research institutions when compared to the UC.

In response, the University of California, along with the Department of Finance and CPEC note that UC adheres to the facilities planning and space utilization guidelines, first adopted by CPEC in the 1970's and revised in the early 1990's, related to the amount of research space appropriate to the institution and/or discipline. While these guidelines were never codified, staff notes that they have been generally accepted amongst all parties (with the exception of the Legislative Analyst).

Specifically, the Legislative Analyst recommends deletion of the following two projects (the remainder of the capital outlay projects are proposed for consent):

- **UNIVERSITY OF CALIFORNIA, IRVINE. BIOLOGICAL SCIENCES UNIT 3 BUILDING.** The Legislative Analyst recommends that $3.080 million for preliminary plans and working drawings be deleted from the proposed 2003-04 budget because, according to the Analyst, the campus already has enough research space. Future costs for the project are expected to be $52.3 million for construction and equipment. *Staff recommends that the project be approved as budgeted.*

- **UNIVERSITY OF CALIFORNIA, SAN DIEGO. MAYER HALL ADDITION AND RENOVATION.** The Legislative Analyst recommends that $2.072 million for preliminary plans and working drawing be deleted from the proposed 2003-04 budget because the campus has more research space than justified. Total cost for the project, including construction and equipment is expected to be $40 million. *Staff recommends that the project be approved as budgeted.*

Item 6870 – California Community Colleges – Capital Outlay

GOVERNOR'S BUDGET PROPOSAL The Governor's 2003-04 Budget proposal includes $562 million in General Obligation Bond funds, approved by the voters in November of 2002, for 62 previously-approved and 35 new projects.

Of the 97 projects, the Legislative Analyst recommends that the following four projects be deleted from the proposed 2003-04 budget due to the following overarching concerns (the remainder of the capital outlay projects are proposed for consent). In each case the Community College Chancellor's Office has a prepared (and written) response to the LAO's concerns:

- **CONTRA COSTA COMMUNITY COLLEGE DISTRICT – LOS MEDANOS COLLEGE. MATH, SCIENCE AND TECHNOLOGY BUILDING.** The Legislative Analyst recommends that $716,000 for preliminary plans be deleted from the proposed budget because (1) there is already enough classroom space on campus (regardless of summer term enrollment); (2) the campus is underutilized in the summer; (3) the proposal assumes unrealistic student enrollment growth (and hence a demand for classroom space) over a one year time span; and (4) the campus did not adequately evaluate the option of renovating existing space. Total cost for the project is expected to be $21.3 million, including planning, working drawings, construction and equipment.

- **LONG BEACH COMMUNITY COLLEGE DISTRICT – LONG BEACH CITY COLLEGE. INDUSTRIAL TECHNOLOGY CENTER, MANUFACTURING.** The Legislative Analyst recommends that $698,000 for preliminary plans and working drawings be deleted from the proposed budget because (1) the campus is underutilized during the summer term and (2) the campus did not adequately consider renovating existing facilities to meet their programmatic needs. Additional project costs include $9.9 million for construction and equipment.

- **LOS ANGELES COMMUNITY COLLEGE DISTRICT – EAST L.A. FINE AND PERFORMING ARTS.** The Legislative Analyst recommends that $15.9 million for preliminary plans, working drawings, construction and equipment be deleted from the proposed budget because the campus did not fully evaluate the option of renovating existing facilities. The $15.9 million cost represents half of the total project cost, which is expected to be approximately $31.8 million; the remainder of the funds are coming from nonstate sources.

- **LOS ANGELES COMMUNITY COLLEGE DISTRICT – LA HARBOR COLLEGE. APPLIED TECHNOLOGY BUILDING.** The Legislative Analyst recommends that $613,000 for preliminary plans and working drawings be deleted from the proposed budget because (1) the campus did not fully evaluate the option of renovating existing facilities; (2) there is already enough instructional space on the campus; and (3) student enrollment in the campuses applied technology programs (and campus enrollments in general) declined by 1,000 FTE from 1982 to 2001. Total cost for the project is expected to be approximately $17.6 million, with half that amount coming from nonstate sources.

Item 7980 – California Student Aid Commission

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2003-04 Budget proposes a total of $1.4 billion in expenditures ($699 million General Fund) for the California Student Aid Commission, which reflects a $78 million or 13 percent increase above estimated current-year expenditures.

Figure 1

Student Aid Commission
General Fund Budget Summary

(Dollars in Millions)

	2002-03 Revised	2003-04 Proposed	Change From 2002-03 Amount	Change From 2002-03 Percent
State Operations	$9.9	$7.7	-$2.2	-22%
Local Assistance				
New Cal Grant entitlement awards	$263.1	$424.3	$161.2	61%
New Cal Grant competitive awards	88.6	104.4	15.7	18
Existing awards	225.0	130.0	-95.0	-42
Subtotals, Cal Grant awards	($576.7)	($658.7)	($82.0)	(14%)
Cal Grant C awards	$12.1	$8.9	-$3.2	-26%
Cal Grant T awards	6.0	3.0	-3.0	-50
APLE[a] program	20.5	30.0	9.5	46
Graduate APLE program	0.2	0.5	0.3	130
Work study	5.3	—	-5.3	-100
Law enforcement scholarships	0.1	0.1	0.1	103
Federal Trust Fund[b]	-9.5	-9.5	—	—
Totals, local assistance	**$611.3**	**$691.7**	**$80.4**	**13%**
Grand Totals	**$621.3**	**$699.4**	**$78.2**	**13%**

[a] Assumption Program of Loans for Education.
[b] Federal Trust Fund monies directly offset Cal Grant program costs.

Specifically, the Governor's Budget proposes an increase of $82 million (14 percent) over the current year expenditures for the Cal Grant Program. Following are the adjustments to the Cal Grant Program proposed by the Governor. (1) Augment he Cal Grant A and B programs to cover proposed student fee increases at the University of California and California State University ($43 million); (2) increase the total number of Cal Grants available (by 41,045 for a total of 234,485 new and renewal grants) based on new estimates of eligible high school graduates, transfer students and renewal applicants ($49 million); and (3) decrease the maximum Cal Grant award level for students attending private institutions ($10.2 million).

Other adjustments to the Student Aid Commission's budget include a $9.5 million increase in the funding available for the Assumption Program of Loans for Education Program (APLE). This funding adjustment is due to an increase in the number of students redeeming previously approved loan forgiveness warrants in the coming year.

Figure 2

Eligibility Criteria for Cal Grant Entitlement Program

2002-03

Eligibility requirement	Cal Grant A	Cal Grant B
Minimum high school GPA	3.0	2.0
Minimum transfer GPA	2.4	2.4
Income ceiling, by family size[a]		
Six +	$76,500	$42,000
Four	66,200	34,800
Two	59,400	27,800
Asset Ceiling[a]	$51,200	$51,200

[a] Represents ceilings for dependent students and independent students with dependents other than a spouse. A family's asset level excludes its principal residence.

Budget Issues/Action Items:

1. **REDUCE THE MAXIMUM CAL GRANT AWARD FOR STUDENTS ATTENDING PRIVATE INSTITUTIONS (-$10.2 MILLION).** Depending on the type of educational institution a Cal Grant recipient elects to attend, the amount of the Cal Grant A or B award varies. The award is "valued" at the cost of mandatory systemwide fees at the University of California (UC) and California State University (CSU), while students attending private colleges receive up to $9,708 (in the current year) to assist in the payment of their tuition.

   The Governor's Budget proposes to reduce the maximum Cal Grant award for student attending private colleges by 9 percent, generating $10.2 million in General Fund savings. The maximum award amount would thus be reduced from its current level of $9,708 to $8,832 for new Cal Grant recipients. Renewal recipients would continue to receive their awards at the current level of $9,708. The Legislative Analyst recommends that the Legislature reject the Governor's proposal to reduce the Cal Grant award for students attending private colleges because these awards, in many cases, may provide the state with fiscal advantages and strengthen educational accountability among public universities. Staff notes that a decrease in the maximum award level will likely result in more students being dependent upon student loans.

2. **TUITION AND FEE ASSISTANCE TO FIRST-YEAR CAL GRANT B RECIPIENTS ($95 MILLION).** Current law provides that students receiving a Cal Grant B award receive a subsistence stipend of $1,551 during their first year of college; in the second, third and fourth years, the student receives both the stipend and financial aid to cover student fees and/or tuition (up to the maximum award level of $9,708 for students attending private institutions). The LAO does note that current law allows for up to 2 percent of the Cal Grant B recipients to receive tuition/fee assistance in their first year, but only for the most financially needy and academically meritorious of the Cal Grant B recipients. The LAO is recommending that this policy be

changed and that funds be appropriated to provide fee/tuition assistance to first-year Cal Grant B recipients.

Initially, when the original Cal Grant B program was established, there was an assumption that fee/tuition assistance in the first year wasn't necessary. At that time the law required that a specified percentage of Cal Grant B recipients attend a community college, where, given a students' financial need, their fees would be waived under the Board of Governor's (BOG) Fee Waiver Program. When the Cal Grant program was revamped into an entitlement program (Chapter 403, Statutes of 2000) the new statutes failed to include a fee/tuition component in the first year, due primarily to the costs (approximately $95 million) associated with the change. While a significant number (approximately 42 percent) of the Cal Grant B awards are still granted to community college students, 32 percent are awarded to students attending a CSU campus; 19 percent to UC students; and 8 percent to students attending private institutions.

3. **REDUCE THE CAL GRANT C PROGRAM (-$3.2 MILLION).** The Cal Grant C program provides financially-needy students preparing for vocational or occupational careers with tuition/fee assistance (up to $2,592) as well as additional support (up to $576) for training-related costs such as tools, books, and supplies. Unlike the Cal Grant A and B programs, which require students to be pursuing a baccalaureate degree, the Cal Grant C program is the only state-supported grant program that provides funds to students enrolled in shorter-term vocational programs. Of the Cal Grant C participants, approximately 60 percent are enrolled at the Community Colleges; the remainder attend private vocational schools.

   The Governor's 2003-04 Budget proposes to decrease funding for the Cal Grant C program by $3.2 million or 26 percent. This would reduce the total number of awards by 3,040 (from 10,730 to 7,690; of this amount 4,125 are renewal awards and 3,565 would be available for new recipients.)

   Staff notes that this is the only financial aid program targeted at short-term vocational training. Given the current condition of the state's economy, which tends to result in an increased need for vocational training, staff recommends that the reductions proposed by the Governor be denied.

4. **REDUCE THE CAL GRANT T PROGRAM (-$3.0 MILLION).** The Cal Grant T program provides tuition and fee funding for financially- and academically-eligible students to attend a teacher credentialing program. Recipients are required to teach for one year in a low-performing school for each $2,000 received, for a maximum period of four years. Any recipient who does not fulfill the teaching obligation is required to repay the award.

   The Governor's budget provides $3 million for the Cal Grant T program, which is 50 percent less than the estimated current-year expenditures. This would reduce the number of awards by 540 (from 1,390 to 850). The LAO notes that since its inception, the Cal Grant T program has

never been fully subscribed. Whereas the Commission was authorized to fund 3,000 awards in 2001-02, only 1,739 students utilized the program. In 2002-03, the state reduced the Cal Grant T appropriation to better align it with expenditures. While the LAO does not make a specific recommendation related to this program, they do note that there are a variety of sources of financial aid for would-be teachers. For example, the state already funds the Assumption Program of Loans for Education (APLE) program, as well as providing Cal Grant recipients with aid for a fifth year of study if they enroll in a teacher preparation program. Further, the Analyst points out that the federal government also funds two loan-forgiveness programs for teachers.

In light of the similarities between the Cal Grant T program and the APLE program, as well as the availability of other teacher-related financial aid opportunities, staff recommends that the entire Cal Grant T program be repealed and that no new awards be granted in 2003-04. Further, staff notes that $1 million would need to be retained in the program to continue providing grants to those students already receiving awards.

5. **PROPOSED BUDGET BILL LANGUAGE TO DECREASE THE NUMBER OF AUTHORIZED APLE WARRANTS IN 2003-04**. The APLE program seeks to encourage individuals to pursue careers in teaching by issuing warrants (commitments to pay) and then forgiving $11,000 in college loans if they teach full time in a public K-12 school for four consecutive years. Teachers may receive an additional $4,000 in loan forgiveness if they teach in a subject-shortage area (such as mathematics, science or special education), or if they teach in a school ranked in the bottom two deciles of the Academic Performance Index. Individuals who elect to teach in both a targeted school and a targeted subject area can have up to $19,000 in college loans forgiven. In all cases, the student must have accrued student loan debt in order to reap the benefits of this program.

   The Administration proposes to decrease the number of APLE warrants issued in 2003-04 by 1,000 (from 7,500 to 6,500 which is the same number of warrants authorized in 2001-02). The savings associated with this decrease would not be realized for at least two years, given that students must first complete their teacher preparation program and then teach in the classroom for one year before loans begin to be repaid.

   In light of the above-noted staff recommendation on the Cal Grant T program, staff recommends that the Governor's proposal to reduce the number of authorized APLE warrants be denied, thus keeping the program at its current level (at no cost to the state in the Budget Year).

6. **ELIMINATE THE CALIFORNIA WORK-STUDY PROGRAM (-$5.3 MILLION).** The California Workstudy Program assists students by placing them in employment settings which will enable them to pay a portion of their educational costs. Under this program, the state and the employers each pay for a portion of the students' salaries. Recipients are placed in jobs either (1) related to their course of study or career interest, or (2) providing tutoring to elementary or secondary school students. The program currently operates at 40 institutions and provides support to over 3,000 students. In 2002-03, the Student Aid Commission notes that all the funds for the program

will be used. The Governor's 2003-04 Budget proposes to eliminate the state's Work Study Program, thereby achieving $5.3 million in General Fund savings. Staff notes that, without this financial aid option, students will be more dependent upon student loans.

Consent

Staff recommends that the following items be Approved as Budgeted. No issues have been raised with regard to any of these items:

6420-001-0890. Support, California Postsecondary Education Commission. Payable from the Federal Trust Fund. $338,000

6420-101-0890. Local Assistance, California Postsecondary Education Commission. Federal Eisenhower Professional Development Program. $5,002,000

6600-001-0814. Support, Hastings College of Law. California State Lottery Education Fund. $157,000

6600-301-6028 Capital Outlay, Hastings College of Law. Preliminary plans and working drawings for 200 McAllister Street Building seismic, fire and life-safety improvements as well as an upgrades to the HVAC system and various code compliance issues. $1,875,000.

UC Capital Outlay projects (see attached spreadsheet)

CSU Capital Outlay projects (see attached spreadsheet)

Community Colleges Capital Outlay projects (see attached spreadsheet)

7980-101-0890. Local Assistance, California Student Aid Commission. Payable from the Federal Trust Fund. $9,481,000

UNIVERSITY OF CALIFORNIA
2003-04 Budget for Capital Improvements
Governor's Budget
($ in Thousands)

Items for Consent

	Funding Request	
BERKELEY		
Doe Library Seismic Corrections, Step 4	PWC	16,920
DAVIS		
Robert Mondavi Institute for Wine and Food Science	W	600
Seismic Corrections -- Phase 4	PW	574
IRVINE		
Computer Science Unit 3	C	29,089
Central Plant Chiller Expansion, Step 5	PWC	18,800
LOS ANGELES		
Kinsey Hall Seismic Correction, Phase 2	C	17,387
Electrical Distribution System Expansion, Step 6B	C	6,228
Boelter Hall Fire Sprinkler System	PWC	5,081
Campus Fire Alarm System Upgrade, Phase 3	WC	2,654
Campbell Hall Seismic Correction	PW	534
Geology Seismic Correction	PW	978
MERCED		
Site Development and Infrastructure, Phase 3	C	12,799
Castle Facilities Improvements	C	3,000
Logistical Support/Service Facilities	PW	874
RIVERSIDE		
East Campus Infrastructure Improvements	PWC	8,400
College of Humanities and Social Sciences Instruction and Research Facility	PWC	31,227
Psychology Building	PW	2,241
SAN DIEGO		
Pharmaceutical Sciences Building	C	24,714
Campus Emergency Services Facility	C	3,987
Biomedical Library Renovation and Addition	C	14,503
West Campus Utilities Improvements	C	3,940
Student Academic Services Facility	W	1,172
Satellite Utilities Plant, Phase 1	PW	647
Applied Physics and Mathematics Renovation	PW	845

		Funding Request
SAN FRANCISCO		
Health Sciences West Improvements, Phase 1	C	12,934
Medical Sciences Building Improvements, Phase 2	P	1,400
SANTA BARBARA		
Psychology Building Addition and Renewal	C	9,817
Snidecor Hall Office Wing Seismic Replacement	C	10,566
Biological Sciences Buildings Renovation	PW	1,000
Education and Social Sciences Building	PW	4,116
SANTA CRUZ		
Seismic Corrections, Phase 2A	WC	3,000
Humanities and Social Sciences Facility	WC	25,826
Emergency Response Center	WC	6,592
Alterations for Engineering, Phase 2	PW	396
McHenry Project	P	3,602
ANR		
Desert REC Irrigation Water System	PWC	763
UNIVERSITYWIDE		
Northern Regional Library Facility, Phase 3	C	16,177
TOTAL		**303,383**
2002 General Obligation Bond Funds		**300,383**
1998 General Obligation Bond Funds		**3,000**

P = Preliminary Plans
W = Working Drawings
C = Construction

CALIFORNIA STATE UNIVERSITY
FY03/04 Capital Outlay
Consent List

Item:			Requested	At Issue	Approved
6610-301-6028 For capital outlay, California State University, payable from the Higher Education Capital Outlay Bond Fund of 2002					
(1)	06.48.315	Systemwide: Minor Capital Outlay Program, Preliminary plans, working drawings and	6,194,000		6,194,000
		Subtotal	**6,194,000**		**6,194,000**
6610-302-6028 For capital outlay, California State University, payable from the Higher Education Capital Outlay Bond Fund of 2002					
(1)	06.52.109	Chico: Student Services Center, Working drawings and construction	32,840,000		32,840,000
(2)	06.56.092	Fresno: Science II Replacement Building, Equipment	1,958,000		1,958,000
(3)	06.76.101	Sacramento: Infrastructure Upgrade, Phase 1, Preliminary plans, working drawings and	18,691,000		18,691,000
(4)	06.78.092	San Bernardino: Science Buildings Renovation/Addition, Phase II, Preliminary plans, working drawings and construction	21,786,000		21,786,000
(5)	06.80.157	San Diego: Social Sciences/Art Gallery/Parking Structure 8, Preliminary plans, working drawings and construction	25,384,000		25,384,000
(6)	06.86.115	San Jose: Joint Library-Secondary Effect, Preliminary plans, working drawings and cons	19,633,000		19,633,000
(7)	06.90.085	Sonoma: Darwin Hall, Preliminary plans, working drawings and construction	26,012,000		26,012,000
(8)	06.92.064	Stanislaus: Science II (Seismic), Working drawings and construction	45,696,000		45,696,000
		Subtotal	**192,000,000**		**192,000,000**
		Total Consent List	**198,194,000**		**198,194,000**

California Community Colleges
Proposed Capital Outlay Spending Plan
2003-04

#	District	College	Project Name	Category	Ph.	Amount
1	Allan Hancock CCD	Allan Hancock College	Library/Media Tech Center	B	ce	9,079,000
2	Allan Hancock CCD	Allan Hancock College	Science Health Occupations Complex	B	pw	1,109,000
3	Barstow CCD	Barstow College	Remodel for Efficiency	E	pw	266,000
4	Butte-Glenn CCD	Butte College	Learning Resource Center	B	ce	17,280,000
5	Cerritos CCD	Cerritos College	Seismic Retrofit-Administration	A-3	c	2,080,000
6	Cerritos CCD	Cerritos College	Science and Math Complex - Life Safety	A-2	e	432,000
7	Chabot-Las Positas CCD	Las Positas College	PE Gym - Phase I	D-1	ce	12,496,000
8	Chabot-Las Positas CCD	Las Positas College	Multi-Disciplinary Education Building	B	pw	701,000
9	Chaffey CCD	Chaffey College	Science Bldg.	A-2	e	64,000
10	Coast CCD	Golden West College	Structural Repair Campuswide	A-4	pw	199,000
11	Coast CCD	Orange Coast College	Learning Resource Center	B	pw	1,024,000
12	Compton CCD	Compton College	Performing Arts and Recreation Comple	D	pw	825,000
13	Contra Costa CCD	Diablo Valley College	Life Science Remodel for Laboratories	B	ce	5,041,000
14	Contra Costa CCD	Los Medanos College	Learning Resource Center	B	ce	8,176,000
16	Contra Costa CCD	San Ramon Valley Center	Phase I Bldg.	B	ce	24,609,000
17	Copper Mountain CCD	Copper Mountain College	Multi-use Sports Complex	D	pw	885,000
18	Foothill-De Anza CCD	De Anza College	Planetarium Projector	F	e	1,000,000
19	Foothill-De Anza CCD	Foothill College	Seismic Replacement-Campus Center	A-3	wc	11,438,000
20	Foothill-De Anza CCD	Foothill College	Seismic Replacement-Student Services	A-3	c	3,606,000
21	Foothill-De Anza CCD	Foothill College	Seismic Replacement-Field Locker Room	A-3	pw	132,000
22	Foothill-De Anza CCD	Foothill College	Seismic Replacement-Maintenance Buil	A-3	pw	68,000
23	Fremont-Newark CCD	Ohlone College	Child Development Center	A-2	e	251,000
24	Glendale CCD	Glendale College	Allied Health /Aviation Lab	B	ce	9,196,000
25	Glendale CCD	Glendale College	New Science Building Equipment	B	e	735,000
26	Grossmont-Cuyamaca CCD	Cuyamaca College	Science & Technology Mall	B	ce	18,349,000
27	Grossmont-Cuyamaca CCD	Grossmont College	New Science Bldg.	B	ce	12,141,000
28	Hartnell CCD	Hartnell College	Library/Learning Resource Center Com	B	ce	20,198,000
29	Kern CCD	Bakersfield College	Applied Science and Technology Modern	C	c	4,017,000
30	Kern CCD	Porterville College	Library Expansion	B	pw	507,000
31	Kern CCD	Delano Center	Lab Building	B	ce	4,965,000
32	Kern CCD	Southwest Center	Modernization Phase I	C	c	2,636,000
33	Lake Tahoe CCD	Lake Tahoe Community Co	Learning Resource Center	B	ce	7,133,000
37	Los Angeles CCD	Los Angeles Mission Colleg	Child Development Center	D-1	ce	5,432,000
38	Los Angeles CCD	Los Angeles Southwest Col	Child Development Center	D-1	ce	4,482,000

California Community Colleges
Proposed Capital Outlay Spending Plan
2003-04

#	District	College	Project Name	Category	Ph.	Amount
39	Los Angeles CCD	Los Angeles Trade Tech Co	Child Development Center	D-1	ce	3,851,000
40	Los Angeles CCD	Los Angeles Valley College	Health Sciences Building	B	ce	14,214,000
41	Los Rios CCD	American River College	Learning Resource Center Expansion	B	ce	9,065,000
42	Los Rios CCD	American River College	Allied Health Modernization	C	c	1,724,000
43	Los Rios CCD	Consumnes River College	Instructional & Library Facilities 1	B	c	6,753,000
44	Los Rios CCD	Sacramento City College	Technology Building Modenization	C	c	1,562,000
45	Los Rios CCD	El Dorado Center	New Instructional & Library Facilities 1	B	ce	5,896,000
46	Los Rios CCD	Folsom Lake College Cente	New Instructional Space Phase 1C	B	c	10,749,000
47	Merced CCD	Merced College	Science Building Remodel	B	pw	1,048,000
48	Merced CCD	Los Banos Center	Site Development and Permanent Facili	B	pw	1,032,000
49	Mira Costa CCD	Mira Costa College	Horticulture Project	D	ce	3,356,000
50	Mt. San Antonio CCD	Mt. San Antonio College	Science Bldg. Replacement	A-2	e	326,000
51	Mt. San Antonio CCD	Mt. San Antonio College	Remodel Classroom Buildings	C	pwce	8,982,000
52	North Orange County CCD	Cypress College	Library/Learning Resource Center	B	ce	13,396,000
53	North Orange County CCD	Fullerton College	Library/Learning Resource Center	A-2	e	402,000
54	Palo Verde CCD	Palo Verde College	Technology Bldg. Phase II	B	ce	7,881,000
55	Palo Verde CCD	Palo Verde College	Physical Education Complex	D	pw	806,000
56	Peralta CCD	Vista College	Vista College Permanent Facility	B	ce	28,533,000
57	Rancho Santiago CCD	Santa Ana College	PE Seismic Replacement/Expansion	D	ce	5,524,000
58	Rancho Santiago CCD	Santiago Canyon College	Science Building	B	pw	773,000
59	Riverside CCD	Riverside City College	Martin Luther King High Tech Center	C	ce	8,711,000
60	Riverside CCD	Moreno Valley Center	Child Development Center	D	ce	2,090,000
61	Riverside CCD	Norco Valley Center	Child Development Center	D	ce	2,233,000
62	San Bernardino CCD	San Bernardino Valley Coll	Child Development Center	A-2	e	125,000
63	San Francisco CCD	Mission Center	Mission Center Building	B	ce	28,557,000
64	San Francisco CCD	Chinatown Campus	Campus Building	B	ce	33,180,000
65	San Jose-Evergreen CCD	San Jose City College	Science Building	A1	ce	12,535,000
66	San Luis Obispo CCD	Cuesta College	Theater Arts Bldg.	D-1	ce	11,665,000
67	San Luis Obispo County C	North County Center	Initial Bldg.. - Science Cluster	A-2	e	1,650,000
68	San Luis Obispo County C	North County Center	Learning Resource Center	B	pw	702,000
69	Santa Barbara CCD	Santa Barbara City College	Gymnasium Remodel	B	ce	3,701,000
70	Santa Barbara CCD	Santa Barbara City College	Physical Science Renovation	A-4	pw	159,000
71	Santa Clarita CCD	College of the Canyons	Classroom/High Tech Center	B	ce	8,878,000
72	Santa Monica CCD	Santa Monica College	Liberal Arts Replacement	B	pwce	4,458,000

California Community Colleges
Proposed Capital Outlay Spending Plan
2003-04

#	District	College	Project Name	Category	Ph.	Amount
73	Sequoias CCD	College of the Sequoias	PE & Disabled Program Center	D	pw	505,000
74	Sequoias CCD	College of the Sequoias	Science Center	B	ce	10,586,000
75	Shasta Tehama Trinity Jt C	Shasta College	Library Addition	B	ce	6,919,000
76	Sierra Jt. CCD	Sierra College	Construct New Classroom/Labs	B	pw	1,301,000
77	Sonoma County CCD	Petaluma Center	Petaluma Center, Phase 2	D	pw	1,669,000
78	Sonoma County CCD	Santa Rosa Jr. College	Learning Resource Center	B	ce	31,935,000
79	South Orange County	Irvine Valley College	Performing Arts Center	D	pwce	14,472,000
80	Southwestern CCD	Southwestern College	Child Development Center	D-1	ce	5,322,000
81	Southwestern CCD	Southwestern College	Learning Assistance Center	C	pw	2,367,000
82	State Center CCD	Fresno City College	Applied Technology Modernization	C	pw	962,000
83	State Center CCD	Reedley College	Learning Resource Center Addition	B	ce	5,498,000
84	State Center CCD	Vocational Training Center	Vocational Training Center Modernizati	C	p	777,000
85	Ventura County CCD	Moorpark College	Child Development Center	D-1	ce	2,901,000
86	Victor Valley CCD	Victor Valley College	Speech/Drama Studio Addition	D	pw	591,000
87	West Hills CCD	West Hills College	Library Expansion	B	ce	2,117,000
88	West Hills CCD	Lemoore College	Phase 2B Classrooms/Laboratories	B	ce	9,730,000
89	West Hills CCD	Lemoore College	Child Development Center	D	ce	1,902,000
90	West Kern CCD	Taft College	Child Development Center	D	pw	221,000
91	West Valley-Mission CCD	West Valley College	Campus Technology Center	B	pw	791,000
92	West Valley-Mission CCD	Mission College	Main Building 3rd Floor Reconstruction	B	ce	4,323,000
93	Yosemite CCD	Modesto Junior College	Auditorium Renovation/Expansion	D	pw	1,026,000
94	Yuba CCD	Yuba College	Adaptive Physical Therapy	A-2	e	44,000
95	Yuba CCD	Yuba College	Engineering, Math & Science	C	pw	685,000
96	Yuba CCD	Woodland Center	Science Building	A-2	e	714,000
97	Yuba CCD	Woodland Center	Learning Resources/Technology Center	B	pw	1,908,000
						$ 562,244,000

Jack Scott, Chair
Bob Margett
John Vasconcellos

March 10, 2003
Upon Adjournment of Session — Room 113

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Higher Education

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K –12 Education

I. Overview of Proposed 2003-04 Budget 2
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I. Overview

The 2003-04 Governor's budget proposes nearly $53.0 billion for K-12 education, which reflects a decrease of $497 million (0.9 percent) below the proposed 2002-03 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals $8,899 in 2003-04, a decrease of $173 below the $9,072 per-pupil in 2002-03.

Table 1
Summary of Expenditures

(dollars in millions)	2002-03 Revised	2003-04 Proposed	$ Change	% Change
General Fund	$28,286	$27,390	-$896	-3.2
Lottery Fund	800	800	0	0.0
Other State Funds	113	80	-34	-29.7
Local Property Taxes	13,140	13,775	635	4.8
Local Miscellaneous	3,716	3,716	0	0.0
Local Debt Service	828	828	0	0.0
Federal Funds	6,599	6,397	-202	-3.1
Total	$53,481	$52,985	-$497	-0.9

As indicated by Table 1, the $53.0 billion for K-12 education includes $27.4 billion from the state General Fund, $13.8 billion in local property taxes, $6.4 billion in federal funds, $800 million in state lottery funds and $80 million in other state funding.

The state General Fund provides 53 percent of school funding, while property taxes and other local revenues provide 35 percent and federal funds provide 12 percent. The state lottery contributes approximately 1.51 percent of this total.

As proposed, the budget General Fund decreases by $896 million (3.2 percent) and local property taxes increase by $635 million (4.8 percent). The budget also reflects a reduction of $202 million (3.1 percent) in federal funds.

II. Proposition 98 Update

Proposition 98 Funding

Total Proposition 98 funding for K-12 education in 2003-04 is proposed at $44.1 billion, an increase of $182 million (1.6 percent) over the revised 2002-03 budget.

Table 2
Proposition 98 Summary
(dollars in millions)

	2001-02	2002-03 Revised	2003-04 Proposed	$ Change	% Change
General Fund					
K-12 Education	$38,363	$39,297	$39,939	643	1.6
Community Colleges	4,429	4,505	4,063	-442	-9.8
Calif. Youth Authority	41	38	37	-.326	-1.1
State Schools	36	38	38	.133	.4
Dept. of Develop. Services	10	12	11	-.126	-.9
Dept. of Mental Health	18	18	3	-14.5	-81.0
Indian Education Centers*	4	4	0	-4	-100.0
Loan Repayment	350	0	0		
Total, General Fund	$29,682	$28,898	$28,225	-672	-2.4
Local Revenue	$13,570	$15,013	$15,868	854	5.7
Total, State and Local Funds	$43,252	$43,911	$44,093	182	.4
Proposition 98 K-12 ADA	5,809,083	5,895,275	5,954,154	58,879	1.0
K-12 funding per ADA (actual)	$6,455	$6,536	$6,708	$172	2.7

* Included in the Governor's Categorical Block Grant proposal in 2003-04.

As indicated in Table 2, of the total $44.1 billion in Proposition 98 spending proposed for 2003-04, $39.9 billion is attributable to K-12 and $4.1 billion is for Community Colleges. The K-12 share of the Proposition 98 minimum funding level increases by $643 million; whereas Community Colleges funding decreases by $442 million in the budget year.

Funding from the formula established in Proposition 98 also supports direct educational services provided by other departments and agencies such the California Youth Authority and the state's Schools for the Deaf and Blind.

The 2003-04 budget proposes to provide K-12 education funding that will exceed the Proposition 98 minimum guarantee by an estimated $104 million. In making this estimate, the Department of Finance uses Test 3, as adjusted to reflect the reduction of Child Care funds. The Governor proposes to shift Child Care programs out from under Proposition 98 as a part of a local government realignment proposal in 2003-04.

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 58,879 students in the budget year, an increase of 1.00 percent over the current year. Average per-pupil Proposition 98 funding is estimated to be $6,708 in 2003-04, an increase of $172 over the $6,536 per pupil funding in 2002-03.

Calculation of the Minimum Guarantee

Proposition 98, a constitutional amendment passed by the voters in 1988 and amended by Proposition 111, established a minimum funding level for K-12 schools and Community Colleges.

Proposition 98 funding is generally calculated as the greater of:

- Test 1 – a specified percent (approximately 34.5 percent) of state General Fund revenues.

- Tests 2 and 3 – The amount provided in the prior-year adjusted for K-12 ADA growth and an inflation factor. For "Test 2," this inflation factor is the percentage change in per-capita personal income. For "Test 3" the inflation factor is equal to the annual percentage change in per-capita state General Fund revenues plus 0.5 percent--used only when it calculates a guarantee that is less than that determined by "Test 2."

Note: Proposition 98 also includes a provision allowing the state to suspend the minimum funding level for one year through urgency legislation other than the Budget Bill.

The Governor's budget is based on the assumption that 2002-03 is a "Test 3" year and it fully funds the Proposition 98 minimum according to the Administration's estimates of the factors that determine that minimum. By contrast, the 2002-03 fiscal year is a "Test 2" year. (For additional detail on Proposition 98 calculations, please see Attachment A.)

Budget Issues/Actions:

1. LAO Proposition 98 Estimate. The Legislative Analyst's Office estimates that the Proposition 98 minimum guarantee for K-14 education is $373 million higher than the level assumed by the Governor's budget. (The LAO also estimates that the minimum guarantee is $93 million lower in 2002-03.)

The LAO's estimate of a higher minimum guarantee in the budget year is based upon three factors: (1) higher General Fund revenues -- $1.5 billion above the Governor's budget; (2) higher per capita personal income; and (3) slightly lower state population levels. The LAO also assumes that Proposition 98 will be under Test 2 in the budget year; whereas the Governor's budget assumes a Test 3 scenario.

The LAO recommends that if the minimum guarantee is higher than the level assumed in the Governor's budget that the Legislature consider two proposals for additional expenditures. These include: (1) paying off outstanding mandate claims costs (estimated at $871 in the budget year) and (2) providing up to $100 million for additional community college growth.

2. Suspension of AB 2781 Requirement to Fully Restore the Maintenance Factor. The maintenance factor is currently estimated at $3.5 billion. AB 2781, the original 2002-03 budget trailer bill, would require restoration of the maintenance requirement in the budget year, regardless of what the Proposition 98 calculation would otherwise require. Thus under AB 2781, the state would have to restore these funds -- estimated at $3.5 billion – in one year in 2003-04. This requirement was linked to the deferral of $1.1 billion in categorical program payments from 2001-02 and 2002-03. On top of the requirement to fully restore the maintenance factor, AB 2781 requires the state to overappropriate by an additional $78 million as an "interest" expense related to the deferral.

The budget assumes suspension of the requirements to restore the maintenance factor under AB 2781. The Governor proposes suspending this requirement and paying for these restorations over time, as provided under the Constitution (Proposition 98). In addition, the Governor proposes to delay the "overappropriation" of $78 million until the maintenance factor is fully restored. The Department of Finance has drafted trailer bill language to accomplish this.

The LAO supports the elimination of the maintenance requirement, beyond what would be required by Proposition 98. The LAO recommends that the Legislature adopt trailer bill language proposed by the Department of Finance to delay the restoration of the maintenance factor. They recommend eliminating the commitment to overappropriate the guarantee by $78 million.

3. K-12 and Community College Split. The Governor proposes a Proposition 98 "split" between K-12 schools and Community Colleges for 2003-04 of 90.8 percent for K-12 and 9.2 percent for Community Colleges.

For more than a decade, current law has required a Proposition 98 funding split between K-12 and Community Colleges of approximately 89 percent versus 11 percent. This split is based upon the percentage of Proposition 98 funding received by K-12 schools and Community Colleges in 1989-90. This statutory "split" has been suspended by the Legislature for more than ten years to reflect actual spending percentages.

The LAO recommends that the Legislature annually adjust the funding share to reflect its budget priorities relative to current circumstances.

III. Revenue Limits

School district revenue limits provide general purpose revenues for school districts and county offices of education. In contrast to categorical funds, which provide funds for specific purposes, revenue limit funding is viewed as discretionary funding for school districts.

Revenue limits were established in 1972 as a part of the state's response to the Serrano v. Priest State Supreme Court decision of 1971. Revenue limits were calculated to be equal to the per-student amount of general purpose state aid and local property taxes that a district received in 1972-73.

The budget fully funds statutory enrollment growth for apportionments to school districts, county offices of education and special education at a rate of 1.0 percent. The budget provides $358.7 million for apportionment growth, including $299.2 million for school districts, $22.3 million for county offices of education and $37.2 million for special education. The budget does not provide growth for any other categorical programs, except special education.

Budget Actions/Issues:

1. Equalization. The budget proposes $250 million for revenue limit equalization in 2003-04. This amount includes $203 million provided pursuant to AB 2781 (Chapter 1167; Statutes of 2002) and an additional $47 million set aside for pending legislation.

In the 1971 *Serrano* v. *Priest* state Supreme Court decision, the court specified a range (currently about $335.00) to measure equality in school funding. Approximately 98 percent of the state's pupils are funded within that range which meets the court's standards.

In the years following the *Serrano* decision, the Legislature has enacted several statutes designed to equalize revenue limits among the state's school districts.

The passage of SB 727 (Chapter 854, Statutes 1997) by both eliminating excused absences from the revenue limit calculation—beginning with the 1998-99 school year—and increasing revenue limits to offset the effect of lower attendance, also significantly changed revenue limit levels. To some extent SB 727 also increased the variation in revenue limits and changed which districts were above and below revenue limit averages.

The LAO has advised the Legislature in recent years that it will take a very long time to reach equalization targets. Specifically, the LAO has calculated it would take roughly 12-45 years to bring at least 95 percent of pupils to the same revenue limit depending on the "steepness" of the scale. As a result, the LAO has recognized that supplemental funds would be required to achieve a given equalization target in a short period of time.

While equalization funding was not included in the 2002-03 budget, AB 2781 included $406 million for equalization in 2003-04. AB 2781 distributed funds evenly on a pre-SB 727 and post-SB 727 basis. The Governor vetoed $203 million (half) of these funds provided for pre-SB 727 equalization, leaving $203 million for equalization. The $250 million for equalization proposed by the Governor in 2003-04 would be distributed according to a post-SB 727 formula.

The LAO recommends that the Legislature not fund the $250 million for revenue limit equalization proposed by the Governor in 2003-04, given the state's fiscal situation and the flexibility offered by the proposed categorical block grant. In addition, the LAO recommends that the Legislature delay revenue limit

equalization until a year when Proposition 98 can fund growth, COLAs, and pay off deferral payments.

2. Basic Aid Funds. The Governor's budget proposes a reduction of $17.8 million in 2003-04 to eliminate Basic Aid funding ($120/ADA) to high property value districts that receive more property tax revenue than is needed to fully fund their revenue limits. The Governor proposes to meet the state's constitutional obligation to provide Basic Aid through the provision of categorical funds to these districts.

For most of California's nearly 1,000 school districts, revenue limit income is derived from both local property taxes and state funds. For 82 California school districts local property taxes nearly equal or exceed the revenue limit amount, so they require little or no revenue limit funding from the state. However, because the State Constitution guarantees some "basic aid" funding for all school districts, these school districts receive $120 per student (or minimum $2,400 per district) from the state.

There are currently 82 school districts that receive basic aid funding from the state. The number of these districts -- known as basic aid districts -- can fluctuate each year, depending on their level of property taxes and the number of students enrolled in their district.

Of these 82 basic aid districts, 60 districts receive more local property taxes than is needed to fund their revenue limits. Therefore, these 60 districts do not receive revenue limit funds from the state, and instead receive state basic aid funds at the $120 per student level.

The remaining 22 districts receive slightly less in property taxes than necessary to fully fund their revenue limits. These districts receive part of their $120 per student funding in the form of basic aid and part in revenue limit funds from the state.

Basic aid funding is provided in lieu of revenue limits to comply with the constitutional requirements that all school districts receive some general purpose funding from the state. Basic aid districts also receive categorical program funds from the state. These categorical funds are not included in the calculations for determining these district's basic aid funding.

The Governor's proposal would utilize categorical funds to satisfy the state's constitutional requirement to provide $120 per student in basic aid. In so doing, the Governor's proposal defines state basic aid to include state categorical funds. The

Governor would deem categorical funds received by basic aid districts as satisfying the $120 per student obligation. According to the Department of Finance, all basic aid districts receive enough categorical funding to satisfy the $120 per student.

By counting other state categorical funds as basic aid, the state can eliminate separate basic aid payments and generate a reduction of $17.8 million in 2003-04.

The Governor proposed a reduction of basic aid funding of $15.3 million as a part of the mid-year reductions for 2002-03. The Governor estimated that this reduction equated to a 2.15 percent reduction in general purpose funding for basic aid districts, intended to match the Governor's 2.15 percent across-the-board reductions for revenue limits proposed in the current year. The Legislature rejected both the Governor's basic aid reduction proposal and the across-the-board reduction proposals as a part of the mid-year reductions.

The Governor's proposal to eliminate basic aid funding in the budget year would reduce the state General Fund by $17.8 million. The loss of these funds would reduce general purpose funding to basic aid districts by an estimated 2.5 percent.

The LAO recommends that the Legislature approve the Governor's proposal to eliminate basic aid payments entirely in 2003-04 for a savings of $17.8 million. The LAO feels that basic aid funds exacerbate wealth-related disparities among districts and if eliminated would help equalize school district revenue limits and provide savings to the state.

3. Basic Aid Districts – Excess Property Taxes. In addition to the elimination of basic aid funding, the Governor's Budget proposes $126.2 million in General Fund reductions from the recapture of excess property taxes from 60 basic aid school districts whose property tax revenues exceed their revenue limits. These excess taxes would be recaptured from these basic aid districts and then redistributed to offset revenue limit costs for K-12 schools and community colleges within the same county.

Under the Governor's proposal the savings from the recapture and redistribution of excess property taxes would result in a reduction of General Fund costs under Proposition 98 of $126.2 million. Redistributed funds would not increase funding to other K-12 schools and community colleges, but would offset (reduce) state General Fund costs for state aid to these schools and colleges.

School districts are currently allowed to keep excess property taxes. These retained taxes are not counted under Proposition 98. The level of excess taxes collected by the 60 basic aid districts ranges significantly. According to data developed by LAO at the request of Subcommittee staff, excess property taxes ranged from $61 per student to $13,720 per student in 2001-02. The average level of excess property taxes for districts was $1,727.

According to the Department of Finance (DOF), total excess taxes are projected at $160.1 million in 2003-04, or 4.4 percent above the $153.3 million projected in 2002-03. However, actual figures from DOF indicate that excess taxes have been increasing at a higher rate in recent years. Between 2000-01 and 2001-02 – the latest actual data available – excess property taxes grew from $94.7 million to $147.8 million, an increase of 56.1 percent.

The LAO predicts that actual excess taxes will be higher than projected by DOF in 2002-03 and 2003-04. Clearly, excess taxes have increased significantly recently. The LAO cites escalating property tax values and high turnover rates for property as the reason behind this increase.

According to the LAO, excess property taxes contribute to inequities in general purpose funding among school districts in the state – a circumstance that gives excess tax districts clear funding advantages for serving their students. According to LAO data requested by the Subcommittee, general purpose funding for basic aid districts with excess taxes ranges from $4,539 to $19,763 per student. The average is $6,526 per student, as compared to a statewide average of $4,525.

However, the LAO indicates that the Governor's proposal – which reduces excess taxes for basic aid districts by 78 percent – would cause "severe disruption" to districts that rely on large tax revenues. For the average basic aid district, the loss of excess taxes would result in a 20 percent reduction in general purpose funding. Reductions would reach as high as 50 percent for a few districts.

Accordingly, the LAO does not recommend approval of the Governor's budget to capture $126.2 million in excess property taxes from basic aid districts.

The LAO does support some reduction of excess property taxes for these 60 basic aid districts. Specifically, the LAO recommends that the Legislature place a cap on the amount of excess property taxes districts can keep as general purpose funds.

The LAO further recommends that taxes above this level be redistributed to other K-12 schools and community colleges in the same county, as proposed by the Governor.

The LAO suggests the cap on excess property taxes be set at levels received in 2001-02. This LAO alternative would result in savings of $65 million in 2003-04. The LAO does not believe a reduction of this magnitude would harm districts. According to the LAO, the additional funds resulting from the 56.1 percent increase in excess property taxes in 2001-02 may not have been fully scheduled in district budgets and could give them a cushion to absorb reductions resulting from the cap.

5. Public Employees Retirement System (PERS). The Governor's Budget proposes to fully fund the 9.5 percent increase in the PERS rate, providing a $381.7 million increase in funds for school districts and county offices of education.

6. PERS Offset. The budget does not provide funding to buyout the PERS offset and thereby proposes elimination of $35 million appropriated pursuant to Chapter 2, Third Extraordinary Session, Statutes of 2002.

The 2001-02 Budget Act, as enacted in July 2001, provided $35 million in discretionary funding for school districts in the form of a PERS Revenue Limit Offset pursuant to Chapter 794, Statutes of 2001 (SB 6, O'Connell). The "PERS offset" statute "passes through" to the state all savings or costs that otherwise would accrue to K-12 agencies from annual changes in the employer rate.

It was the Legislature's intent that the PERS offset program (and the equalization program) be "ongoing," (i.e., continuously appropriated a part of a district's base revenue limit). However, Chapter 2, Statutes of 2002, Third Extraordinary Session (SBX3 5, Peace), which enacted the mid-year budget adjustment proposal for education for 2001-02, altered, at least temporarily, that intent. While preserving funding for both the PERS offset appropriations, SBX3 5 "suspended," until the 2003-04 fiscal year, the statute assuring continued funding.

The Governor vetoed the $36 million augmentation the Legislature provided for the PERS offset in the 2002-03 Budget Act.

The LAO recommends delaying additional funding for the PERS offset until the state is able to fully fund growth, COLA and pay off its deferrals.

IV. Cost-of-Living Adjustments (COLA)

Budget Issues/Actions:

1. Cost of Living Adjustments (COLAs). The Governor's Budget does not fund cost-of-living adjustments (COLAs) for any education programs -- revenue limits or categorical programs -- in 2003-04. The Governor proposes savings of $800.5 million assuming a COLA of 1.96 percent.

The Governor's Budget estimate for a budget year COLA changed at the time the budget was released. The Governor now estimates that the statutory COLA for the budget year is 1.55 percent.

According to the LAO, suspending the COLA in the budget year results in savings of $635 million assuming a 1.55 percent COLA. Total savings in the budget year include $441 million for revenue limits to school districts and county offices of education and $194 million for categorical programs subject to the statutory COLA.

The 2002-03 budget provides a 2.0 percent COLA for revenue limits and categorical programs; the Legislature did not revise the COLA as a part of the mid-year reductions contained in SBX1 18.

The 1.55 percent COLA now estimated for 2003-04 is subject to adjustment. The Department of Finance will report the official percentage change as part of the Governor's "May Revise". The annual inflation percentage for K-12 revenue limits is established by statute. It is calculated as the annual percentage change in the "Implicit Price Deflator" for *State and Local Government Purchases of Goods and Services for the United States*, as published by the United States Department of Commerce each May.

2. Deficit Factor. The Governor's budget does not provide a "deficit factor" for revenue limit COLA reductions that would allow funds to be claimed and restored when economic conditions improved.

During the recession years of the early 1990's, the statutory COLA for revenue limits was not fully funded. The state created a second set of revenue limits, called "deficited" revenue limits. Deficited revenue limits reflect the amount that the state actually provides to school districts and county offices of education for revenue limits. The state keeps track of the difference between base revenue limits and deficited revenue limits – by acknowledging through statute a revenue limit deficit factor. The deficit factor specifies the amount the state owes schools by a percentage that is approved as part of the annual budget process.

The Legislature has approved deficit reduction funding for revenue limits, in years when the statutory COLA has not been fully provided.

The LAO recommends that the Legislature not create a deficit factor for revenue limits if it does not fund the statutory COLA. The LAO believes that this position would give the Legislature more flexibility to spend funds in future years while still permitting the Legislature to restore COLA if it desired.

V. No Child Left Behind (Information Item)

1. Implementation Status

In January 2002, President Bush signed legislation re-authorizing the Elementary and Secondary Education Act (ESEA). The newly signed law –No Child Left Behind Act (NCLB) of 2001– makes sweeping changes to the previous Title I program under the ESEA law.

NCLB authorizes approximately $21.8 billion in federal fiscal year (FFY) 2003 for federal elementary and secondary education programs targeted to economically disadvantaged students. Of this amount, California is slated to receive $2.9 billion in funds to implement NCLB in 2003-04.

While NCLB authorizes new education programs and funds for states, it also places significant new assessment and accountability requirements on states in exchange. Most notably, states must develop an accountability plan to define student proficiency according to standards-aligned assessments, require all students to reach proficiency in English language arts and math in 12 years, and require all schools to make adequate yearly progress (AYP) for all students (including student subgroups) in reaching this proficiency goal. States are required to develop a

single-state accountability system in meeting the requirements of NCLB and establish interventions and sanctions for Title I schools that do not make AYP.

In addition, under the new law, all teachers in California must be highly qualified within four years. Effective this year, all newly hired teachers in Title I schools must meet the state's definition of highly qualified.

In implementing the new accountability provisions of NCLB, California has met many of the requirements of the act through our state's existing accountability system established under the Public Schools Accountability Act (PSAA). However, alignment of our state accountability system with the NCLB presents many challenges.

The State Board has responsibility for approving state plans under NCLB and has been very focused on this and other major requirements of NCLB in the last six months as it prepared our state's accountability plan for NCLB. The board approved a final plan and submitted it to the US Department of Education in January.

In May 2003, the board must also approve a definition of highly qualified teacher, another major requirement of NCLB. State Board staff has indicated recently that state's may have additional time – possibly until September 2003 -- to submit their official definitions to the US Department of Education.

Nearly one year ago, at their May 30, 2002, meeting, the board approved a definition of highly qualified teacher as a part of its first consolidated application for NCLB. While not required for another year, the approval and inclusion of this definition by the State Board attracted some criticism, most notably from U.S. Representative George Miller, who felt the definition of the highly qualified approved by the board undermined provisions of NCLB he had worked so hard to secure.

As a part of the consolidated application approved last May the State Board also approved the California Reading First Application – another action tied to implementation of NCLB that also attracted some criticism. California received $133 million in funding for this new Title I program in 2003-03 to ensure that every student can read at or above grade level before the end of third grade.

The Reading First Plan approved by the State Board was developed by the governor, State Board and superintendent and adopted at their May 29, 2002. At

that meeting the board received criticism for not including educational stakeholders in development of the Reading First plan and about the lack of time group's had for reviewing the plan and providing input.

The Legislature passed AB 312 (Strom-Martin) in 2002 to create another role for the Legislature in implementation of NCLB. As enacted, AB 312 establishes a 15-member liaison team, including 10 members representing or appointed by the Legislature, to advise the Superintendent of Public Instruction and the State Board of Education on all appropriate matters related to the implementation of NCLB. The bill also requires the board to provide the same information about meeting agenda items on the internet as it provides for board members.

Budget Issues/Questions:

- *What is the status of our state's NCLB accountability plan submitted to the US Department of Education (USDE) in January? Are there some components of the plan that may not be approved?*

- *What are the costs associated with implementation of our NCLB accountability plan?*

- *How would we assess the level of federal funding available to states for implementation of NCLB? What is the federal commitment to funding implementation of NCLB?*

- *What are the costs to our state in assuring that all public school teachers in California are "highly qualified", as defined in NCLB?*

- *How has the State Board involved the new Legislative Liaison Committee established by AB 312? How has the board been utilizing the recommendations of the AB 312 Liaison Committee in developing a definition of "highly qualified teacher", which may be due to the US Department of Education as early as this May.*

2. Data Collection -- CSIS Expenditure Plan. Under NCLB, states must maintain a comprehensive data system as a part of their accountability systems. NCLB requires a range of performance indicators and will require a wide range of data to be collected at the student school and state levels.

While some of this data is currently available, new data systems will have to be developed and existing systems modified to capture all the data and meet the new reporting requirements. While California collects data about students, it does not collect student-level data that allows the state to track student level outcomes, such as graduation rates required by NCLB.

Senate Bill 1453 (Alpert), enacted in 2002, requires the CDE to contract with an entity to develop, host and maintain a longitudinal pupil achievement data system for the STAR, California English Language Development Test (CELDT), and the High School Exit Examination (HSEE).

The Department of Finance (DOF) recently notified the Legislature via a letter dated February 21, 2003, that they have partially approved an expenditure plan for the longitudinal data system required by SB 1453. The expenditure plan was submitted to DOF by the California Department of Education and the California Information Services (CSIS). Of the $6.9 million in federal Title VI funds appropriated in the 2002-03 budget pursuant to SB 1453, the DOF has approved $460,000 in the current year (to-date). DOF anticipates approving another $1.1 million in 2003-04.

The LAO is concerned that the DOF is delaying the development of the longitudinal data system, which is needed to satisfy NCLB requirements under our state's agreements and plans with the US Department of Education. As a result, California may not be able to achieve compliance with NCLB. In particular, the LAO questions whether California will be able to provide student graduation data and other student outcome data, especially for English learners and migrant students, as required by NCLB,

The Subcommittee will consider several budget items related to data systems at the April 21st hearing on assessment and accountability.

Budget Issues/Questions:

- *How is California going to meet the data requirements of NCLB without a data reporting system that provides student level data? For example, how will California meet the graduation rates required by NCLB?*
- *How would you view our state's progress in implementing student level data in the short-term and long-term?*
- *What can the Department of Finance do to expedite the approval of the SB 1453 funds for development of the longitudinal data system without compromising proper review?*

VI. Federal Funds (Information Item)

The California Department of Education receives state grant funding from three major federal agencies – the Department of Education, the Department of Health and Human Services and the Department of Agriculture. Four federal programs – child nutrition (school meals), Title I (compensatory education), child development (child care) and special education -- provide most of the funding to K-12 schools in California. These four programs are among the largest federal grant programs to our state overall.

Table 3. Federal Funds – Agency/Program	**FFY 2002**	**FFY 2003**	**Change**
US Dept. of Education:			
Title I Compensatory Education & School Improvement -- NCLB	2,600,480,613	2,905,030,045	304,549,432
Special Education – IDEA	821,511,208	972,653,299	151,142,091
Vocational and Adult Education – Perkins & WIA,	220,163,657	220,962,820	799,163
Subtotal, USDE Funds	***3,642,155,478***	***4,098,646,164***	***456,490,686***
US Dept of Agriculture:			
School Nutrition – School Lunch, Breakfast, Summer Meal Programs	1,413,656,000	1,433,365,000	456,490,686
Subtotal, USDA Funds	***1,413,656,000***	***1,433,365.000***	***19,709,000***
US Dept of Health & Human Services:			
Child Care & Development – TANF & Child Care Development Block Grant	890,628,000	863,047,000	27,581,000
Subtotal, USHHS Funds	***890,628,000***	***863,047,000***	***-27,581,000***
Total, Federal Funds K-12 Education Funds to California	***5,946,439,478***	***6,395,058,164***	***488,618,686***

The Governor's Budget reflects $5.9 billion in federal funds in 2003-04, a decrease of $191 million, or 3.1 percent from 2002-03. The Governor's figures will be updated in the May Revise to more accurately reflect federal appropriations for FFY 2003, as passed by Congress and signed by President Bush last month.

According to new information released by the U.S. Department of Education February 28, 2003 (Table 3), California will receive a total of $6.4 billion in federal education funds in 2003-04 (FFY 2003), an increase of $449 million, or 7.0 percent from 2002-03. (See Attachment B for additional detail.)

Federal funds appropriated from U.S. Department will increase by $456.5 million, or 11.1 percent in 2003-04, to California. This includes an increase of $304.5 million (10.5 percent) for programs authorized under No Child Left Behind -- including Title I programs -- in 2003-04. In addition, special education funds authorized under the Individuals with Disabilities Education Act will increase by $151.1 million (15.5 percent) in 2003-04.

The Subcommittee will consider budget items appropriating these federal funds at future budget hearings.

Attachment A
Proposition 98 Guarantee

Figure 3

Proposition 98 at a Glance

Funding "Tests"

Proposition 98 mandates that a minimum amount of funding be guaranteed for K-14 school agencies equal to the greater of:

- A specified percent of the state's General Fund revenues (Test 1).
- The amount provided in the prior year, adjusted for growth in students and inflation (Tests 2 and 3).

Test 1—Percent of General Fund Revenues

Approximately 34.5 percent of General Fund plus local property taxes.

Requires that K-12 schools and the California Community Colleges (CCC) receive at least the same share of state General Fund tax revenues as in 1986-87. This percentage was originally calculated to be slightly greater than 40 percent. In recognition of shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 34.5 percent.

Test 2—Adjustments Based on Statewide Income

Prior-year funding adjusted by growth in per capita personal income.

Requires that K-12 schools and CCC receive at least the same amount of combined state aid and local tax dollars as was received in the prior year, adjusted for statewide growth in average daily attendance and inflation (annual change in per capita personal income).

Test 3—Adjustment Based on Available Revenues

Prior-year funding adjusted by growth in per capita General Fund.

Same as Test 2 except the inflation factor is equal to the annual change in per capita state General Fund revenues plus 0.5 percent. Test 3 is used only when it calculates a guarantee amount less than the Test 2 amount.

- **Test 3B Supplement.** Statute requires that, in Test 3 years, K-14 Proposition 98 funding per student grow at least as fast as per capita General Fund spending on non-Proposition 98 programs. This can require that a supplemental amount be added to the minimum guarantee.

Other Major Funding Provisions

Suspension

Proposition 98 also includes a provision allowing the state to suspend the minimum funding level for one year through urgency legislation other than the budget bill.

Restoration ("Maintenance Factor")

Following a suspension or Test 3 year, the Legislature must increase funding over time until the base is fully restored. The overall dollar amount that needs to be restored is referred to as the maintenance factor.

Source: Office of the Legislative Analyst, *Analysis of the Budget Bill, 2003-04.*

Attachment B
Federal Education Funding to California
2003-04 Funds (FFY 2003)

http://www.ed.gov/offices/OUS/Budget04/04StateTables/index.html

DEPARTMENT OF EDUCATION
Funds for State Formula-Allocated and Selected Student Aid Programs for California

	2002 Actual	2003 Estimate	2004 Estimate	Change from 2003 Estimate
ESEA Title I Grants to Local Educational Agencies	1,448,833,975	1,650,269,554	1,769,987,769	119,718,215
Reading First State Grants	132,975,120	146,607,788	154,318,058	7,710,270
Even Start	31,210,336	31,114,795	22,361,698	-8,753,097
State Agency Program--Migrant	127,545,988	127,352,026	127,545,988	193,962
State Agency Program--Neglected and Delinquent	3,888,998	3,945,150	3,888,998	-56,152
Comprehensive School Reform (Title I)	30,996,645	31,096,447	0	-31,096,447
Subtotal, Education for the Disadvantaged	1,775,451,062	1,990,385,760	2,078,102,511	87,716,751
Impact Aid Basic Support Payments	54,945,425	64,027,126	54,443,669	-9,583,457
Impact Aid Payments for Children with Disabilities	3,752,582	4,246,947	3,697,327	-549,620
Impact Aid Construction	808,762	1,070,398	1,077,401	7,003
Impact Aid Payments for Federal Property	15,341,176	22,653,970	20,902,003	-1,751,967
Subtotal, Impact Aid	74,847,945	91,998,441	80,120,400	-11,878,041
Improving Teacher Quality State Grants	332,170,724	343,146,923	332,170,724	-10,976,199
21st Century Community Learning Centers	41,494,874	76,288,342	81,668,588	5,380,246
Educational Technology State Grants	85,123,372	89,303,765	94,262,499	4,958,734
State Grants for Innovative Programs	46,714,168	46,410,525	46,714,168	303,643
State Assessments	29,379,201	30,621,018	31,862,834	1,241,816
Education for Homeless Children and Youth	6,975,128	7,667,371	7,086,073	-581,298
Rural and Low-Income Schools Program	2,719,404	2,805,640	0	-2,805,640
Small, Rural School Achievement Program	4,269,841	4,394,734	0	-4,394,734
Indian Education--Grants to Local Educational Agencies	6,551,544	6,508,988	6,551,544	42,556
Fund for the Improvement of Education--Comprehensive School Reform	9,219,549	9,159,623	0	-9,159,623
Safe and Drug-Free Schools and Communities State Grants	61,558,718	60,756,063	50,849,009	-9,907,054
State Grants for Community Service for Expelled or Suspended Students	6,724,307	6,652,068	0	-6,652,068
Language Acquisition State Grants	117,280,776	138,930,784	154,402,224	15,471,440
Subtotal, All of the Above Programs Comprising the *No Child Left Behind Act of 2001*	2,600,480,613	2,905,030,045	2,963,790,574	58,760,529
Special Education--Grants to States	781,662,507	933,124,077	1,015,901,895	82,777,818
Special Education--Preschool Grants	39,848,701	39,529,222	39,766,591	237,369
Grants for infants and Families	49,954,044	52,016,926	53,559,454	1,542,528
Subtotal, Special Education	871,465,252	1,024,670,225	1,109,227,940	84,557,715
Vocational Rehabilitation State Grants	243,137,267	247,893,144	252,173,276	4,280,132
Client Assistance State Grants	1,207,727	1,232,680	1,215,099	-17,581
Protection and Advocacy of Individual Rights	1,514,547	1,693,359	1,801,732	108,373
Supported Employment State Grants	4,125,408	4,121,064	0	-4,121,064
Independent Living State Grants	1,980,087	1,978,147	2,000,031	21,884
Services for Older Blind Individuals	2,290,298	2,622,009	2,305,462	-316,547
Protection and Advocacy for Assistive Technology	50,000	455,130	0	-455,130
Subtotal, Rehabilitative Services and Disability Research	254,305,334	259,995,533	259,495,600	-499,933
Vocational Education State Grants	129,790,082	131,157,822	0	-131,157,822
Tech-Prep Education State Grants	12,177,613	12,094,529	0	-12,094,529
Secondary and Technical Education State Grants	0	0	104,023,667	104,023,667
Adult Basic and Literacy Education State Grants	0	0	77,490,942	77,490,942
Adult Education State Grants	56,712,395	56,334,940	0	-56,334,940
English Literacy and Civics Education State Grants	19,731,154	19,480,861	0	-19,480,861
State Grants for Incarcerated Youth Offenders	1,752,413	1,894,668	0	-1,894,668
Subtotal, Vocational and Adult Education	220,163,657	220,962,820	181,514,609	-39,448,211
Federal Pell Grants	1,416,700,000	1,394,200,000	1,366,300,000	-27,900,000
Federal Supplemental Educational Opportunity Grants	76,510,940	80,207,474	76,510,940	-3,696,534
Federal Work-Study	111,356,320	110,632,504	111,356,320	723,816
Federal Perkins Loans--Capital Contributions	11,298,174	11,224,736	0	-11,224,736
Leveraging Educational Assistance Partnership	10,298,903	10,231,960	0	-10,231,960
Federal Direct Student Loan Program	1,074,623,983	1,173,361,784	1,253,620,726	80,258,942
Federal Family Education Loan Program	2,569,415,282	2,832,590,377	3,048,968,808	216,378,431
Byrd Honors Scholarships	5,101,500	5,071,500	5,106,000	34,500
Total	9,221,719,958	10,028,178,958	10,375,891,517	347,712,559

NOTE: For fiscal year 2004, the President is proposing to replace the current vocational and adult education State grant programs with two new formula programs: Secondary and Technical Education State Grants, which is requested at $1 billion; and Adult Basic and Literacy Education State Grants, which is requested at $584.3 million. The amount showing for each proposed program is a preliminary estimate which may change after authorizing legislation is enacted.

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

Monday, March 17, 2003
1:30 p.m. (or upon adjournment of the Senate Floor Session)
Room 113

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I. INTERSEGMENTAL ISSUES

A. ENROLLMENT GROWTH

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2003-04 budget proposes to augment the budgets of the University of California and the California State University by a total of $268.1 million ($117.2 million and $150.9 million respectively) to support the projected enrollment growth for the 2003-04 academic year.

University of California: Specifically, the Governor proposes to provide $117.2 million to UC to support 13,000 full time equivalent students (FTES). Of this amount, 5,000 students (2.4 percent) are already enrolled on UC's campuses, without any financial support from the state. The remaining 8,000 FTE (4.5 percent) are expected to enroll next year. This equates to total enrollment growth funding of 6.9 percent.

California State University: The Administration proposes to provide $150.9 million to support 22,880 new FTE students (which equates to 7.1 percent growth) at the CSU. $45 million of these funds are attributable to 6,824 students (2.1 percent) who already enrolled on CSU campuses; the remaining $105.9 million will support projected growth of 5.0 percent (16,056 students).

In dramatic contrast, enrollments are expected to decline by 5.7 percent at the California Community Colleges (*Note: This issue will be heard at a separate hearing on April 7, 2003*).

LEGISLATIVE ANALYST RECOMMENDATION. The LAO believes that the level of enrollment growth funding proposed by the Governor's Budget is neither necessary nor prudent. According to the LAO, it "cannot find a basis for assuming, in a time of fee increases, such a large increase in enrollment at the higher-cost [UC/CSU] institutions while assuming such a large decrease in enrollment at the lower-cost institutions [community colleges]."

As an alternative, the Analyst recommends funding budget-year enrollment growth at four percent for both UC and CSU; this recommendation would result in savings (from the Governor's Budget) of $114.9 million. In support of its recommendation, the LAO notes that campuses are already serving the "over-enrollment" in the current year and providing the universities with funding for these same students in the budget year does nothing to increase student access.

STAFF COMMENTS. *Staff notes* that the timing of the LAO's recommendation may be problematic given that the UC and CSU are currently sending out acceptance letters to students and any changes to enrollment growth policies for 2003-04 would be difficult

for the institutions to implement. Further, it is unclear if the UC and CSU could rescind or amend student acceptance letters that have already been sent.

Further, *staff notes* that the LAO's recommendation to not fully-fund projected enrollment runs counter to past Legislative and Administration practice which has, in recent history, made a point of providing funding to UC and CSU based on the institutions estimates of enrollment growth.

Also, it is important to note that, determining how much to budget for enrollment growth at UC and CSU is a way to, rather indirectly, set higher education enrollment policies statewide. Failing to provide adequate support to the UC and CSU would likely result in campuses not enrolling students in excess of their funded FTES; the outcome of which may run counter to the Master Plan, which essentially guarantees a place for all eligible students.

Further, if the Legislature continuously fails to provide enough funding for universities to offer the courses students need to complete their degrees, in the end, students will make a choice to leave the campus and enroll somewhere that can provide them with the courses and sections they need at a cost (and a financial aid package) that seems reasonable. In some cases this may mean a shift of students to the community colleges or to private institutions. In other cases, students may drop out choosing to either postpone or not pursue a degree.

B. INSTITUTIONAL CAMPUS-BASED FINANCIAL AID

BACKGROUND. Financial assistance for students comes in many forms and is offered by many entities. The major forms of financial assistance for postsecondary students includes grants (scholarships and fellowships), loans, work study, investment accounts, and tax credits. The major providers of financial assistance are the federal government, state government, universities, and private benefactors.

The state of California provides student financial aid through the Cal Grant Program, university-based institutional aid, and Governor's Merit Scholarships. Each of the public university systems administers its own financial assistance programs (known as "campus-based financial aid") using dollars derived from student fees and/or the state General Fund.

GOVERNOR'S BUDGET PROPOSAL. The Administration's budget proposal retains the current policy of the UC Board of Regents and the CSU Board of Trustees which returns one-third of the new student fee revenue derived from fee increases to campus-based financial aid. Under current practice, the UC and CSU retain the authority to distribute these funds to students on their campuses as they see fit. Due to the proposed increases in student fees, campus-based financial aid programs are proposed to rise for UC and

CSU by $95 million and $71 million respectively, for a total of $246.6 million at the UC and $193.5 million at the CSU.

LEGISLATIVE ANALYST RECOMMENDATION. The Legislative Analyst has a variety of recommendations aimed at student financial aid. The recommendations which focus on Cal Grants and other programs administered by the Student Aid Commission were heard by this committee on March 3, 2003. The remaining recommendations focus on the Governor's Merit Scholarship Program (*which is slated to be heard by this committee on May 5, 2003*) and campus-based financial aid.

The LAO believes that, under current practice, there is a disconnect between the original intent of setting aside one-third of new fee revenue for financial aid, and the current campus-based aid programs. Specifically, the LAO sites the original intent behind the "return-to-aid" policy as insuring that financially-needy students are covered when fees are increased. However, the LAO notes that under the Cal Grant Program, financially-needy students who are also academically meritorious, will have the amount of the fee increases covered by an accompanying increase in their Cal Grant award. With this in mind, the LAO notes the following questions:

- How are the UC and CSU using their campus-based financial aid monies?
- Should the state, rather than the educational systems, determine how these dollars (which are derived from student fee increases) are re-allocated amongst students?

The LAO proposes a much more centralized approach to financial aid that places the state in the role of providing oversight over how campus-based (and student fee-derived) financial aid dollars are expended. Specifically, the LAO recommends that the legislature: (1) appropriate all campus-based financial aid funding through the Budget Act; (2) reduce the amount of funding provided in the Governor's Budget for campus-based financial aid; (3) adopt Budget Bill Language specifying how campus-based financial aid dollars should be expended; and (4) begin working with the university segments and interested parties to develop legislation to express the objectives of financial aid policy and more clearly identify the intended beneficiaries of the funds.

STAFF COMMENTS. Contrary to the recommendations of the LAO, *staff notes* that the administration of financial aid programs appears to be moving from a state-administered, overly bureaucratic, and centralized system to one that is campus-based, student-centered and more flexible in nature. The California Postsecondary Education Commission, in its review of the administration of the Cal Grant Program (a report which was requested by the Legislature), noted that the Cal Grant Program -- which is centrally administered by the California Student Aid Commission -- would better serve students if the

administration of the program moved towards a more decentralized, campus-based model.

Further, *staff notes* that there continues to be a need to allow campus financial-aid officers to work with, and meet the unique circumstances of, students on a case-by-case basis. Many times students have unanticipated financial needs or needs that aren't reflected in their student aid application from the prior Spring. Altering the process by which campus-based financial aid dollars are allocated could make it difficult for students to work with their financial aid administrators, mid-year, to make changes and receive additional needed aid.

C. STUDENT FEES

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2003-04 budget proposes to increase student fees at UC and CSU by 35 percent over the amount student's paid in the Fall of 2002; ten percent of this increase was already imposed on students beginning this semester/term and the remaining 25 percent would be assessed beginning in the Fall of 2003. The funds derived from this fee increase would be used to: (1) "backfill" a combination of allocated and unallocated reductions proposed by the Governor for the UC and CSU; and (2) support financially-needy students on a campus-by-campus basis.

Specifically, student fees are proposed to increase as follows:

Proposed UC and CSU Systemwide Fees[a]

			Change			Change From 2001-02	
	2001-02	2002-03[b]	Amount	Percent	2003-04 Proposed	Amount	Percent
UC							
Undergraduates	$3,429	$3,834	$405	12%	$4,629	$1,200	35%
Graduates	3,609	4,014	405	11	4,869	1,260	35
CSU							
Undergraduates	$1,428	$1,572	$144	10%	$1,968	$540	38%
Graduates	1,506	1,734	228	15	2,082	576	38

[a] For UC amounts include educational fee and registration fee. For CSU amounts include systemwide fee. Students also pay campus-based fees.

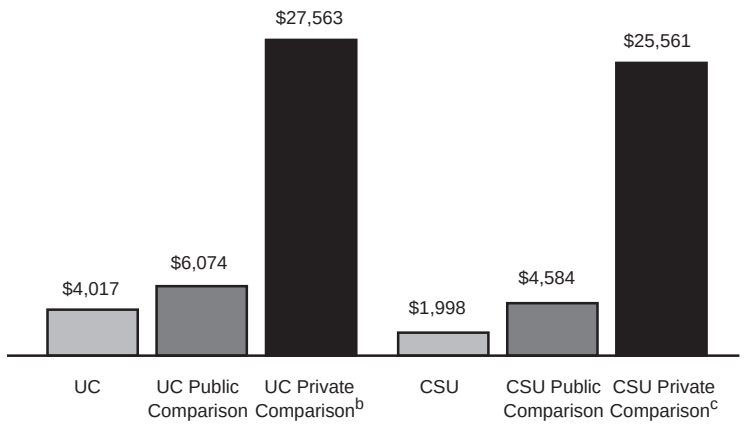
[b] Fee that would result if spring 2003 increases were applied to all quarters/semesters of the academic year.

DETERMINING THE APPROPRIATE FEE LEVEL. Without an explicit student fee policy (statutory or otherwise) to guide the Governor or the Legislature, the Administration's budget proposal continues the "boom and bust" cycle of student fees, which holds stable or decreases student fees in good economic times and dramatically increases fees when

the economy is struggling. The UC Board of Regents and, in the absence of a statutory policy, the CSU Board of Trustees, have the authority to set student fee levels for students attending their institutions; the fee level for students attending community colleges is set at a per unit rate in statute.

In comparison to colleges nationwide, *staff notes* that the fee levels at UC and CSU (as proposed to be increased) still fall below the national average for like-institutions.

California Annual Student Fees Versus National Comparisons[a]



[a] The UC and CSU amounts include mid-year fee increases in spring 2003. The data for UC and CSU comparison institutions represent 2002-03 fee levels.
[b] The UC's private comparison institutions are Yale, Harvard, Massachusetts Institute of Technology, and Stanford.
[c] The CSU's private comparison institutions are Bucknell, Tufts, Loyola, Reed, and USC.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION RECOMMENDATIONS. As part of last year's budget deliberations, the Legislature adopted Supplemental Report Language requesting that the California Postsecondary Education Commission (CPEC) develop recommendations (with the input of various constituency groups) regarding a long-term student fee policy. As part of its report on this topic, CPEC outlined a variety of policy principles and an implementation framework for consideration by the Legislature. More specifically, CPEC's principles for the development of a student fee policy included the following: (1) fee increases should be gradual, moderate and predictable so that students and families can prepare financially for college; (2) the total cost of receiving a college education is one that should be shared by students, families and the State; (3) student fee costs, and associated changes, should take into account the total cost of college attendance as well as a family's ability to pay; (4) financial aid resources should be used to protect financially-needy students from increased fee costs; (5) it is appropriate for students enrolled in graduate and professional-level programs to pay a higher fee.

Further, CPEC proposes a framework for implementing fee increases that: (1) places the bulk of the responsibility for annually adjusting student fees on the UC and CSU; (2) requires the UC and CSU to develop a student fee methodology and report annually on the impact of the methodology; (3) requires the UC and CSU to act on proposed changes to student fees no later than November 30th and notify students of the proposed changes at that time; (4) recommends that the Legislature and the Governor avoid "backfilling" student fee increases and instead let fees increase or decrease in a manner determined by the segments.

LEGISLATIVE ANALYST RECOMMENDATION. Drawing upon its previously discussed recommendation to decrease the amount of fee revenue that is diverted for campus-based financial aid, the LAO recommends that the Legislature increase student fees for UC and CSU resident undergraduates by 15 percent, rather than the 25 percent proposed in the budget year. Further, the LAO proposes an increase of 20 percent, for graduate student fees at the UC rather than the 25 percent proposed in the Governor's Budget. In order to provide the same amount of revenue to the campuses (in order to backfill the Governor's proposed reductions), the LAO recommends that the segments direct a much smaller amount of new fee revenue to campus-based financial aid rather than the current policy of one-third.

STAFF COMMENTS. *Staff notes* that the recommendations put forward by CPEC represent a sound, albeit dramatic, change in student fee policy for the state, and as such should be placed in legislation and evaluated through the legislative process.

Further, *Staff notes* that if the Legislature agrees with the current practice of returning one-third of the new student fee revenue to student financial aid, then the above LAO recommendation related to student fees is moot.

II. University of California

OVERVIEW OF GOVERNOR'S BUDGET. The Governor's 2003-04 Budget provides for a General Fund appropriation of approximately $3 billion, which is a net reduction of $134 million (-4.2 percent) from estimated current-year expenditures. Major reductions include a base budget reduction of $299 million; of this amount, $195 million are implemented as unallocated reductions and $89 million reflects the continuation of current year reductions into the budget year. In addition, the budget proposes to dismantle all but one of the California Subject Matter Projects for a savings of $15 million.

The revenue derived from the proposed student fee increases (less one-third for financial aid) will offset approximately $130 million of the Governor's proposed reductions. Further offsetting the proposed reductions are augmentations for the following: $117 million for

enrollment growth (as discussed earlier in this hearing); $24.4 million for lease revenue debt service; $16.1 million for increased costs of annuitant health and dental benefits; and $11.3 million for UC Merced.

While the reductions proposed by the Governor's Budget are severe, the Legislative Analyst raises issue with only one proposed cut, the 50 percent reduction to student outreach. *(Staff notes that the issue of student outreach will be before the committee on Monday April 7, 2003.)*

A. UC MERCED. The Governor's Budget proposes to augment expenditures for UC Merced by $11.3 million, bringing total funding in 2003-04 to $37.97 million. Of this amount, $21.3 million is related to start-up operations of the campus and $16.6 million is related to the planning and construction of new buildings, as well as the refurbishment of temporary facilities at the former Castle Air Force Base. Including the amount proposed in the Governor's 2003-04 Budget, the state has expended over $90 million of General Fund and $190.1 million bond funds to develop the campus ($280.2 million total).

LEGISLATIVE ANALYST RECOMMENDATION. In its Analysis of the 2003-04 Budget Bill, the LAO withheld recommendation on the $11.3 million support augmentation for the Merced campus because it had yet to review an expenditure plan for the funds. Since that time, the LAO has received additional information and is prepared to present its analysis to the committee at today's hearing.

Staff notes that the Merced campus was originally intended to open in the Fall of 2005, with 1,000 FTE (or 1,036 "headcount" students), and the UC was on-track to meet this opening date. As part of the 2000-01 Governor's Budget, the Administration requested that the opening date be expedited to Fall of 2004. While rushed, the UC believes it can indeed open the campus in 2004. Further, *staff notes* that it is unclear if the additional funds proposed by the Governor's Budget are on-going or one-time in nature. *If the funds are one-time, staff recommends that the committee adopt Budget Bill Language specifying that the funds are indeed one-time in nature.*

B. SUBJECT MATTER PROJECTS. The Governor's Budget proposes to dismantle the long-standing California Subject Matter Projects, for a General Fund savings of $15 million, while retaining $10 million in funding ($5 million General Fund; $5 million federal funds) for one of the projects – the Science Subject Matter Project. The Administration contends that it must retain $5 million General Fund in the Science project to avoid violating federal supplanting laws, due to the fact that in the current year, the state appropriated $5 million of federal Title II funds to the Science Project.

BACKGROUND. The California Subject Matter Projects serves as a longstanding model of teacher professional development. The program is administered by the UC and uses a teachers-teaching-teachers model to develop teacher leaders and deliver subject-specific training statewide. Currently, UC administers six subject matter projects in the areas of: (1) history/social science; (2) international studies; (3) mathematics; (4) reading/literature; (5) science and (6) writing. All subject matter projects are aligned to the state's academic content standards and are linked with low-performing schools.

LEGISLATIVE ANALYST RECOMMENDATION. Contrary to the opinion of the Administration, the LAO believes that the $10 million from combined federal and state funds that is budgeted for the Science Subject Matter Project could be more broadly disseminated to support a consolidated core group of Subject Matter Projects. Specifically, the LAO recommends consolidating the existing six Subject Matter Projects into four, in the following core subject areas: (1) English language Arts; (2) Social Science; (3) Mathematics and (4) Science. The proposed consolidation and sharing of resources would allow UC to maintain the infrastructure of the Subject Matter Projects and avoid dismantling a highly regarded and successful teacher training program.

III. California State University

OVERVIEW OF GOVERNOR'S BUDGET. The Governor's 2003-04 Budget provides for a General Fund appropriation of approximately $2.6 billion, which is a net reduction of $97.4 million (-3.6 percent) from estimated current-year expenditures. Major reductions include a combined allocated and unallocated base budget reduction of $266.4 million.

These reductions are partially offset by revenues derived from the proposed student fee increases (less one-third for financial aid) which are expected to net $141.5 million. The reductions are further offset by proposed augmentations (totaling $153.1 million) for: (1) student enrollment growth (as discussed earlier in this hearing); (2) lease revenue bond debt service; (3) increased costs of annuitant health and dental benefits; and (4) increased costs associated with PERS.

Like the UC, the Legislative Analyst raises issue with only one proposed budget reduction, the 50 percent cut to CSU student outreach programs. *Staff notes that the issue of student outreach will be before the committee on Monday April 7, 2003.*

A. EXECUTIVE, LEGISLATIVE AND JUDICIAL FELLOWS PROGRAMS. The Governor's Budget proposes to reduce funding for the Center for California Studies and its associated programs (including the LegiSchool Project, the Sacramento Semester Internship program and the Legislative, Executive and Judicial Fellows programs). This reduction

would result in a fifty percent decline in the number of individuals accepted into and supported by the Fellows Programs; this would reduce the number of fellows from 64 to 32.

The Legislative Analyst did not raise any issues or concerns with this reduction; however, *staff notes* that a fifty percent reduction to this item, in light of the level of decreases proposed throughout higher education, seems excessive.

B. REMEDIAL EDUCATION.

In recent years, the Legislature and higher education institutions have grown increasingly concerned with improving high school students' academic preparation for postsecondary education. In part, this interest stems from the relatively high proportion of college freshman that arrive unprepared for college-level coursework. Although community college students do not have to demonstrate that they are prepared for college-level work, both the UC and the CSU require students to demonstrate "college preparedness" in a variety of ways, including scoring above a minimum level on specified exams, passing university-specific placement tests or completing specified precollegiate-level coursework. Once students have been assessed and deemed unprepared, the higher education segments employ a variety of strategies to help them overcome their skill deficiencies.

According to the LAO, the state currently funds precollegiate services at the three higher education segments in different ways. At the community colleges, the state provides $3,900 (2003-04 rate) per full-time equivalent (FTE) student for all credit courses regardless of whether they are remedial or college-level. Similarly, the state provides the CSU with $6,594 (2003-04 rate) per FTE student for all credit courses regardless of whether they are precollegiate or college level. In contrast the state does not fund precollegiate courses at the UC, unless the campus chooses to include remedial-level instruction at the beginning of an otherwise for-credit course.

While the Governor's Budget does not contain any initiatives or reductions targeted at the areas of remedial instruction, the LAO has expressed its concern with the existing structure of CSU's remedial education programs. Specifically, the LAO notes that almost one-half of recently-admitted CSU students arrive unprepared for college writing and mathematics; this number rose sharply from 1989 to 2001, but now appears to have leveled off and/or fallen in recent years. Further, the LAO believes that the disparate level of funding for remedial/precollegiate level courses provides an incentive for the CSU to enroll underprepared students.

LEGISLATIVE ANALYST RECOMMENDATION. The LAO makes two recommendations related to remedial instruction at the CSU:

(1) In order to ensure that the precollegiate (remedial) programs achieve the goal of better preparing students for college-level coursework, the Legislative Analyst recommends that the CSU assess and routinely report on the effectiveness of their precollegiate services._

(2) The LAO recommends that the Legislature fund CSU's precollegiate writing and mathematics courses at the same rate it funds credit courses at the community colleges. The LAO estimates that this action would result in General Fund savings of $10 million.

STAFF COMMENTS. *Staff notes* that this particular issue was heard by this subcommittee in 2001-02; at that time, the LAO's recommendations were not approved by the committee. Specifically, staff continues to note the following concerns:

- If adopted, the LAO recommendation would provide a large monetary disincentive (a loss of $2,694 per student) for the CSU to either not enroll students who need remediation, even though they may meet all of the admission criteria, or to not provide these students with remedial courses.
- If the CSU campus doesn't provide students with the remedial coursework necessary for them to succeed at the university, then who does? It does not seem realistic to re-route half of the entering CSU freshman to community colleges to take the necessary courses, especially given the abysmal level of financial support (including funding for enrollment growth) that has been provided to the community colleges in recent years.
- Remediation is a statewide issue that effects all of postsecondary education, and as such, all segments of higher education should bear some responsibility for providing entering college students with the skills they need to succeed.

Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

6440-001-0007. Support, University of California Breast Cancer Research $14,759,000

6440-001-0046. Support, University of California Institute for Transportation Studies $980,000

6440-001-0234. Support, University of California Tobacco Research $19,434,000

6440-001-0308. Support, University of California Earthquake Engineering Research $1,500,000

6440-001-0321. Support, University of California Oiled Wildlife Care Network $1,300,000

6440-001-0814. Support, University of California California State Lottery Education Fund $22,834,000

6440-001-0890. Support, University of California Federal GEAR UP Outreach Program $5,000,000

6440-001-0945. Support, University of California California Breach Cancer Research $480,000

6440-002-0001. Support University of California Deferral of Expenditures ($55,000,000)

6440-003-0001. Support, University of California Lease Purchase Bond Debt Service $115,283,000

6440-005-0001. Support, University of California Institutes for Science and Innovation $4,750,000

6440-490. Reappropriation, University of California

6440-495. Reversion, University of California

6610-001-0890. Support, California State University Federal Trust Funds $35,860,000

6610-003-0001. Support, California State University Lease-Purchase Bond Debt Service $61,553,000

6610-490. Reappropriation, California State University

Budget and Fiscal Review Subcommittee No. 1 Education

Jack Scott, Chair
Bob Margett
John Vasconcellos

March 24, 2003
Upon Adjournment of Session – Room 113

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II. California Community Colleges

1. Basic Aid Districts – Excess Property Taxes.

The Governor's Budget proposes $10 million in General Fund reductions by recapturing excess property taxes from between four and six community college basic aid districts whose property tax revenues exceed their per full-time equivalent student (FTES) apportionment. Current law allows these districts to keep this excess revenue and not suffer a General Fund reduction of a like-amount. However, the Administration believes that this reduction is necessary to more broadly and equitably spread the community college budget reductions to all districts in the coming year.

Staff notes that a similar issue related to K-12 Basic Aid districts was heard and acted on by this committee on Monday March 10, 2003. Unlike K-12 education, community college districts do not receive a minimum per student allocation from the state (in K-12, each district receives $120 per student). As a result, the only issue before the committee today is whether or not to offset $10 million worth of excess property taxes held by the community college basic aid districts with General Fund reductions to categorical programs in the same amount.

Governor's Proposal. Under the Governor's proposal, each basic aid district would contribute a yet-to-be-determined percentage of their excess property tax revenue, for a total combined contribution of $10 million. Since this proposal is aimed a capturing $10 million, the actual amount each district pays will depend on the total amount of excess revenue among community college districts statewide and the number of districts that meet the Basic Aid definition in the budget year.

The Administration's proposal assumes that four districts would have excess property tax revenue in the combined amount of approximately $32 million. More recent estimates peg the amount at closer to $74 million, with four districts clearly defined as basic aid, and two additional districts that may end up meeting the definition.

Based on the amount of property tax the district would be required to shift, the state would then reduce the level of funding the district receives for various state-funded categorical programs by the same amount.

If the amount of property tax dollars that a district must shift, exceeds the amount of state funding the district receives for various categorical programs, then the

remaining excess property tax dollars would be allocated to other districts within the same county; if there are no other community college districts in the county (or the other districts are also basic aid), then the property tax funds would be shifted to a nearby county that is not defined as Basic Aid, but that serves a significant proportion of the basic aid district's population.

Staff notes that while the LAO does not have a specific recommendation on this community college issue, it did recommend denying the Governor's proposal to capture excess property tax revenues from K-12 basic aid districts due to the severe disruption that would be caused to districts that rely on large property tax revenues. Further, *staff notes* that in many cases, community college basic aid districts, while funded primarily from property tax revenues, receive less funding per FTE – in total – than many other colleges in the state.

In order to conform with actions taken by this committee on K-12 basic aid, staff recommends that the committee take action to deny the Governor's proposal and specify that all parties should continue working on a way to determine how Basic Aid districts will take their proportionate share of the reductions proposed by the Governor.

III. Department of Education

1. Governor's Child Care Realignment Proposal.

The Governor's Budget includes a dramatic proposal to shift responsibility for most of the state's child care programs (excluding the preschool and after school programs) from the California Department of Education to local counties. This action is slated to result in General Fund Proposition 98 savings of $967.6 million.

Under the Governor's proposal, the state would turn-over its child care programs (as well as a variety of other health and human services programs) to the counties, which are slated to receive approximately $8.2 billion in revenue from increased taxes to support child care and the other programs proposed for realignment.

Background. Under current law, the state makes subsidized child care services available to: (1) families on public assistance and participating in work or job readiness, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the "stage" of public assistance or transition the family is in. Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education.

Families receiving Stage 2 child care services are either receiving a cash public assistance payment or are in a two-year transitional period after leaving cash assistance. Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two categories: (1) General Child Care - is available on a limited basis for families with exceptional financial need while the (2) Stage 3 Set-Aside - makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

The LAO notes a variety of problems and concerns with the current child care delivery system. To summarize, the LAO finds that (1) the current system is unnecessarily complex, (2) administration is cumbersome and expensive, (3) the costs for Stage 3 child care services are growing substantially, (4) the current system treats similar families differently.

Staff notes that while the need for change in the system is evident, and in the long run realignment may be an option to consider, it will be virtually impossible for the Legislature to structurally realign child care services within the coming months.

In order to provide the Legislature with a complete expenditure picture that includes child care, *staff recommends* that the committee take action to reverse the Governor's realignment proposal with respect to child care (for both child care services and the accompanying State Operations adjustments at the CDE). This action is consistent with changes adopted by the Senate Budget Subcommittee #3 on Health and Human Services.

Staff notes that this action should <u>not</u> be viewed as a move to exempt child care services from budget reductions, and staff encourages the child care field to

continue exploring options for structural change that will result in state General Fund savings.

Further, *staff notes* that budget issues related to the funding of Stage 3 child care services, options for cost-cutting and budget reductions within the system and related CDE state operations issues, will be heard at the committee's hearing on April 28, 2003.

2. Proposed Across-the-Board Reductions & Block Grant Proposals

At the Joint Hearing with the Senate Education Committee on March 19, 2003, this Subcommittee heard brief presentations from both DOF and LAO on the Governor's across-the-board reduction and block grant proposals. At the hearing today, both DOF and LAO will provide more detail via testimony and handouts to the Subcommittee on their respective proposals.

Presentations:

- *LAO Presentation: A Perspective on K-12 Education Budget*
- *DOF Presentation: Overview of Governor's Block Grant Proposal & Categorical Reductions*
- *LAO Presentation: Categorical Reform*

Background on Governor's Proposal: The Governor proposes to consolidate $5.1 billion for approximately 64 education categorical programs into a single K-12 Instructional Improvement Block Grant in 2003-04. (See Attachment A.) The Governor's block grant proposal excludes approximately 28 programs from the block grant, such as Class Size Reduction, Special Education, and supplemental revenue limit programs (different from base revenue limit programs) that are identified as categorical programs.

The Governor's 2003-04 budget proposes to reduce most education programs by $1.6 billion below their 2002-03 budget level, as adjusted for SB 18X. (See Attachment B.) This equates to a 13.6 percent reduction for these programs overall.

The 64 categorical programs included in the Governor's proposed block grant would be reduced by $586 million, or 10.2 percent below their 2002-03 level, and the programs the Governor proposes to continue funding separately would be reduced by $1,063 million, or 15.5 percent overall. (Most categorical programs take a 12 percent cut; revenue limits receive a 2.15 percent cut.)

Under the Governor's proposal, districts would receive a prorated share of the block grant funding in the budget year – albeit at a reduced level -- based upon funding they received in the current year.

The Governor's proposal would repeal nearly all program statutes and regulations governing the 64 programs in the block grant.

As mentioned above, the Governor's across-the-board reduction proposal also includes a 2.15 percent cut in revenue limits (general purpose, base funding) for school districts and county offices of education.

Background on LAO Proposal: The LAO supports the Governor's $1.6 billion proposed across-the-board reductions to both revenue limits and categorical programs in the budget year. As indicated above, this includes a 2.15 percent reduction for revenue limits and approximately 12 percent in reductions for most categorical programs.

It should be noted that the LAO does not support the across-the-board reductions, as proposed by the Governor, if the Legislature does not adopt a categorical block grant proposal. If the Legislature does not choose to consolidate categorical programs, the LAO recommends the Legislature make other targeted program reductions to noncore educational services. The LAO has developed a list of K-12 alternative reductions totaling more than $1 billion – including cuts to reduce or eliminate several categorical programs. (See Attachment C)

With regard to the Governor's proposed block grant proposal, the LAO believes it has merit, but raises serious policy and technical questions. For that reason, the LAO proposes an alternative block grant proposal. The LAO alternative program would consolidate 62 categorical programs into five block grant programs, as summarized below.

LAO Proposed Block Grants

- ***Academic Improvement Block Grant ($2.8 Billion).*** *Combines 22 programs that support staff development, instructional or curricular support, or class size reduction. Funds would be available for wide range of general school improvement activities.*

- ***Compensatory and Alternative Education Block Grant ($1.8 Billion).*** *Combines 19 programs that fund supplemental services for low-performing students or alternative education settings. Funds could only be spent on these two purposes.*

- ***Core Services Block Grant ($1.4 Billion).*** *Consolidates 12 programs that support basic district and classroom costs, including instructional materials and deferred maintenance. Funds would support any of the services currently allowed under existing programs.*

- ***Vocational Education Block Grant ($335 Million).*** *Merges 5 vocational education programs that could be used for career counseling, vocational instruction, and vocational components of integrated academic and vocational programs.*

- ***Regional Support Block Grant ($31 Million).*** *Consolidates 6 existing county office administered programs that provide technical assistance or coordination of services. Funds would support regional support services as needed by local districts.*

The LAO block grant proposal includes several categorical programs -- such as Class Size Reduction and Summer School – which were excluded in the Governor's block grant proposal. Similarly, the LAO excludes a few programs included by the Governor such as Adult Education, High Risk Youth and Foster Youth.

3. State Operations

The Governor's Budget proposes a total state operations budget for the California Department of Education (CDE) of $255.4 million in 2003-04. This includes $152.4 million in salaries, wages and benefits for 2,340.2 staff positions at CDE – including State Board of Education staff -- and staff working at the state special schools and diagnostic centers. In addition, this amount includes $103.0 million for operating expenses and equipment.

Of the $255.4 million in state operations funding for CDE, $120.0 million (47 percent) is covered by Federal dollars and $101.8 million (40 percent) is covered by General Fund dollars. The remaining $33.6 million (13 percent) is covered by various special funds and reimbursements.

In 2003-04, the Governor's Budget proposes to reduce state operations funding for the California Department of Education by approximately $16 million, which reflects a net reduction of 309.2 positions and reductions to several categories of operating expenses, including a 75 percent reduction in out-of-state travel.

As proposed by the Governor, reductions to CDE state operations fall into three major categories: (1) general reductions developed in response to the state current budget shortfall (27.2 positions/$6.3 million); (2) reductions associated with the

Governor's proposed Child Care Realignment proposal (82 positions/$2.7 million); and (3) personnel reductions associated with the Governor's proposed Categorical Block Grant (97 positions/$6.7 million).

Workload Adjustments in 2003-04	**Positions**	**Funding**
General Reductions	-27.2*	
Child Care Realignment Reductions	-82.0	
Block Grant Proposal Reductions	-97.0	
Subtotal, Adjustments	***206.2***	***-$11,558,000***
Proposed New Positions	4.0	$201,000
Vacant Positions	-107.0**	-$4,673,000
Total Adjustments	***-309.2***	***$16,030,000***
Total Positions	***2,524.4***	***$136,765,000***
Total Positions, Minus Salary Savings	***2,340.0***	***$152,438***

* Reflects net reduction involving a reduction of 36.2 positions tied to proposed state operations cuts and an increase of 9.0 additional limited-term positions.
** Implemented in 2002-03 pursuant to Control Section 31.60

As indicated earlier in the agenda, CDE state operations reductions that are linked to Child Care will be heard at the Subcommittee's hearing on April 28, 2003, when these issues are more fully discussed. Reductions tied to the Governor's Categorical Block Grant proposal will also be discussed at a future hearing of the Subcommittee to conform to action on that proposal or possible alternative proposals.

The remaining reductions to CDE's state operations budget, as proposed by the Governor, total $6.3 million. This amount includes a net reduction of 27.2 positions and a number of operating expense items such as out-of-state travel, program evaluations and studies, audits and tests. These items are summarized by the following table.

2003-04 Proposal	Amount	Positions
Item 6110-001-0001		
Eliminate 9 Healthy Start positions and field office	-2,000	-9
Eliminate one of two Chief Deputy Superintendent Offices	-625	-5
Reduce state match for Federal Perkins vocational education state administration funds	-365	-4.2
Reduce oversight on the consolidated application process	-210	-3
Eliminate 3 positions in the Awards unit	-278	-3
Eliminate 2 positions supporting CalSAFE	-382	-2
Reduce staffing in the Governmental Affairs Office	-125	-2
Eliminate position supporting International Baccalaureate	-68	-1
Eliminate support for Teaching as a Priority Block Grant	-90	-1
Reduce support for district reorganization analysis by State Board of Education	-200	-1
Reduce support for the K-3 Class Size Reduction Program	-80	-1
Eliminate support for High School Exit Exam Workbooks	-107	-1
Eliminate support for Assessments in Career Education (ACE) Exams	-106	-1
Eliminate position supporting Academic Improvement & Achievement Act (AIAA)	-85	-1
Eliminate 1 position supporting Gang Risk Intervention Program (GRIP)	-150	-1
Reduce analysis of district Gann limits and mandates	-209	0
Reduce out-of-state travel by 75%	-154	0
Reduce technical assistance for education technology	-187	0
Transfer CSIS oversight to county office of education	-150	0
Reduce support for High Risk Youth	-67	0
Eliminate funding for physical fitness testing report	-50	0
Reduce funding for high risk child care audits	-150	0
Reduce funding for the Math and Reading Professional Development Program evaluation (State Board of Education)	-200	0
Reduce administrative support for State Board of Education	-52	0
Total	**-6,090**	**27.2**
6110-013-0001		
Eliminate contracted audit resources	-245	0
Total CDE State Operations Items, 2003-04	**-6,335**	**27.2**

In response to the growing budget shortfall, the Department of Finance solicited various reduction plans from state departments and agencies in building the proposed 2003-04 budget. The reductions above generally reflect these suggestions. However, according to CDE, there are some items on the list that they did not offer to DOF. Also, CDE and DOF continue to have some differences in reconciling positions and dollars associated with these reductions.

In addition to these reductions, the Governor proposes four new positions totaling $201,000. Three of these positions are tied to data management functions related to No Child Left Behind. The remaining one position is required by Chapter 1128/2002, which established the Education Audits Appeal Panel.

III. Office of the Secretary for Education

The Secretary of Education, a member of the Governor's Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation. The Office of the Secretary for Education (OSE) administers several education programs, including the Academic Volunteer and Mentor Service Program, the Governor's Reading Award Program.

For the current fiscal year, the costs of the OSE are funded through the Governor's Office of Planning and Research pending legislation to establish the Secretary statutorily.

The Governor proposes total funding of $6.7 million for OSE in 2003-04. Of this amount $1.7 million is appropriated for state operations to fund 20.0 staff positions and operating expenses and equipment. In addition, the Governor proposes $5.0 million for the local assistance programs administered by OSE.

The Governor's budget proposes $3.4 million in reductions to OSE in 2003-04, including:

- $1.1 million in General Fund savings for state operations from reducing 8.0 positions at OSE;
- $2,000,000 in General Fund (Prop 98) savings for local assistance from eliminating the School-to-Career Technology Grant Program; and
- $474,000 in General Fund (Prop 98) savings for local assistance from reducing funds for the Academic Volunteer and Mentor Service Program.

The specific staff reductions (8 positions/$1.1 million) proposed by the Governor for OSE in 2003-04 are summarized below. These proposed cuts would reduce staffing from 28 to 20 positions in 2003-04 -- a 29 percent reduction in staff at OSE:

#	Classification/Function
1.0	Senior Assistant to the Governor *Function: Undersecretary for Education*
1.0	Assistant to the Governor *Function: Senior policy advisor to the Governor*
1.0	Senior Project Analyst *Function: Coordinating analyst on issues involving higher education*
1.0	Administrative Assistant II *Function: Communications support*
1.0	Senior Intergovernmental Program Analyst *Function: K-12 analyst & program manager for School-to-Career program*
1.0	Assoc. Intergovernmental Program Analyst *Function: Academic Volunteer & Mentor caseload and program oversight*
1.0	Asst. Intergovernmental Program Analyst *Function: Academic Volunteer & Mentor caseload and program oversight*
1.0	Office Technician *Function: Office reception and clerical support*

With regard to local assistance programs at OSE, the Governor proposes to eliminate the School-to-Career Technology Grant Program, which would result in savings of $2.0 million. This program was established by AB 1873 (Chapter 793/2000) as a competitive matching grant program to local entities. The program is a collaboration among OSE, CDE, the community colleges, and the Health and Human Services Agency.

The Governor signed AB 1873 with the caveat that funding would continue only if matching funds from the private and non-profit sectors exceed state funds.

The Governor also proposes a reduction of $474,000 to the Academic Volunteer and Mentor Service Program. Under this program, university students offer tutoring services to 20,000 at-risk children and youth. This reduction is tied to across-the-board reductions for selected categorical programs proposed by the Governor in 2003-04. This program is not included in the Governor's proposed Instructional Improvement Block Grant in 2003-04.

The LAO recommends that the Legislature eliminate funding for the Academic Volunteer Mentor Service Program due to the existence of other state and federal programs that provide similar program services. This would result in savings of $5 million in 2003-04.

The Subcommittee will discuss both of these local assistance issues further at a future hearing when the Subcommittee considers action on the Governor's K-12 across-the-board reductions. Reductions in OSE positions (state operations) should conform to local assistance actions for the agency.

Attachment A

Programs Included in the Governor's K-12 Instructional Improvement Block Grant

Academic Improvement and Achievement
Administrator Training
Adult Education
Adults in Correctional Facilities
Advanced Placement Fee Waivers
Advanced Placement Teacher Training
Agricultural Vocational Education
American Indian Education Centers
Apprentice Program
Beginning Teacher Support and Assessment
Bilingual Teacher Training
California Association of Student Councils
California School Age Families Education
Center for Civic Education
Charter School Categorical Block Grant
Charter School Facilities Grant Program
Child Nutrition Breakfast Startup
Class Size Reduction (9th Grade)
Community Day Schools
Deferred Maintenance
Dropout Prevention
Early Intervention for School Success
Economic Impact Aid
Educational Technology
Elementary School Intensive Reading Program
English Language Acquisition Program
Foster Youth Programs
Gang Risk Intervention
Gifted and Talented
7th & 8th Grade Math Academies
High Risk First Time Offenders
Home to School Transportation
Institute for Computer Technology
Instructional Materials Block Grant
International Baccalaureate
Inter-segmental Staff Development
Local Arts Education Partnership Grants
Miller-Unruh Reading
National Board Certification Incentives
Native American Indian Education
Opportunity Programs
Partnership Academies
Peer Assistance Review
Pupil Residency Verification
Reader Services for the Blind
ROC/Ps
Safety - Conflict Resolution
Safety -Partnership Mini-grants/Safe School Planning
Safety Plans for New Schools
Safety -Schools Community Policing
Safety -Schools Community Violence Prevention
SAT College Prep Partnership
School Improvement
School Library Materials
School Safety Block Grant
Small School District Bus Replacement
Specialized Secondary Program Grants
Staff Development Day Buyout
Supplemental Grants
Targeted Instructional Improvement Grant
Teacher Dismissal Apportionment
Teacher Recruitment Centers
Teaching As A Priority Block Grant
10th Grade Counseling

Programs Excluded from the Block Grant

<u>Core Instruction & Accountability System</u>
Class Size Reduction (K-3)
County-administered Community Schools, Community Day Schools and Opportunity Programs
High Priority Schools Grant Program (HPSGP)
Immediate Intervention/Under-performing Schools (II/USP)
Sanctions
Special Education
Student Assessment Testing
Summer School Programs

<u>Stand-Alone (Limited &/Or Distinctive Nature/Administration)</u>
Academic Volunteer Mentor Program (OSE)
Alternative Certification Program (CTC)
At Risk Youth
California School Information Services Project (CSIS)
Child Development (Preschool and Before/After-school)
Child Nutrition
County Offices of Education Fiscal Oversight
Education Mandates

(continued)
Mathematics Initiative for Teaching (CTC)
Pre-Internship Teaching Program (CTC)
Paraprofessional Teacher Training Program (CTC)
Prop 227 (Initiative Mandate)
Teacher Assignment Monitoring (CTC)

<u>Discontinued in the Future</u>
Mathematics & Reading Professional Development
Principal Training Program
Year-Round Schools

<u>Non Proposition 98</u>
Advancement via Individual Determination
American Indian Education Centers
Vocational Education Student Organization

Attachment B

K-12 CATEGORICAL PROGRAMS, 2003-04 Governor's Budget
Compared to 2002-03 Revised

($ in Thousands)

	2002-03 Revised (SB18X)	2002-03 to 2003-04 Governor's Budget	2003-04 Governor's Budget Block Grant	2003-04 Governor's Budget Separately Funded
Academic Improvement and Achievement	0	100.0%	4,755	0
Academic Volunteer Mentor Program (OSE)	5,082	-1.3%	0	5,017
Administrator Training	5,282	-12.0%	4,650	0
Adult Education	582,038	-14.0%	500,448	0
Adult in Correctional Facilities	16,067	-13.2%	13,946	0
Advanced Placement Fee Waivers	0	100.0%	1,427	0
Advanced Placement Teacher Training	8,250	-61.3%	3,190	0
Advancement via Individual Determination (non-P98)	10,300	-50.0%	0	5,150
Agricultural Vocational Ed	4,329	-12.0%	3,811	0
Alternative Certification Program (CTC)	17,280	-1.7%	0	16,988
American Indian Education Centers	3,778	-8.6%	3,452	0
American Indian Education Centers (non-P98)	376	0.0%	0	376
Apprentice Programs	15,852	-12.0%	13,955	0
At Risk Youth (LAUSD)	600	-3.7%	0	578
Beginning Teacher Support and Assessment	88,139	-14.4%	75,403	0
Bilingual Teacher Training	1,798	-12.0%	1,583	0
California Association of Student Councils	33	-9.1%	30	0
California School Age Families Education (CalSAFE)	48,846	-12.0%	42,998	0
California School Information Services Project (CSIS)	9,714	-62.1%	0	3,678
Charter School Categorical Block Grant	35,650	-12.0%	31,383	0
Charter School Facilities Grant	8,917	-74.7%	2,254	0
Child Development (a)	1,302,787	-67.6%	0	421,472
Child Nutrition	71,632	0.0%	0	71,632
Child Nutrition (non-P98)	12,765	0.0%	0	12,765
Child Nutrition Breakfast Startup	1,000	-12.0%	880	0
Civic Education	250	-12.0%	220	0
Class Size Reduction (K-3)	1,659,336	-10.8%	0	1,479,650
Class Size Reduction (9TH)	110,185	-12.0%	96,995	0
College Prep Partnership	0	100.0%	4,755	0
Community Day Schools	32,205	-12.0%	28,350	0
County Offices of Education Fiscal Oversight	10,723	-21.7%	0	8,393
Deferred Maintenance	205,689	-12.0%	181,040	0
Dropout Prevention	21,886	-12.0%	19,266	0
Early Intervention for School Success	2,169	-11.9%	1,910	0
Economic Impact Aid	498,682	-12.0%	438,989	0
Educational Technology	14,510	-4.1%	13,918	0
Elementary School Intensive Reading Program	30,549	-12.0%	26,892	0
English Language Acquisition Program	53,200	-12.0%	46,832	0
Foster Youth Programs	8,752	-12.0%	7,705	0
Gang Risk Intervention	0	100.0%	2,853	0
Geography Education (non-P98)	105	-100.0%	0	0
Gifted and Talented	52,578	-5.3%	49,769	0
Governor's Reading Award Program	4,750	-100.0%	0	0
Grade 7-8 Math Academies	12,760	-12.0%	11,232	0
Healthy Start	2,000	-100.0%	0	0
High Priority Schools Grant Program	179,600	-0.7%	0	178,386
High Risk First Time Offenders Program	8,000	21.0%	9,683	0
High School Coach Training	0	0.0%	0	0
Home to School Transportation (b)	520,999	-9.5%	471,327	0
Home to School Transportation - Deferral (b)	(139,579)	-4.9%	132,747	0
Immediate Intervention/Underperforming Schools	145,955	-28.3%	0	104,603
Institute for Computer Technology	574	-12.0%	505	0
Instructional Materials Block Grant	292,775	-30.2%	204,492	0
Intergenerational Programs (non-P98)	171	-100.0%	0	0
International Baccalaureate	1,050	-10.2%	943	0
Intersegmental Staff Development	74	2500.0%	1,924	0
Local Arts Ed Partnership Grant Program	0	100.0%	5,706	0
Mandates (c)	0	100.0%	0	110,441
Mathematics and Reading Professional Development	63,456	-56.0%	0	27,930
Mathematics Initiative for Teaching (CTC)	400	-100.0%	0	0
Miller-Unruh Reading	28,929	-12.0%	25,465	0
National Board Certification Incentives	10,000	2.8%	10,284	0
Native American Indian Education	551	-11.8%	486	0

Attachment B

K-12 CATEGORICAL PROGRAMS, 2003-04 Governor's Budget
Compared to 2002-03 Revised
($ in Thousands)

	2002-03 Revised (SB18X)	2002-03 to 2003-04 Governor's Budget	2003-04 Governor's Budget Block Grant	2003-04 Governor's Budget Separately Funded
Opportunity Programs	2,611	-12.0%	2,298	0
Pre-Internship Teaching Program (CTC)	11,800	-1.1%	0	11,665
Paraprofessional Teacher Training Program (CTC)	7,200	-1.2%	0	7,115
Partnership Academies	21,671	-6.5%	20,270	0
Peer Assistance and Review	65,271	17.4%	76,611	0
Principal Training Program	0	100.0%	0	26,154
Prop 227/98 (Community Tutoring/English Literacy)	50,000	0.0%	0	50,000
Pupil Residency Verification	162	-12.3%	142	0
Reader Services for the Blind	338	-11.8%	298	0
ROC/Ps	373,181	-8.3%	342,307	0
Sanctions	6,000	-12.0%	0	5,282
School Improvement (1-12) (b)	429,191	-10.1%	385,972	0
School Improvement (1-12) - Deferral (b)	(115,283)	-4.9%	109,640	0
School Law/Enforcement Partnership	11,328	15.6%	13,092	0
School Library Materials	11,629	75.8%	20,448	0
School Safety	82,087	-12.0%	72,261	0
School-to-Career (OSE)	1,784	-100.0%	0	0
Special Education	2,688,773	-1.1%	0	2,658,977
Specialized Secondary Program Grants	5,136	-12.0%	4,521	0
Staff Development Day Buyout	229,667	-12.0%	202,176	0
Student Assessment Testing	102,096	-0.3%	0	101,793
Student Friendly Services	500	-12.0%	0	440
Summer School (d)	424,726	2.8%	0	436,826
Supplemental Grants (b)	241,739	-4.9%	229,906	0
Supplemental Grants - Deferral (b)	(241,739)	-4.9%	229,906	0
Targeted Instructional Improvement Block Grant (b)	737,597	-10.2%	662,352	0
Targeted Instructional Improvement Block Grant - Deferral (b)	(184,399)	-4.9%	175,373	0
Teacher Assignment Monitoring (CTC)	350	-1.1%	0	346
Teacher Dismissal Apportionment	40	-10.0%	36	0
Teacher Recruitment Centers	9,400	-12.0%	8,275	0
Teaching As a Priority Block Grant	88,650	-12.0%	78,038	0
Tenth Grade Counseling	11,443	-12.0%	10,073	0
Voc Ed Student Organizations (non-P98)	562	0.0%	0	562
West Contra Costa Facilities	800	0.0%	0	800
Year Round Schools	84,147	-33.1%	0	56,276
Total Categorical Programs, 2002-03 Revised (b)	**$11,923,257**		**$5,728,487**	**$6,866,560**
Total Categorical Programs, 2003-04 Proposed (b)	**$10,298,080**		**$5,142,451**	**$5,803,295**
Total Change from 2002-03 to 2003-04	**$1,625,177**		**$586,036**	**$1,063,265**
Percent Change	**-13.6%**		**-10.2%**	**-15.5%**
Total Governor's Budget Block Grant (e)	**$5,142,451**			

Explanatory Notes

(a) Includes State Preschool and Before & After School Programs. The 2003-04 level reflects the proposed child care realignment.

(b) Funding earned in several programs in 2002-03 was deferred to 2003-04, pursuant to Chapter 1167, Statutes of 2002. The deferred amounts are $115,283 for School Improvement, $184,399 for Targeted Instructional Improvement Block Grant, $139,579 for Home-to-School Transportation, and $241,739 for Supplemental Grants. For comparison purposes, the deferred funds are reflected in the total for categorical funding in 2002-03 (the year earned) rather than 2003-04 (the year appropriated).

(c) 2002-03 reflects a deferral of $122,023 for payments to be made in future years, pursuant to SB18X.

(d) 2002-03 reflects a reduction of $25,000 due to lower than anticipated program participation, pursuant to SB18X.

(e) The Governor's proposed block grant includes $647,666 deferred from 2002-03 to 2003-04 for the School Improvement Program, Targeted Instructional Improvement Block Grant, Supplemental Grants and Home-to-School Transportation. The amounts deferred were included in the proposed across-the-board reductions.

Attachment C

Selected LAO Budget Options
Proposition 98 Spending Reductions (in millions)

Department/Program	2003-04
Staff Development Buyout Days - Suspend funding for one year	$ 202.0
Mathematics & Reading Professional Dvlpt. Program - Eliminate funding	27.9
Principal Training Program - Extend over next several years	28.7
Administrator Training And Evaluation Program – Eliminate funding	4.7
Peer Assistance and Review - Eliminate funding	76.6
Advanced Placement Challenge Grant Program - Sunset one year early	3.2
National Board Certification Program – Eliminate additional commitments	-
Teacher Recruitment Centers - Eliminate program	8.3
Year Round Operations Grant Program – Phase out over next two years	14.2
Charter School Facilities Grant Program – Eliminate funding	2.3
K-3 Class Size Reduction - Change ratio to 22 to 1 for high-income schools	219.0
College Preparation Partnership Program - Eliminate funding	4.8
Local Arts Education Program - Eliminate funding	5.7
Miller-Unruh Reading Program - Eliminate funding	25.5
School Improvement Program - Reduce funds by 20 percent	85.8
Civic Education - Eliminate program	0.3
County Offices of Education - Do not fund growth in county apportionments	22.3
Elementary School Intensive Reading Program – Eliminate program	26.9
At Risk Youth (Angel Gate Academy LAUSD) – Eliminate funding	0.6
Intensive Algebra Instruction Academies – Eliminate program	11.2
Gifted and Talented Education (GATE) – Suspend the program for one year	49.8
School Law Enforcement Partnership – Eliminate program	13.1
Statewide Education Technology Services – Eliminate program	2.3
Gang Risk Intervention Program - Eliminate program	2.9
School Library Materials - Suspend program for one year	20.4
Institute for Computer Technology - Eliminate state funding	0.5
California Technology Assistance Project - 10 percent reduction in funding	1.3
Deferred Maintenance - Suspend funding for one year	181.0
9th Grade Class Size Reduction - Eliminate funding	97.0
Total	**1,138.3**

Source: *The 2003-04 Budget: Perspectives and Issues*, Report From the Legislative Analyst's Office to the Joint Legislative Budget Committee, 2003, pages 166-168.

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

Monday, April 7, 2003
1:30 p.m. (or upon adjournment of the Senate Floor Session)
Room 113

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I. CALIFORNIA COMMUNITY COLLEGES

A. GOVERNOR'S PROPOSED BUDGET further reduces funding for the California Community Colleges, in addition to the approximately $161 million in mid-year reductions already adopted by the Legislature. Specifically, the Governor proposes to reduce General Fund support for the community colleges by $705 million (27 percent); this decrease is partially offset by income from increased student fees ($150 million) and estimated increases in local property tax revenues ($177.6 million). Including all funding sources, support for the community colleges is expected to decline by 6.2 percent ($404 million).

California Community Colleges
Governor's Budget Proposal

Proposition 98 Spending[a] (In Millions)	
2002-03 (Enacted)	**$4,861.7**
Proposed Mid-Year Reductions	
Inappropriate concurrent enrollment funding	-$80.0
Apportionments (3.66 percent across-the-board)	-66.6
Categorical programs (10.8 percent across-the-board)	-91.2
Estimated shortfall in local property tax revenues	-33.3
Subtotal	(-$271.1)**
2002-03 (Revised)	**$4,590.6**
Reduction due to one-time deferral of apportionment payment from 2001-02 to 2002-03	-$115.6
Restore one-time reduction in property tax estimate	33.3
2003-04 Base	**$4,508.3**
Proposed Budget-Year Reductions	
Apportionments (expected attrition due to proposed fee increase)	-$215.7
Apportionments (reduction to be backfilled with anticipated increase in student fee revenue)	-149.6
Categorical programs (targeted reductions)	-214.6
Eliminate health fees mandate	-1.5
Subtotal	(-$581.4)
Proposed Budget-Year Augmentations	
Enrollment growth of 3 percent	$115.7
Lease-revenue payments	19.3
Other adjustments	1.6
Subtotal	($136.6)
2003-04 (Proposed)	**$4,063.5**
Change From 2002-03 (Revised)	
Amount	-$527.2
Percent	-11.5%

[a] Includes Reversion Account funds.

** Of these $271 million in Governor proposed mid-year reductions, the Legislature only adopted approximately $161 million in mid-year reductions.

The bulk of the proposed 2003-04 reductions are due to making permanent many of the mid-year reductions proposed by the Governor, including the continuation of a 3.66 percent across-the-board reduction and an $80 million reduction for alleged non-compliance with concurrent enrollment policies. Furthermore, the Administration assumes that approximately 62,000 students will drop out, or fail to enroll, at community colleges due to the proposed $13 per unit fee increase. To compensate for this estimated enrollment loss, the Administration reduces funding for the community colleges general apportionments by $216 million.

B. ENROLLMENT GROWTH

GOVERNOR'S BUDGET PROPOSES to substantially decrease student enrollment by 62,000 full-time equivalent student (-5.7%) at the California Community Colleges. In contrast, the Governor proposes to augment the budgets of the University of California and the California State University by a total of $268.1 million ($117.2 million and $150.9 million respectively) to support approximately 7.0 percent enrollment growth (6.9 percent at UC and 7.1 percent at CSU) for the 2003-04 academic year.

Specifically, the Governor's Budget expects that 5.7 percent fewer students will enroll statewide as a result of the proposed student fee increases (from $11 per unit to $24). The Governor further reduces student enrollment by another 2.0 percent for alleged abuses of concurrent enrollment funding. In addition, the Administration estimates that 1.0 percent of the students will drop out or fail to enroll as a result of the proposed cuts to college budgets. This anticipated enrollment decline totals 8.7 percent. To partially offset this reduction, the Governor provides additional funding for 3.0 percent growth (to support new students entering the higher education system); for a net enrollment decrease of 5.7 percent.

1. ***What happens if enrollment growth isn't funded?*** Community colleges are obligated under the Master Plan for Higher Education to provide open access to higher education for all adults "who can benefit from instruction". Consistent with this goal, campuses do not generally impose admissions requirements, and as such, have no means to deny admission or otherwise turn students away. If student enrollment exceeds the amount for which they are budgeted, campuses will be forced to accommodate students without the financial support to do so.

   While "unfunded enrollment" is nothing new (statewide, the community colleges are "overenrolled" by approximately 42,000 FTE), staff notes that -- coupled with the budgetary reductions -- class sections will be cancelled, instructors will be laid-off and students will be unable to get the courses they need to earn a degree, transfer to a four-year institution or otherwise meet their educational objectives. In most cases, how individual campuses implement these cuts will determine how many students drop out (or fail to attend all together); these actions will ultimately serve as a mechanism to "manage" enrollments.

2. What's the appropriate level of enrollment growth at the community colleges? In its *Analysis of the Budget Bill*, the LAO notes that the Governor's proposal does not take into account the likely shift of some enrollment demand from the UC and CSU to the community colleges, as a result of the significant student fee hikes proposed at those institutions. While students are indeed effected by the "price" of attending college, they are also dramatically effected by whether or not the courses they're interested in are offered at a time and location that fit into their schedules. As such, it is difficult to accurately predict how many students will enroll in public colleges in the coming fiscal year.

> **LAO SUGGESTION**. In order to err on the side of caution, the LAO suggests providing the community colleges with an additional $100 million to fund enrollment growth of another 2.6 percent (25,000 FTES). This increase would serve to further offset the Governor's proposed enrollment decline, for a total decrease of 3.1 percent in 2003-04.

3. How should funds be allocated? Within the annual Budget Act, funding for enrollment growth is allocated through a specific line item (Schedule 3, of Item 6870-101-0001). While the effect of providing additional funding for enrollment growth would still result in a net decrease of either 5.7 percent (under the Governor's proposal) or 3.1 percent (under the LAO's proposal), the effect on individual districts will vary widely. Under either proposal, only those districts which are in "growth mode" (including, Los Angeles, Riverside, Peralta, and San Diego among others) will be eligible to receive the additional funds. As a result, the committee may wish to consider shifting any additional funding for enrollments from the "growth for apportionments" line item to the "apportionments" line item in order to – more broadly – mitigate the effects of the enrollment reductions proposed by the Governor. By "backfilling" the overall enrollment declines, more districts will benefit from the funding rather than the handful of high growth districts.

4. How should funds be expended by districts? The Governor's Budget includes provisional language (Item 6870-101-0001, Provision 5) which specifies that funds appropriated specifically for growth (in Schedule 3) shall not be used for FTES in concurrent enrollment physical education courses, study skills, and personal development courses. Further, the provision states that the Board of Governor's shall adopt criteria for the allocation of funds for both enrollment growth and the general apportionments (funds that go out to all districts), in order to ensure that certain types of courses are given priority in a year of constricted budgets. Specifically, the language states that highest priority shall be granted to courses related to student needs for transfer, basic skills and vocational/workforce training. *Staff notes*, the committee may wish to explore whether it is appropriate to prescribe how general apportionment dollars are to be allocated.

Under this provision, the Chancellor's Office is required to report to the Legislature by February 1, 2004 the adopted criteria for dispersing enrollment growth and general apportionment funds.

C. STUDENT FEES

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2003-04 budget proposes to increase student fees at the California Community Colleges by 118 percent or $13 per unit (from $11 per unit to $24 per unit). For students taking an average full-time course load of 26 units per year, this increase would translate into an additional $338 per year (bringing the fee total to $624 per year).

By means of comparison, fees are proposed to increase at UC and CSU by 35 percent over the amount students paid in the Fall of 2002; ten percent of this increase was already imposed on students beginning this semester/term and the remaining 25 percent will be assessed beginning in the Fall of 2003. Unlike the UC and CSU, whose governing board have the authority to increase student fees, community college fees are set in statute.

The impact of the proposed fee increase on student enrollment is expected to be severe; based on the Governor's Budget, an estimated 62,000 FTE students will drop out or fail to enroll due to the increased cost.

1. **DETERMINING THE APPROPRIATE FEE LEVEL.** Without an explicit student fee policy (statutory or otherwise) to guide the Governor or the Legislature, the Administration's budget proposal continues the "boom and bust" cycle of student fees, which holds stable or decreases student fees in good economic times and dramatically increases fees when the economy is struggling.

   Given that community college fees remained stable for the last decade, in comparison to colleges nationwide, fee levels at the California community colleges (as proposed to be increased) are still the lowest in the country. Based on data obtained by the LAO, California community college fees are almost one-half of the amount of the next most affordable public two-year institution in the nation.

   STUDENT FEE OPTIONS FOR THE COMMITTEE TO CONSIDER. Staff notes that there are several student fee alternatives which the committee may wish to consider in lieu of the Governor's proposal. Specifically, staff notes the following options:

   a) ***LAO Proposal.*** Given that the Governor proposes to increase fees to $24 per unit, the LAO suggests raising fees an additional $2 beyond that amount – for a total of $26 per unit. The LAO believes that the Governor's fee proposal is reasonable, given that the price to students ($24 per unit) is reflective of students paying an appropriate share of their educational costs. Further, the LAO notes that the cost

of attending a community college will still be affordable for modest-income students, who are otherwise not exempted from paying fees. For financially-needy students, the fee increase will be covered by their fee waiver.

Further, the LAO notes that the additional $2 increase will enable financially-needy students to receive up to an additional $337 in federal Pell Grant aid. Under current federal law, California's community college students are the only students in the country who are NOT eligible for the full amount of the Pell Grant; this occurs due to a clause in federal law known as the Pell Grant Tuition Sensitivity provision, which provides for an alternative payment schedule for students at very low cost institutions – only the California Community Colleges meet this definition. Increasing the fee cost to $26 per unit will remove the community colleges from this alternative payment schedule, thus allowing our financially-needy students to receive the maximum Pell Grant award.

The LAO notes that $18 per unit serves as an intermediary threshold which allows students to receive additional Pell Grant funds, though less than they would if the fee were $26 per unit.

Alternative Federal Pell Grant Schedule[a]

Per Unit Fee	Pell Grant Amount[b]
$11 through $17	$3,713
$18 through $25	3,938
$26 and above	4,050

[a] All other community college systems in the nation use the "regular" Pell Grant schedule—in which the maximum award is $4,050. The California Community College system currently must use an alternative award schedule because its fees are so low.

[b] Represents maximum award in 2003-04 for a full-time student. Students attending less than full time receive a Pell Grant award that is reduced proportionally. For example, the maximum award for a half-time student is half that which a full-time student receives.

b) ***Increase fees by same percentage as UC and CSU.*** Under the Governor's proposal, UC and CSU intend to increase student fees by 25 percent, in addition to the 10 percent fee increase which was assessed on students this spring. If fees were increased at the California Community Colleges by a like-amount, first by 10 percent then 25 percent, the new fee level for 2003-04 would be $15.13 per unit.

c) ***Increase fees based on rate of change in California Per Capita Personal Income (CPCI).*** Another fee option includes adjusting community college student fees upward, based on the change in CPCI. Using 1997-98 as the base year (this is the last year student fees were $13 per unit. In 1998-99 fees were reduced to $12 per

unit, and in 1999-2000 fees were reduced to the current $11 per unit level), the fee level would have increased to a projected level of $17.69 per unit.

Using 1993-94 as a base year (the last year that fees were increased), the per unit fee would increase to $20.54 (based on projection of current year and budget year changes in CPCI).

d) ***Adopt Supplemental Report Language*** In lieu of any fee increases, the Legislature may wish to request that the California Postsecondary Education Commission (CPEC) develop recommendations (with the input of various constituency groups) regarding a long-term policy for setting and adjusting student fee charges at the community colleges.

2. **TREATMENT OF STUDENT FEE REVENUE.** Under current law, for each additional dollar of revenue from student fees or property taxes that a college receives, the state takes back a like-amount of General Fund dollars. In the case of student fees, the state reduces the amount of General Fund a district receives by 98 cents on the dollar (Education Code Section 76300(c)). This essentially means that the approximately $150 million in student fee revenue that is expected to result from the $13 per unit fee increase, does not directly benefit the campuses but rather provides a mechanism for the state to reduce the amount of General Fund (Proposition 98) support it provides to the community colleges.

   The Department of Finance (DOF) contends that this is not the case, but rather fees are proposed to be increased in order for the community colleges to "recoup" part of the $704 million in General Fund reductions proposed by the Governor. Thus treating fee revenues at the community colleges in a fashion similar to UC and CSU. Staff notes that while this may be DOF's perspective, the law is clear. The state would be required to provide General Fund if student fees were not increased. This is not the case at UC or CSU where the revenues are retained by the campuses and the state is not automatically required to reduce a like-amount of General Fund. While the Administration and the Legislature may make budgetary decisions based on the amount of revenue a student fee increase at UC and CSU would generate, unlike community colleges, the legal commitment to reduce the General Fund does not exist.

   a) ***CPEC Proposal.*** The California Postsecondary Education Commission CPEC) has recently recommended that local community college campuses be allowed to assess a "campus-based fee", not to exceed 10 percent of the statewide enrollment fee, and that those revenues be retained on the campus without being defined as "local revenues" and hence serving as a General Fund offset.

   b) ***Staff recommends*** that the Legislature further examine and consider the options of (1) allowing the community colleges to retain a portion of their mandatory student fee

revenue, without an accompanying General Fund offset and/or (2) allowing local colleges to assess and retain a local fee, as proposed by CPEC.

D. BASIC AID DISTRICTS – EXCESS PROPERTY TAX REVENUE. At its hearing on March 24, 2003, the committee took action to deny the Governor's request to capture $10 million in excess property tax revenues from community college basic aid districts.

While the LAO did not have a specific recommendation related to community college basic aid districts in its *Analysis of the Budget Bill*, on the K-12 side, the LAO recommended against capturing the excess revenue (consistent with the actions of the committee) and instead urged the Legislature to consider "capping" the amount of excess property tax revenue that a district is allowed to retain.

Excess taxes appear to be rising rapidly, primarily as a result of escalating property values and the high property turnover rates in certain regions of the state. Specifically, the LAO recommends capping the amount of excess tax districts can keep at the 2000-01 level, and then redistributing tax receipts beyond that level to other community colleges and K-12 schools in the same county. Since this recommendation was initially aimed at K-12 school districts, it is unclear if the LAO would recommend transferring community college excess property tax revenue to K-12 schools or simply keeping the revenue within the community college system by transferring it to other colleges in the same county.

Further, staff notes that it is unclear if 2000-01 is the appropriate "base" year. For community colleges, capping the excess revenue at the amount received in the current year (2002-03) may better reflect the "prospective" nature of the LAO's recommendation and allow the districts to better plan for and respond to future budget changes.

E. CONCURRENT ENROLLMENT – STATUS REPORT/UPDATE ON AUDIT ACTIVITIES

As part of the December Revision, the Governor proposed to permanently reduce funding for the California Community Colleges by $80 million due to perceived inconsistencies related to students enrolled concurrently at public high school and community college campuses. While it was familiar with the anecdotal evidence of inappropriate activity, the Legislature rejected the Governor's proposal due to a lack of concrete information and proof related to the scope and depth of the problem.

At this time, the committee would like to ask the Community Colleges Chancellor's Office and the Department of Finance for an update on the status of the audit, which was initiated to investigate the allegations of enrollment misconduct.

F. COMMUNITY COLLEGE CATEGORICAL PROGRAMS CONSOLIDATION. As part of the *Analysis of the 2002-03 Budget Bill* the LAO recommended that, in addition to the categorical program reductions proposed by the Governor, the Legislature consolidate a variety of community college categorical programs. If districts were going to suffer programmatic reductions, the LAO believed that the reductions would be bearable if districts were granted flexibility in the use of the funds. Specifically, the LAO recommended developing the following two block grants:

(1) *Student Services Block Grant* – would include funds for (a) Financial Aid; (b) Extended Opportunity Programs and Services (EOPS); (c) Disabled Students; (d) Fund For Student Success; and (e) Matriculation.

(2) *Faculty Support Block Grant* – would include funds for (a) Instructional Improvement; (b) Faculty and Staff Diversity; (c) Part-Time Faculty Compensation; (d) Part-Time Faculty Office Hours; (e) Part-Time Faculty Health Insurance; and (f) Faculty and Staff Development.

Given the categorical program block-grant and consolidation proposals within the K-12 arena, staff recommends that the committee explore options for consolidating and streamlining community college categorical programs as well.

II. COMMUNITY COLLEGES CHANCELLOR'S OFFICE

A. STATE OPERATIONS. The Governor's Budget proposes to substantially reduce the ongoing operations of the Community Colleges Chancellor's Office which includes reducing programmatic oversight and local college support. Specifically, the Governor's Budget proposes to reduce the number of personnel years by 45.9 (from the beginning of 2002-03 to 2003-04), bringing the total number of positions down to 168.9 from 214.8. The combination of eliminating positions and reducing operating expenses and equipment, will total $3.5 million (from the beginning of the current year through the budget year). This equates to a total support budget of $17.2 million in 2003-04 ($9 million General Fund).

The level of funding proposed by the Governor represents a 20 percent reduction in the Chancellor's Office operations (including the mid-year reductions already adopted by the Legislature). Due in part to the mid-year cuts, as well as the proposed reductions for 2003-04, the Chancellor's Office has begun initiating employee layoffs. In order to avoid further layoffs, the Chancellor's Office is requesting that its support budget be reduced by 14 percent rather than the proposed 20 percent. This augmentation would allow the Chancellor's Office to initiate workload reductions and urge additional retirements rather than dismissing employees.

III. STUDENT OUTREACH (UC AND CSU)

A. UC STUDENT OUTREACH. The Governor's Budget proposes to cut in half funding for student outreach programs at the both the University of California (UC) and the California State University (CSU). For UC, the reductions within specific programs range from 25 to 56 percent, with most programs being reduced by 56 percent. (*Note: The LAO will present a handout outlining the reductions on a program-by-program basis during the hearing*).

STUDENT OUTREACH PROGRAMS (BACKGROUND)

In 1995, the UC Regents approved SP-1, a policy that prohibited campuses from using race, religion, sex, color, ethnicity, or national origin as criteria in granting admission. The policy became effective January 1, 1997. In 1996-97, largely in response to the new environment created by SP-1, UC began a major initiative to improve and expand student outreach efforts in order to increase the population of disadvantaged K-12 students that are eligible for admission to the UC.

The UC received substantial augmentations to its K-12 outreach budget to implement this post SP-1 strategy. Prior to the implementation of this comprehensive outreach strategy, the UC spent approximately $14 million on outreach efforts (in 1997-98). Since then, funding for UC's outreach programs has reached $73.1 million (in the 2002-03 Budget Act). These augmentations have allowed UC to expand student academic programs and implement a number of new initiatives which broaden the scope of K-12 outreach.

LEGISLATIVE ANALYST RECOMMENDATION. In its *Analysis of the Budget Bill*, the LAO approves of the 50 percent reduction in the level of funding for UC and CSU student outreach programs, but offers an alternative expenditure program for student outreach that is more targeted than the Governor's across-the-board reductions. (*Note: The LAO will present a handout outlining its alternative expenditure plan during the hearing*).

B. CSU STUDENT OUTREACH. The Governor's Budget proposes a total of $6.5 million General Fund to support various CSU student outreach programs which focus on increasing the eligibility of underrepresented students for college admittance and attendance. According to the LAO, this represents a $12.6 million decrease (66 percent) from the current-year level. Under the Governor's proposal, the CSU would determine how the funding reduction is to be allocated amongst the student outreach programs.

LEGISLATIVE ANALYST RECOMMENDATION. The LAO recommends that the Legislature approve the level of reductions proposed by the Governor, but target those programs which (1) provide duplicative services; (2) don't focus on students most in need of assistance; and (3) are ineffective.

IV. CALIFORNIA STATE UNIVERSITY

A. CSU, FRESNO CONFERENCE ON "REVOLUTIONARY ENVIRONMENTALISM". In mid-February, the California State University, Fresno Political Science Department hosted a conference entitled "Revolutionary Environmentalism" which featured a variety of controversial speakers. CSU Fresno's role in this conference has sparked concern among a variety of community and legislative members, due to the inclusion of admitted terrorists and arsonists as special guests.

In response, the CSU noted that there was almost unanimous agreement among the parties that it was -- and remains -- appropriate for the university to undertake the discussion and debate of controversial issues. However, in the absence of clear policy guidelines dictating how such discussion and debate should occur, future events may result in similar types of controversy. Since the time of the conference, the CSU Fresno President has made a commitment to develop guidelines and procedures to ensure that campus-based discussions and debates are balanced, of scholarly value and protect free speech and academic freedom.

At this time, the committee would like to ask the California State University to further elaborate on its response to the criticisms of the conference.

V. Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

6870-001-0574 Facilities planning, Higher Education Capital Outlay Bond Fund of 1998. $1,116,000

6870-001-0909 Instructional Improvement and Innovation, Special Grant Cash Account of the Fund for Instructional Improvement Program. $10,000

6870-001-0925 Economic Development, California Business Resources and Assistance Innovation Network Fund. $10,000

6870-101-0909 Local Assistance, Community College Fund for Instructional Improvement. $1,242,000

6870-101-0925 Local Assistance Economic Development, California Business Resources and Assistance Innovation Network Fund. $15,000

6870-103-0001 Local Assistance, Lease-Purchase Payments. $55,948,000

6870-111-0001 Local Assistance, CalWORKS, AmeriCorps, Foster Parent Training, Vocational Education and Workforce Investment Act. $0

Budget and Fiscal Review Subcommittee No. 1 Education

Jack Scott, Chair
Bob Margett
John Vasconcellos

April 21, 2003
Upon Adjournment of Session – Room 113

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I. Student Assessment

Background:

The Governor's Budget provides $130.4 million in funding for support of student assessments in California, including $102.8 million in state General Funds and $27.6 million in federal funds authorized by Title VI of the No Child Left Behind Act (NCLB).

These assessment funds cover the costs of administering a variety of specific state assessments that measure student performance. (Appendix A identifies these state assessments.) These assessment costs also cover test development, as well as, data collection, analysis and reporting.

Funding for individual assessment programs, as proposed by the Governor in 2003-04, is summarized in the chart below. The Governor proposes to increase assessment programs by $798,000 overall, above the Governor's proposed midyear budget. [While not reflected on the chart below, the Governor's proposed 2003-04 budget for assessment programs is $1.6 million lower that the 2002-03 budget as revised by SB 18X.]

	2003-04 Governor's Budget			Change from Governor's 2002-03 Midyear Proposal		
Assessment Program:	**General Fund**	**Federal Funds**	**Total**	**General Funds**	**Federal Funds**	**Total**
STAR	60,836,000	3,569,000	**64,405,000**	0	-1,480,000	**-1,480,000**
California High School Exit Exam	18,27,000	2,900,000	**21,167,000**	0	2,900,000	**2,900,000**
California English Language Development Test	11,437,000	7,100,000	**18,537,000**	7,000,000	-500,000	**6,500,000**
Golden State Exam	5,933,000		**5,933,000**	-1,500,000	0	**-1,500,000**
Physical Performance Test	1,058,000		**1,058,000**	-144,000	0	**-144,000**
Assessments in Career Education	0			-871,000	0	**-871,000**
NCLB Longitudinal Database		6,880,000	**6,880,000**	0	0	**0**
Test Development	1,407,000	4,083,000	**5,490,000**	-2,500,000	383,000	**-2,117,000**
Assessment Review and Reporting	3,913,000		**3,913,000**	0	0	**0**
Assessment Data Collection		1,800,000	**1,800,000**	0	0	**0**
Alternative Schools Accountability Model		775,000	**775,000**	0	-670,000	**-670,000**
Students with Disabilities		500,000	**500,000**	0	0	**0**
Unspecified			**0**	0	-1,820,000	**-1,820,000**
Total	102,851,000	27,607,000	**130,458,000**	1,985,000	-1,187,000	**798,000**

Source: Legislative Analyst's Office

The Standardized Testing and Reporting program (STAR) is the cornerstone of the state's student assessment system. Nearly half of the funding proposed for student assessment programs in 2003-04 is directed to the STAR program.

The STAR program includes three separate achievement tests that cover core subject areas for students in grades 2-11 – (1) the California Achievement Test 6 (CAT 6)-- a norm-referenced achievement test; (2) the California Standards Test (CST) – a criterion-referenced achievement test aligned to our state's own curriculum standards; and (3) the Spanish Assessment of Basic Education (SABE/2) -- a norm-referenced achievement test for English learners whose primary language is Spanish.

Budget Issues/Actions:

A. Governor's Budget Proposals -- As summarized in the chart above, the Governor proposes a number of changes to specific student assessment programs for the 2003-04 budget:

1. Elimination of Assessments in Career Education ($.9 million savings) – The Governor proposes elimination of the Assessments in Career Education (ACE) program for a savings of $871,000 in 2003-04. The Governor proposes using the STAR test to fulfill federal requirements for reporting achievement in vocational education.

ACE exams are voluntary, end-of-course exams that measure achievement in career technical subjects. Exams cover a number of subjects including agriculture, computer science and information systems, health care, food services and hospitality, and technology. ACE exams are available for students in grades 7-12. These exams are not standards-based; but criterion referenced tests.

The ACE exams are not required under state law, but voluntary tests. According to the LAO, the number of students participating in the tests is declining and the cost of the tests is high relative to the costs for other tests.

2. Additional Federal Funds for California High School Exit Exam Workload ($2.9 million increase). The Governor proposes to appropriate $2.9 million in new federal Title VI funds to cover district apportionments for an additional 367,000 test takers ($1.1 million) and to pay for associated exam workbooks ($1.8 million).

The California High School Exit Exam (CAHSEE) measures state-adopted curriculum standards for English language arts (reading and writing) through grade 10 and mathematics through Algebra I. Beginning in 2003-04, California students will have to pass a high school exit exam, in order to earn a high school diploma. The new law requires the test be given to all 10th graders. If students do not pass the test, they may take it again until they pass.

The CAHSEE has been administered for nearly three cycles beginning in spring 2001. Data are available for two cycles – spring 2001 and 2002.

As indicated in the chart below, the cumulative passing rates for students scheduled to graduate in 2004 now stands at 48 percent – so only half of the state's students have passed the exam so far. The cumulative passage rates of other groups of students is even lower – only 19 percent for English learners and 13 percent for students with disabilities.

Estimated Cumulative Passage Rates,
Math and English Combined,
Spring 2001 and 2002

Class of 2004	All Students	Asian/ Asian American	White (Not Hispanic)	Hispanic/ Latino	African/ American	Economically Disadvantaged	English learners	Special Education
Passage Rates	48	70	65	30	28	NA	19	13

Source: California Department of Education, September 2002. Produced from 2001 and 2002 Human Research Organization (HumRRO) data files.

AB 1609 (Calderon), enacted in 2001, requires an independent study to evaluate the state's readiness to require the exam for graduation. The study is due May 1, 2003. Upon consideration of this study, the State Board of Education is authorized to delay the date when passage of the exam will be required, if they act by August 1, 2003.

3. New Funds for California English Language Development Test Workload and Backfill ($6.5 million increase) -- The Governor proposes a $5 million increase for contract costs associated with the California English Language Development Test (CELDT) in 2003-04. In addition, the Governor proposes $1.5 million to cover district apportionments for an additional 300,000 test takers.

These adjustment are funded through an $7 million increase in state General Funds, offset by a reduction of $500,000 in Title VI funds for these purposes.

The CELDT was developed pursuant to legislation requiring a statewide English-language assessment program for students in grades K-12. The purpose of the CELDT is to (1) identify students as English-learners in order to assure English development and access to education services and curriculum, (2) determine student proficiency in English to monitor student progress, and (3) assess student progress in acquiring English proficiency for purposes of reclassifying students as English-proficient.

The CELDT is required to assess listening, speaking, reading and writing and must be aligned to statewide standards for English Language Development (ELD) adopted by the State Board of Education. The State Board approved English Language Development standards in July 1999.

School districts have been required to assess English learners using the CELDT since 2001. Nearly 1.3 million English learners, approximately 21 percent of all students statewide, participated in the CELDT in 2002.

4. Reduce Golden State Exam Funding ($1.5 million savings) -- The Governor proposes to reduce funding for the Golden State Exam (GSE) in 2003-04 by an additional $1.5 million below the Governor's proposed midyear budget level. Proposed cuts reflect contract savings for reduced testing. The Governor's proposal retains $5.9 million for the GSE program in 2003-04.

Funding for GSE dropped significantly from the 2002-03 Budget Act--from $15.4 million to $7.4 million, as compared to the Governor's mid-year proposal. SB 18X reduced 2002-03 funding even further, to $6.6 million.

The GSE provides voluntary, end-of-course exams for students in grades 7-12. There are thirteen separate course exams, which are all tied to state standards. These course exams cover several subject areas including math, English language/arts, social science, science and Spanish.

Approximately 1.2 million students take GSE exams. Students that do well on the exams can qualify for Golden State Merit Diplomas.

Recent legislation (Chapter 722/2001) required GSE tests to be integrated into the California Standards Test to reduce testing time and testing duplication. Three tests have been integrated into the California Standards Test-- reading/literature, written

composition, and high school mathematics. The California State University (CSU) system plans to use these three tests for placing students, beginning in 2003-04.

The $5.9 million proposed by the Governor for GSE in 2003 will require many GSE exams to be eliminated, but according to DOF, the three exams integrated into CST would be given priority for funding.

The LAO recommends the Golden State Exam be discontinued for an additional savings of $5.9 million in 2003-04. The LAO gives two reasons for this position: (1) GSE tests are not mandated, but voluntary and are not used as a part of the school accountability system, and (2) GSE is duplicative of other tests that could be used to demonstrate high achievement, such as Advanced Placement Exams.

The LAO is not persuaded that the GSE has to be maintained for placement purposes at CSU since relatively few students at CSU will have taken the test and other tests will have to be utilized anyway.

B. LAO Proposals – In addition to elimination of the Golden State Exam described above, the LAO recommends the following additional budget reductions to student assessments:

1. Reduce Grade Levels Tested on the STAR Norm-Referenced Test ($10 million savings) – The LAO recommends reducing $10 million in funding for the STAR program by eliminating eight grade levels tested on the STAR norm-referenced test, which is currently the California Achievement Test 6 (CAT/6). Specifically, the LAO recommends limiting this test to grades 4 and 8, rather than testing students in grades 2 through 11.

The Standardized Testing and Reporting program (STAR) includes three separate achievement tests that cover core subject areas for students in grades 2-11. The two major STAR tests are the – the California Achievement Test 6 (CAT/6) and the California Standards Test (CST). These two achievement tests are taken by nearly 4.6 million students in California every year and form the basis of the state's Academic Performance Index (API).

A third test – the Spanish Assessment of Basic Education (SABE/2) –is required for English learners who have been enrolled in public school for one year or less. Overall, 108,000 English learners took the SABE/2 in 2002.

The LAO recommendation would reduce the emphasis on the CAT/6, which as a norm-referenced test, allows comparisons for a national sample of students. This change would place greater emphasis on the California Standards Test – a criterion- referenced test aligned to our state's own content standards.

As initially established in 1997, the STAR program relied uniquely on a state norm-referenced test – then the Stanford Achievement Test, 9th Edition (SAT/9). The SAT/9 has been replaced by the CAT/6 in 2003. Over time, standards-based components were added to the SAT/9, as content standards in core curriculum areas were developed and approved.

Legislation in recent years has strengthened the role of standards-based testing and reduced the role of the norm-referenced test for the STAR programs. As enacted in 2001, SB 233/Alpert made the standards-based STAR test – now the California Standards Test -- a separate test from the norm-referenced test. In addition, this new law shortened and deleted portions of the norm-referenced STAR test – now the CAT/6.

The standards-based test has also grown to comprise a greater portion of the API – the state's school accountability measure -- in recent years. In 2001, the norm-referenced test (NRT) – then the SAT/9 -- accounted for 100 percent of the API for elementary and middle schools. In 2003, the new norm-referenced test – the CAT/6—will account for only 20 percent of the API; the California Standards Test (CST) will account for 80 percent.

API Components, Elementary and Middle Schools, 2001-2003

2001			**2002**			**2003**	
SAT/9 (NRT)	**CST (CRT)**		**SAT/9 (NRT)**	**CST (CRT)**		**CAT/6 (NRT)**	**CST (CRT)**
100%	NA		64%	36%		20%	80%

A similar trend is evident with the API for high schools. In 2001, the norm-referenced test – then the SAT/9 -- accounted for 100 percent of the API for high schools. In 2003, the new norm-referenced test – the CAT/6—will account for only 12 percent of the API, whereas the California Standards Test will account for 73 percent and the California High School Exit Exam (CAHSEE) will account for 15 percent.

API Components, High Schools, 2001-2003

2001			2002			2003		
SAT/9 (NRT)	CST (CRT)		SAT/9 (NRT)	CST (CRT)		CAT/6 (NRT)	CST (CRT)	CAHSEE
100%	NA		76%	24%		12%	73%	15

Staff notes that reducing emphasis on the CAT/6 appears consistent with recent legislation and state policy that has shortened and separated the norm-referenced test within the STAR program and significantly reduced its weight and importance in the API.

Staff further notes that there are efficiencies in eliminating the number of grade levels tested on California's norm-referenced achievement test – the CAT/6. These efficiencies would reduce test-taking time for students, reduce test duplication and save money at the state and local level.

Therefore, staff notes that the Subcommittee may want to retain funding for at least one high school grade – possibly 11th grade -- in addition to the two grades the LAO recommends retaining -- 4th and 8th grade. The performance of high school students on norm-referenced tests has been poor compared and contrasted to students in elementary and middle schools. (See Appendix B & C) For this reason, some additional information provided by the CAT/6 for high schools appears worthy of retaining at this time.

2. Eliminate Primary Language Test Requirement ($1.6 million savings) –The LAO recommends elimination of the requirement for a primary language test as a part of the STAR program, which would eliminate funding for the SABE/2 test. This change would save $1.6 million in state General Funds and would require a change in statute.

Current law establishing the STAR program requires school districts to administer a primary language test to English learners in grades 2-11 if they have been enrolled in a California public school for less than one year and if a primary language test is available. Additional primary language testing for English learners beyond one year is optional for districts.

To date, only one primary language achievement test has been adopted for English learners – the Spanish Assessment of Basic Education (SABE/2). The SABE/2

assesses new students --whose primary language is Spanish -- in reading, language, spelling and math.

Approximately 108,000 of the state's 1.2 million English learner students take the SABE/2 annually.

The LAO provides the following reasons for eliminating the SABE/2:

(1) School districts use other tests for placement and monitoring that are more useful;
(2) The test is not consistent with the state's emphasis on English language development;
(3) A small portion of students take the test;
(4) The test does not fit within the framework of the state's accountability system because a different set of students is tested each year; and
(5) The test is not aligned with state standards, as required by NCLB.

Staff notes that primary language testing has been a part of California's – assessment system – specifically the STAR system -- from the outset. While a norm-referenced test, the SABE/2 is the only content test in Spanish and provides some gauge of content knowledge for English learners. Development of a Spanish language test that is aligned to state standards, such as the California Standards Test, would be preferable to a norm-referenced test in Spanish. However, it would appear premature to eliminate the SABE/2 – the only content assessment for English learners – prior to the development of a standards- based test in Spanish.

3. Eliminate the Physical Fitness Test Mandate ($1.1 million savings) – The LAO recommends elimination of the Physical Fitness Test, as funded by the state mandates program, for a savings of $1.1 million in 2003-04.

The LAO supports the elimination of this test on the basis it would reduce the number of required state assessments, reduce testing burdens, increase instructional time, and make $1.1 million available for other educational priorities.

The Physical Fitness Test is a mandated state assessment for students in grades 5,7, and 9. The test was required by legislation enacted in 1995 – AB 975/Alpert.

The State Board of Education has designated the Fitnessgram as the state's physical performance test. The test measure six areas of fitness – aerobic capacity,

body composition, abdominal strength, trunk extension strength, upper body strength, and flexibility.

In 2001, approximately 90 percent of school districts reported data for the Fitnessgram. Of the 1.2 million students in grades 5, 7, and 9 who took this test, a full 77 percent did not meet the minimum standards for physical fitness.

Current law requires physical education for students in grades 1 through 12. Physical education is required for a minimum of 200 minutes every 10 school days for students in grades 1-6. In grades 7-12, physical education is required for a minimum of 400 minutes every 10 school days.

Under current law, a school board or a county office of education can grant a student an exemption from physical education for two years any time during grades 10 to 12.

A recent analysis conducted by CDE found that higher academic achievement was associated with higher levels of fitness for students at each of the three grade levels measured. The analysis, which matched student SAT/9 scores to Fitnessgram scores in 2001, also found that students who met minimum fitness levels in three or more physical fitness areas showed the greatest gains in academic achievement at all three grade levels.

Legislative analyses from the Senate Health and Human Services Committee describes research that indicates a two-fold increase in the youth obesity rate over the past two decades, and a three-fold increase for adolescents. Research also indicates that one-in-four obese children has early signs of Type 2 Diabetes and nearly half of the children and adolescents now diagnosed with diabetes have Type 2, formerly called "adult onset."

Staff notes that there has been renewed emphasis on the Physical Fitness Exam as an important component of the state's assessment system. This new interest stems, in part, from the outcomes of these tests, which indicate poor fitness levels for California students. These trends appear to indicate a continued need for accountability in physical fitness and health education. In addition, there is concern about the rising incidence of childhood obesity and its connection to preventable childhood diseases such as Type 2 Diabetes.

II. School Accountability

Current law, under the Public Schools Accountability Act (PSAA) establishes a statewide school accountability for our K-12 public schools, which builds upon state curriculum standards and state assessment tests. Major components of the PSAA include:

- An Academic Performance Index (API) to rank schools statewide on academic achievement and other measures,
- An Immediate Intervention/Underperforming Schools Program and a High Priority Schools Grant program to provide interventions for schools that need help and sanctions for schools that fail to make progress, and
- A Governor's High Achieving/Improving Schools Program to provide incentives and financial rewards for schools that show progress.

There are two major state intervention and sanction programs in California – the Immediate Intervention/ Underperforming Schools Program (II/USP) and the High Priority Schools Grant Program (HP). As summarized by the LAO:

The II/USP program targets schools in the five lowest deciles on the API that are not meeting API targets, and provides $200 per pupil for two to three years for school improvement. Schools that do not make significant growth are sanctioned.

The HP program targets the lowest performing schools starting with schools in decile one – the lowest decile on the API – and provides $400 per student for three to four years. Schools that do not make significant growth are sanctioned.

In addition, there are two federal intervention and sanctions programs – the Comprehensive School Reform and Demonstration Program (CSRD) and the new and evolving program for Program Improvement schools under the No Child Left Behind Act. As summarized by the LAO:

The CSRD program provides grants to schools to do comprehensive research-based reform and provides $200 to $400 per pupil for three years. This program is generally integrated into the II/USP and HP programs.

The NCLB program requires [Title I] schools not making "adequate yearly progress" to implement progressively stringent interventions under Program Improvement. No additional funding is provided to schools in Program Improvement.

Funding for the three interventions and sanctions program that provide funding to schools is summarized in the chart below.

K-12 Intervention and Sanction Programs,
State and Federal Funds
2003-04 Governor's Budget
(In millions)

Program	2002-03 Budget Act	2002-03 Mid-Year Governor's Proposal	Proposed 2003-04	Change from 2002-03 Mid Year	% Change from 2002-03 Mid Year
II/USP (GF)	$184.6	$164.6	**$104.6**	-60.0	-36.4
HP (GF)	217.0	172.5	**178.4**	5.8	3.4 %
CSRD (Fed)	39.7	39.7	**39.7**	--	--
Sanctions (GF/Fed)	35.1	34.5	**34.4**	-0.1	-0.2
Total	$476.4	$411.3	**$357.1**	-$54.2	-13.2 %

The Governor's Budget proposes **$357.1 million** for state and federal intervention and sanction programs for low-performing schools in 2003-04. This includes $288.0 million in state General Funds and approximately $69.1 million in federal funds.

1. II/USP & HP

The Governor's Budget proposes a total of **$283.0 million** in state General Funds for the II/USP and HP programs in 2003-04. This level of funding reflects a reduction of $118.6 million, compared to the 2002-03 Budget Act – $80 million for II/USP and $38.6 million for HP programs.

This overall reduction continues 2002-03 reductions proposed by the Governor's mid-year revision, which were rejected by the Legislature.

More specifically, the Governor's Budget includes:

- **II/USP** -- The Governor proposes **$104.6 million** for II/USP in 2003-04. This reflects an $80 million reduction to the program below the 2002-03 Budget Act. Most of this reduction is explained by $60 million savings from schools in the 1st cohort who exit the program after three years and from 2nd cohort schools (20 percent) that may not be eligible to receive third year funding for the

program. Another $20 million in savings results from the across-the-board cuts the Governor proposed for categorical programs.

- **HP –** The Governor proposes **$178.4 million** for HP in 2003-04. This reflects a decrease of $38.6 million below the 2002-03 Budget Act. These reductions are explained by proposed across-the-board reductions. In addition, these reductions reflect savings from not funding a new HP cohort in 2002-03 – an action rejected by the Legislature.

The final 2002-03 budget, as revised by SB 18 X, provides $146.0 million for II/USP and $180.0 million for the HP program. These changes reflect a $76 million reduction in 2002-03 -- $38.6 million for II/USP and $37.4 million for HP – to realign funding for the final 20 percent payment for these programs. This change shifts these payments, due in October 2003, from 2002-03 funds to 2003-04 funds. This action is not intended to reduce or delay funding for programs.

Based upon the Legislature's action in SB 18X, the LAO believes that the Governor's Budget underfunds the II/USP and HP program by an estimated <u>$69 million</u> in 2003-04. The Legislature's actions to reject across-the-board reductions, to retain a 2nd cohort of HP, and to realign the timing of payments are the reasons behind this difference.

Specifically, the LAO estimates that $132 million is necessary to fund II/USP in 2003-04. The Governor's Budget is **$36 million** below this level. Without additional funding, per pupil funding for schools will be reduced from $200 to $158 in 2003-04. Current law permits such adjustments to per pupil funding.

The LAO estimates that $220 million is needed to fully fund HP cohorts one and two in 2003-04. This is **$42 million** below the Governor's Budget. Without additional funding, per pupil funding for schools will need to drop from approximately $400 to $323. Current law does not provide authority for such adjustments, so trailer bill language would be required.

2. LAO Alternative Proposal for Restructured Accountability System

As an alternative to either funding the $69 million shortfall in the Governor's Budget for the II/USP and HP programs or reducing per pupil funding for these programs, the LAO recommends setting aside an estimated **$50 million** to fund both shortfalls and a redesigned accountability system.

The LAO envisions that such a system could be funded with a combination of state and federal funds, including Title I, Set-Aside funds for Program Improvement.

In making this recommendation, the LAO notes a number of challenges with the existing system. The LAO recognizes large differences among the four state and federal accountability systems. Notable differences include: growth measures and targets; sanction and intervention requirements – eligibility, funding, timing, types of interventions/sanctions; and entities responsible for interventions. Overall, the LAO finds these differences create an "unwieldy" system.

In offering a restructured framework for an integrated accountability system, the LAO recommends:

- Focusing state interventions at the school district level and using funds to build capacity at the district level for intervening with schools;
- Targeting state interventions to the neediest schools – those in decile one of the API;
- Providing less intensive interventions and sanctions at higher performing schools and limiting interventions to schools in deciles two through ten (to no more than what is required under the statewide system of school support for Title I schools);
- Redesigning the HP program to serve as the primary accountability program for state and federal purposes;
- Transitioning schools in state intervention programs to this new, integrated accountability system expeditiously, while following through on sanction commitments, and using "significant growth" as the criterion for further funding; and
- Changing the definition of proficiency for purposes of NCLB to passage of the HSEE for students in grades 10-12 and to being "on track" to pass the HSEE for students in grades 2-8.

Beyond this framework, the LAO has developed a number of specific policy recommendations that will be outlined for the Subcommittee.

III. NCLB Accountability Programs

The Governor's Budget authorizes ongoing funding for several federal funding programs authorized under the No Child Left Behind Act (NCLB). Several of these programs provide important funding for implementation of our state's

assessment and accountability systems, which are undergoing changes in order to meet the new requirements of NCLB.

Given the significant amount of new and ongoing federal funding available for assessment and accountability purposes under NCLB, the Subcommittee will need to review expenditure plans for each of these programs. These plans should reflect updated estimates for federal funds being appropriated to California for federal fiscal year 2003, which will be available to California for the 2003-04 state fiscal year.

Staff notes that expenditure plans are needed prior to the May 12th Subcommittee hearing for the following federal items.

- Title I, Low Performing Schools (6110-123-0890);
- Title I, School Improvement Set-Aside Funds (6110-136-0890); and
- Title VI, State Assessment (Item 6110-113-0890).

The Subcommittee requests the assistance of the CDE, DOF and LAO in developing these plans. These plans should address both budget year appropriations, and any carryover funds from the current year that could be built into the budget year.

IV. Consent Items -- Special Fund Items –

Staff recommends that the following Special Fund Items be approved as budgeted. No issues have been raised with regard to any of these Items:

Special Funds

1. 6110-001-0178, Support, Schoolbus Driver Instructor Training, payable from the Driver Training Penalty Assessment Fund, $1,035,000.
2. 6110-001-0231, Support, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, $1,003,000.
3. 6110-001-0687, Support, California State Agency for Donated Food Distribution, payable from the Donated Food Revolving Fund, $5,254,000.
4. 6110-001-0975, Support, Library and Learning Services, payable from the California Public School Library Protection Fund, $15,000.
5. 6110-001-6036, Support, Administrative Services to local educational agencies, payable from the 2002 State Schools Facilities Fund, $2,188,000.
6. 6110-006-0814, Support, State Special Schools, payable from the California State Lottery Education Fund, $133,000.
7. 6110-101-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, $3,793,000.
8. 6110-101-0814, Local Assistance, School Apportionment, payable from the California State Lottery Education Fund, $799,421,000.
9. 6110-101-0975, Local Assistance, Library and Learning Resources, payable California Public School Library Protection Fund, $345,000.
10. 6110-102-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, $23,200,000.
11. 6110-301-0660, Capital Outlay, payable from the Public Buildings Construction Fund, $5,600,000. California School for the Deaf in Riverside – Preliminary working plans, working drawings, construction and equipment.

Appendix A.

California Assessment System, 2003-03

http://goldmine.cde.ca.gov/statetests/assessys.pdf

Attachment B.

SAT/9 Reading Results – 1998-2000

http://www.cde.ca.gov/news/releases2002/rel28attachre1.pdf

Attachment C.

SAT/9 Mathematics Results – 1998-2000

http://www.cde.ca.gov/news/releases2002/rel28attachma1.pdf

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

Monday, April 28, 2003
1:30 p.m. (or upon adjournment of the Senate Floor Session)
Room 113

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I. CALIFORNIA STATE LIBRARY

GOVERNOR'S PROPOSED BUDGET includes reductions to a variety of programs administered by the California State Library. The Governor's Budget includes a total of $61.2 million (from all funding sources) for the California State Library. Of this amount, $35.7 million is General Fund, which represents a reduction of approximately 38 percent from the amount appropriated in the 2002 Budget Act. (please see chart below)

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

California State Library				
General Fund Budget Proposals				
(Dollars in Thousands)				
	Revised	**Proposed**	**Change**	
	2002-03	**2003-04**	**Amount**	**Percent**
State Operations				
Support/operating budget	13,638	8,929	(4,709)	-35%
Lease-revenue bonds	2,347	2,427	80	3%
Repairs for Sutro Library	23	20	(3)	-13%
Subtotals	16,008	11,376	(4,632)	-29%
Local Assistance				
Library of California Program	1,000	-	(1,000)	-100%
California Civil Liberties Public Education Program	1,000	-	(1,000)	-100%
California Newspaper Project	300	240	(60)	-20%
California Library Services Act [a]	20,510	3,025	(17,485)	-85%
Consolidation Various Literacy Programs [b]	na	5,340	na	na
Public Library Foundation	31,532	15,766	(15,766)	-50%
Subtotals	54,342	24,371	(29,971)	-55%
Totals	**70,350**	**35,747**	**(34,603)**	**-49%**

[a] 2002-03 amount includes funding for a variety of programs including literacy programs, the direct loan and interlibrary loan program, a computerized data base, and the California Library Services Act. 2003-04 amount includes funding for the Library Services Act and computerized data base.

[b] Governor proposes consolidating funding for the Families for Literacy, California Literacy Campaign and English Literacy Programs in 2003-04. Funding for these programs are included in the California Library Services Act.

A. PUBLIC LIBRARY FOUNDATION

GOVERNOR'S BUDGET PROPOSES to substantially decrease (by 50 percent) funding for the Public Library Foundation (PLF), from $31.5 million to $15.8 million. Under the PLF, the state provides a minimal degree of assistance to local libraries for such needs as staffing, maintaining hours of operations, development and expansion of literacy programs, purchase of books and research materials, and support the operation of bookmobiles.

The Governor initially proposed decreasing funding for the PLF in the current year (as part of the mid-year reductions) but the proposal was rejected by the Legislature. Funding for the PLF has been reduced dramatically since 2000-01, when $56.9 million was appropriated for the program (which was vetoed down from $72.2 million).

B. CIVIL LIBERTIES EDUCATION PROGRAM

GOVERNOR'S BUDGET PROPOSAL eliminates the Civil Liberties Education Program (through Trailer Bill language) and all associated funding, for a savings of $1 million. According to the Legislative Analyst, the California Civil Liberties Public Education Program was initially created in 1999 as a three-year program (legislation was authored in 2000 which extended the program for an additional two years) to provide competitive grants for curriculum development and the dissemination of educational materials to ensure that the events surrounding the exclusion, forced removal and incarceration of Japanese Americans will be remembered and better understood.

Staff notes that the core infrastructure of the program could be retained, if desired, for an annual cost of between $250,000 to $500,000 annually.

C. CONSOLIDATION OF ENGLISH LANGUAGE LITERACY PROGRAMS

THE GOVERNOR'S BUDGET proposes to consolidate three existing English language literacy programs by repealing the existing programs in statute and consolidating the funding under a new California English Acquisition and Literacy Block Grant Program.

Specifically, the Governor proposes to repeal the Families for Literacy Program ($1.4 million), the California Literacy Campaign ($3.9 million) and the English Language Literacy Program ($2.9 million) and develop a new block grant program totaling $5.3 million. Funds would be dispersed by the State Library to local libraries.

D. LIBRARY OF CALIFORNIA

THE GOVERNOR'S BUDGET proposed to eliminate the Library of California Program for a savings of $1 million. The Library of California program was initially designed to better connect all libraries across the state in order to share information and resources (thus replacing the current Transaction-Based Reimbursement system, which is outlined below),

but since the level of financial support necessary to achieve the goals of the program was never appropriated by the Governor and the Legislature, the program has never been able to achieve its original purpose.

E. TRANSACTION-BASED REIMBURSEMENTS

THE GOVERNOR'S BUDGET proposes to eliminate the Transaction-Based Reimbursement Program (for a savings of $12.1 million). This program uses state funds to reimburse local libraries for the costs associated with Direct and Indirect Loans (which are discussed below); the governor's proposal would replace this reimbursement process with a fee-for-service based system. The Transaction-Based Reimbursement Program was designed to encourage libraries to cooperatively share their materials and resources with each other in order to better serve Californians.

Direct Loans. Currently, California residents may borrow books directly from any library in the state, regardless of where the individual resides. "Direct Loans" allows an individual to borrow materials from libraries outside the jurisdiction of their residence. For a local example, an individual may live in Auburn or Davis, but works in downtown Sacramento and finds it easier to check out books from the Sacramento library. Last year, over 28 million items were made available to borrowers through libraries where the borrowers do not reside. Under the Governor's proposal, a borrower would be charged $1 for each book or item of material that he/she checked out under the above-noted scenario.

Indirect Loans. Indirect loans allow individuals to borrow books from other libraries through an "interlibrary loan" program, where one's hometown library requests a book on the borrowers behalf from another library anywhere in the state. Under the Governor's Budget proposal, borrowers would be charged $5 for each item sent via inter-library loan.

Opponents of the proposal argue that dismantling the current reimbursement system would charge individuals who need libraries the most (students, seniors, the unemployed, and those of modest income), and would serve as a motivator to all dominant libraries in wealthy communities to denying borrowing to out-of-area residents entirely.

F. CALIFORNIA STATE LIBRARY – STATE OPERATIONS.

THE GOVERNOR'S BUDGET proposes General Fund reductions totaling $4.7 million or 35 percent. Of this amount, the Governor assumes that $3 million of the reductions would be offset by a newly proposed "State Library Service User Fee" which would be authorized in statute and allow the State Library to issue (and charge for) a State Library Card.

Staff notes that it is unclear if $3 million in revenue could actually be achieved by charging for the services of the California State Library. For example, many of the library's patrons are utilizing services for the blind, a program which also receives support from the federal

government. Under federal law, patrons may not be charged for these services. Further, staff notes that state agencies and departments are also heavy users of the State Library services, and it is unclear what type of General Fund savings would actually be achieved by requiring state agencies to start paying for these services.

II. COMMISSION ON TEACHER CREDENTIALING

BACKGROUND. The Commission on Teacher Credentialing is responsible for developing standards and procedures for the preparation and licensing of public school teachers and administrators, issuing and revoking credentials, evaluating and approving programs and institutions providing teacher training, developing and administering competency exams, establishing policy leadership in the field of teacher preparation and administering the Alternative Teacher Certification Programs.

GOVERNOR'S PROPOSED BUDGET reduces the total amount of General Fund spending for the Commission on Teacher Credentialing (CTC) by $5.6 million or 12 percent (please see chart below). The Governor proposes to augment funding for the Intern Program by $1.1 million (5%) while the Pre-Intern and Paraprofessional programs would decline by 35 percent and 9 percent respectively. The Governor proposes to eliminate the California Mathematics Initiative, which was initially intended to provide financial assistance to individuals to encourage them to teach mathematics, but has been continually undersubscribed since its inception in 1998.

Commission on Teacher Credentialing				
General Fund Budget Proposals				
(Dollars in Millions)				
	Revised	**Proposed**	**Change**	
	2002-03 [a]	**2003-04**	**Amount**	**Percent**
Local Assistance – Proposition 98				
Internship Teaching Program	$21.5 [b]	$22.5	$1.1	5%
Pre-internship Teaching Program	16.0 [c]	10.4	-5.6	-35
Paraprofessional Teacher Training Program	7.2	6.6	-0.6	-9
Teacher Misassignment Monitoring	0.4	0.3	--	-12
California Mathematics Initiative for Teaching	0.4	--	-0.4	-100
TOTALS	**$45.4**	**$39.8**	**$-5.6**	**-12%**

a. Assuming passage of AB 8X (Oropeza).

b. Of this amount, $17.3 million is Proposition 98 (General Fund) and $4.2 million is reappropriated from the Proposition 98 Reversion Account.

c. Of this amount, $11.8 million is Proposition 98 (General Fund) and $4.2 million is reappropriated from the Proposition 98 Reversion Account.

A. INTERN, PRE-INTERN AND PARAPROFESSIONAL PROGRAMS The Legislative Analyst recommends that the Legislature consider enacting legislation to create greater coherence among the CTC-administered Teaching Intern, Pre-Intern and Paraprofessional Training Programs. Specifically, the LAO has noted a variety of inconsistencies among the programs including, (1) the funding rate provided per participant and (2) the local match, which is required for the Intern program but none of the others.

In response, the CTC notes revising the rate to $2,000 per participant, regardless of the program, would have an adverse impact on both the Intern and the Paraprofessional Training Program (both of which are funded at levels above the $2,000). Given that the Paraprofessional Training Program is funded $3,000 per participant (per year) in order to cover full tuition for participants attending a Community College or CSU institution, any reduction in that program would have to be absorbed directly by the participant. Given that the total cost of education at a Community College or CSU far exceeds the cost of fees/tuition, participants are already being required to pay out-of-pocket expenses. Additional out-of-pocket expenses would be extremely difficult for participants, who are already working in classroom jobs paying less than $20,000 per year. For the Intern Program, CTC anticipates that services such as outreach into rural areas, data collection and intern support would be adversely impacted by a per participant funding reduction.

Further, CTC notes that requiring a dollar-for-dollar match requirement for all three programs would also have an adverse impact on the program given the lack of resources available at the local district level.

Summary of CTC's Major Local Assistance Programs

Program	Description	Funding Per Participant	Estimated Number of Participants (2002-03)
Internship Program	Provides training and on-site support for new teachers who have already demonstrated subject matter competency but have not yet obtained their full teaching credential.	$2,500	8,561
Pre-internship Program	Provides subject-matter test preparation as well as training in classroom management and basic pedagogy for new teachers who have not yet demonstrated subject matter competency.	$2,000	11,748
Paraprofessional Teacher Training	Provides academic scholarships to teachers' aides and assistants for the purpose of completing college coursework and obtaining teaching credentials.	$3,000	2,268

B. ABILITY TO SHIFT FUNDS BETWEEN BUDGETED PROGRAMS As part of its analysis of the Budget bill, the LAO has recommended that the Legislature provide the CTC with flexibility to move funds between the various teacher training programs in order to respond to teachers' needs over the next several years. Current law provides CTC with the ability to move funds from the intern to the pre-intern program; however, the LAO notes that in order to better address the needs of districts, CTC should be allowed to move funds between all three programs. *Staff notes* that it is unclear if the LAO's flexibility proposal is contingent upon the legislature developing a single, standardized rate for the programs.

C. REPORTING LANGUAGE ON EFFECTIVENESS OF INTERN PROGRAMS The LAO recommends that the CTC be required to report on the cost-effectiveness of its programs by demonstrating that (1) its programs produce better results compared to districts that operate programs without CTC's assistance and (2) the districts CTC does serve are significantly better than they otherwise would have been without CTC's assistance.

In response, the CTC notes that it does not, internally, have any funding to do the type of data collection and analysis that the LAO is requesting. While it is possible to use part of the funds provided per participant, in programs where the funding rate is $2,000 per participant, there is not enough staff support to collect the needed data from districts.

D. REDIRECTING OF FEDERAL FUNDS FOR EMERGENCY PERMIT HOLDERS The Legislative Analyst recommends that the Legislature redirect $3.1 million in federal Title II funds to expand the subject matter training programs for emergency permit holders. Specifically, the LAO recommends redirecting $1.6 million that had previously been appropriated for the past two years (but not yet spent) for the Principal Training Program to instead provide one-time supplemental services to assist emergency permit holders in improving their subject matter competency. By using the funds on a one-time "transitional" basis, districts would be assisted in meeting the new federally-mandated "highly qualified" teacher requirements.

III. CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE (CDPAC)

BACKGROUND. The Child Development Policy Advisory Committee (CDPAC) was created in 1965 as the Governor's Advisory Committee on Preschool and Educational Programs. CDPAC operates as a citizen's review board comprised of representatives from five state departments and appointed members, including parents, public members, and family child care and child care center operators. CDPAC's mission is to provide a forum for public input on child development, and to provide public policy recommendations to the Governor, the Legislature, the Superintendent of Public Instruction, and the Secretary of Education that

encourage policies and programs which are long range, developmentally appropriate and socially advanced.

A. ELIMINATION OF CDPAC For the second year in a row, the Governor's Budget proposes to eliminate the Child Development Policy Advisory Committee, as of July 1, 2003. Eliminating CDPAC would result in General Fund savings of $367,000 General Fund ($619,000 from all funding sources) due to the elimination of 5.3 positions and operating expenses and equipment. The mid-year revision reduced funding for CDPAC by 5 percent.

IV. CHILD CARE SERVICES

BACKGROUND. Under current law, the state makes subsidized child care services available to: (1) families on public assistance and participating in work or job readiness, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the "stage" of public assistance or transition the family is in. Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education.

Families receiving Stage 2 child care services are either receiving a cash public assistance payment (and are deemed "stabilized") or are in a two-year transitional period after leaving cash assistance; child care for this population is an entitlement under current law. Under current law, the State allows counties flexibility in determining whether a CalWORKS family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. As a result, depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two categories: (1) General Child Care – which is available on a limited basis for families with exceptional financial need and the (2) Stage 3 Set-Aside – which makes child care slots available specifically for former CalWORKs recipients. The availability of care under Stage 3 is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

Child Care is provided through either licensed child care centers or the Alternative Payment Program.

- *Child Care Centers* receive funding from the state which pays for a fixed number of child care "slots". Centers provide an educational program component that is developmentally, culturally, and linguistically appropriate for the children serviced. Centers also provide nutrition education, parent education, staff development and referrals for health and social services programs. In many areas in the State there are no available "slots" in licensed Child Care Centers or Family Day Care Centers and families are forced to use licensed-exempt care.
- *Alternative Payment Program* provides child care through means-tested vouchers, which provide funding for a specific child to obtain care in either licensed child care centers, licensed family day care, or licensed-exempt care. With a voucher, the family has the choice of which type of care to utilize.

A. GOVERNOR'S BUDGET The Governor's Budget included a dramatic proposal to shift responsibility for most of the state's child care programs (excluding the preschool and after school programs) from the California Department of Education to local counties. This action was slated to result in General Fund Proposition 98 savings of $879 million.

Under the Governor's proposal, the state would have turned over its child care programs (as well as a variety of other health and human services programs) to the counties, which would have received approximately $8.2 billion in revenue from increased taxes to support child care and the other programs proposed for realignment.

Given the complexity to structurally realign child care services within only a matter of months, this Committee took action on March 24, 2003 to reverse the Governor's Realignment Proposal as it pertains to child care.

B. EFFECTS OF DENYING REALIGNMENT Under the Governor's realignment proposal, child care was removed from the Proposition 98 Guarantee and the Guarantee level was "re-benched" downward to compensate for the programmatic shift to the counties. Upon denying the Governor's proposal, the Committee on the natural, increased the amount of the Proposition 98 Guarantee by $879 million (which is the amount of General Fund the Governor initially reduced in order to realign child care to the counties).

If the committee wishes to continue funding the existing child care programs, without any programmatic changes, it will take an additional $291 million of Proposition 98 funding (this is due to projected caseload increases in CalWORKS Stage 3 and a reduction in the amount of federal funding expected to be available to support the program).

The additional $291 million in costs could be funded by (1) shifting dollars from other items within K-14 education, or (2) drawing resources from non-98 General Fund, which would increase the minimum Proposition 98 Guarantee. Given that the Legislative Analyst is projecting that the minimum Proposition 98 Guarantee may increase as part of the Governor's May Revision, the Committee may wish to consider allocating a portion of those funds (which must be spent on education) to fill the budgetary "hole" left in the child care program due to not realigning services to counties. Further, the committee may also wish to consider a variety of cost-saving programmatic reforms (as discussed later in the agenda) in order to reduce the need to fill the $291 million "hole" in the Budget Year.

C. PROBLEMS WITH CURRENT CHILD CARE SYSTEM. The LAO, as well as a variety of other entities, notes a variety of problems and concerns with the current child care delivery system. To summarize, the LAO finds that (1) the current system is unnecessarily complex, (2) administration is cumbersome and expensive, (3) the costs for Stage 3 child care services are growing substantially, and (4) the current system treats similar families differently.

Following is a discussion of two of the most problematic issues facing child care: (1) The growing costs for CalWORKS Stage 3 Child Care and (2) inequities in the treatment of similar types of families within the child care system.

1. **GROWING COSTS FOR CALWORKS STAGE 3 CHILD CARE** Over the past several years, there have been numerous discussions around the issue of skyrocketing costs within the CalWORKS Stage 3 Child Care Program. In particular, a 2001 report, authored by *The Results Group*, suggested that future growth in Stage 3 services would become fiscally unsustainable; it is this assumption that has underpinned the Administration's continued efforts to dramatically reform, and in the Budget Year realign, child care services.

   The Administration estimates that the costs to fully-support the projected CalWORKS Stage 3 child care needs in the Budget Year would exceed $450 million, which represents an increase of approximately $93 million (26 percent) above the current year Budget Act. The LAO notes that, with no restrictions on the program, costs can be expected to rise in the out-years.

   In order to contain the skyrocketing out-year costs, there are a variety of mechanisms that the Legislature can employ to either limit the population of families receiving services and/or reduce the costs associated with providing those services. Additional options include charging families more to participate in the program and reducing the amount of funding allocated to providers for services and/or administrative costs. *Following is a listing and discussion of options for the committee to consider when examining solutions for containing costs within the program:*

- *REDUCING INCOME ELIGIBILITY FOR PARTICIPATION* – Under current law, families cannot receive subsidized child care if their income is more than 75 percent of the State Median Income (SMI). For a family of four, this equates to an income of no more than $39,000 per year. A small number of families (2,340 families statewide) that were receiving subsidized child care prior to 1997 are still subject to a "grandfather clause" which allows them to earn up to 100 percent of the SMI (or $52,000 for a family of four).

  There are several options available to limit the income eligibility for participation in the program that would result in programmatic savings, including the following options identified in *The Results Group* Child Care Study:

  a) Removing the existing "grandfather clause" and applying the current eligibility requirements (75 percent of SMI) to those families (potential savings of $24 million).

  b) Reducing income eligibility to 70 percent of the SMI, which equates to a maximum annual income for a family of four of $36,400 (potential savings of $47 million).

  c) Reducing the income eligibility to 70 percent of the SMI in counties with high child care costs and to 65 percent of the SMI in counties with lower child care costs (potential savings of $61 million).

  d) Reducing income eligibility to 65 percent of the SMI, which equates to an annual income of $33,800 for a family of four (potential savings of $95 million).

  As part of the Governor's 2002 Child Care Reform Proposal, the Administration proposed to reduce income eligibility from the current 75 percent of the SMI to 66 percent of the SMI in high-cost counties, 63 percent of the SMI in moderate-cost counties, and 60 percent of the SMI in low-cost counties.

  Staff notes that it is difficult to estimate the actual budgetary savings associated with each of the proposals due to the interactions between them and the likelihood that estimated savings in Center-based programs are difficult to achieve. Due to the "fixed costs" associated with Child Care centers, savings from reducing the number of "slots" are not truly realized until an entire "class" or "program" is closed.

- *CREATING TIME LIMITS FOR CHILD CARE* – Under current law, families receiving child care can continue to receive care until either the family loses income eligibility or the child reaches the maximum age (13 years). There are several options available to limit the amount of time families can participate in the program, in order to achieve programmatic savings. Following are the options identified in *The Results Group* Child Care Study:

    a) Eliminate Stage 3 services for CalWORKS recipients altogether (potential savings of $350 million).

    b) Limit non-CalWORKS family participation in the program to seven years (potential savings of $10 million).

    c) Limit all family participation in the program to seven years (potential savings of $14 million).

    Additional options include:

    d) Placing a six-month moratorium on replacing families that have lost eligibility for the program. Under current practice, when one child stops receiving care, the next child on the list becomes eligible.

    e) Determine a monetary savings "target" and suspend new enrollment in the program until that target has been reached. This would essentially instate a moratorium for an undefined period of time until the savings are achieved.

    Staff notes that the State does not currently track how long families have been receiving child care services, so it is difficult to estimate either the impact of these proposals on people currently being served or their associated savings.

- *REDUCING THE MAXIMUM AGE FOR CHILDREN RECEIVING CARE* – Under current law, most children can continue to receive child care through age 13 (until their 14th birthday). *The Results Group* Child Care Study suggested that the State could save approximately $7 million by reducing the maximum age of eligibility to age 12. This proposal was included in reforms proposed by the Governor last year.

    Staff notes that age 13 is generally considered the age at which a child is mature enough to be left unattended; however, it is also an extremely vulnerable and influential time in a child's life. When examining this option, the committee may also wish to consider the availability of after school programs (both state and non-profit) which may be more appropriate to the needs of 13 year olds.

- *INCREASING FAMILY FEES* – Currently, families earning over 50 percent of the SMI ($26,000 income for family of four and up) are required to pay a fee for their child care services. The fee is assessed on a sliding scale based upon the income and size of the family. The fees are capped at 8 percent of the family income. Following are the fee options identified in *The Results Group* Child Care Study:

    a) Charging fees at 30 percent of the SMI, and capping fees at 10 percent of income (potential savings of $63 million).

    b) Charging fees at 20 percent of SMI, and capping fees at 10 percent of income (potential savings of $65 million).

    c) Charging fees at 20 percent of SMI, and capping fees at 12 percent of income (potential savings of $76 million).

    d) Charging fees at 20 percent of SMI, and capping fees at 15 percent of income (potential savings of $122 million).

  Staff notes that when considering an increase in family fees, the committee may wish to examine (1) if fees should be assessed per child or per family; (2) at what income level should fees begin to be assessed; (3) how fees would be collected; and (4) the portion of a family's income should be spent on child care fees.

- *REDUCING ADMINISTRATION AND SUPPORT COSTS* – Within the Alternative Payment Program, providers certify the eligibility of a family for care, assist them in finding care, pay the child care provider the provider's rate, and collect any fee the parents owe. To cover the costs associated with these services, the provider may keep up to 20 percent of the contract amount to be used to support their administration (15 percent) and supportive services (5 percent).

  It is anticipated that the State could save approximately $12 million for every one percent of administrative costs that are reduced. *Staff notes* that if such a change were adopted, it would be the second time in two years that the administrative reimbursement rates for providers would be reduced.

- *REDUCING PROVIDER REIMBURSEMENT RATES* – Currently, the Department of Education provides child care centers with a standard reimbursement rate of $27.59 per child per day. That rate is adjusted upward for children with special needs, children at risk, as well as infants and toddlers.

Providers that are being paid using a voucher (under the Alternative Payment Program) are funded up to the Regional Market Rate (which is the average cost of care in each region in the state) plus 1.5 standard deviations, as determined in annual market rate surveys. Separate rates are calculated depending on provider type, age of children, and length of care. Currently, the State pays the maximum rate to 93 percent of the child care providers in the state.

The Results Group identified a variety of options to reduce the rate of reimbursement including

a) Reducing the Regional Market Rate ceiling to the 85th Percentile (potential savings of $58 million.)

b) Reducing the Regional Market Rate ceiling to the 75th Percentile (potential savings of $92 million.)

- *UPDATE ON SIMPLIFICATION OF MARKET RATES* – The 2002-03 Budget Act included language directing the Department of Education and the Department of Social Services, in consultation with the Department of Finance and the LAO, to develop a new methodology to be used for future Regional Market Rate surveys.

  At this time, the committee would like to request an update on this process, including any potential for budgetary savings.

2. **EQUITY IN THE AVAILABILITY OF CHILD CARE SERVICES** Currently, the need for subsidized child care far outweighs the resources available to support the program. Estimates of unmet need for subsidized child care services suggest that between 200,000 and 300,000 children are currently on waiting lists for subsidized care.

   Under current practice, services to both former CalWORKS recipients and other eligible families are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients. The Administration has argued that this process is inequitable in that it treats families which may actually have the same income level – differently.

   Staff notes that the risk of NOT granting priority to former CalWORKS recipients is that, without reliable child care, these families would not be able to work and would likely return to public assistance. As an additional note, *The Results Group* study found that 36.3 percent of the total Stage 3 caseload had income low enough to qualify for public cash assistance.

V. DEPARTMENT OF EDUCATION – STATE OPERATIONS

GOVERNOR'S PROPOSED BUDGET assumes that child care services would be realigned to counties, and as a result, eliminates 77.8 personnel years (PYs) and $9 million in support related to the Department of Education's child care programs. Of this amount, $2.7 million is General Fund and $6.3 million is federal funds. This reduction leaves $4.7 million for 38 PYs in the Budget Year to administer the state preschool and before and after school programs, assist in the realignment transition, and close out pending child care audits.

Given that the Committee has already taken action to reverse the Governor's Child Care Realignment Proposal, *staff recommends* that the committee request the Department of Education, the Department of Finance and the LAO to develop a state operations proposal for the Child Care division that reflects the reversal of realignment but includes a reduction proportionate to the state operations reductions being sustained by the remainder of the Department of Education.

VI. Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

6120-011-0020 Support, California State Library. Payable from the State Law Library Special Account. $709,000.

6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. $5,781,000

6120-011-6000 Support, California State Library. Payable from the California Public Library Construction and Renovation Fund. $2,530,000.

6120-012-0001 Support, California State Library. Lease-Revenue Bonds. $2,427,000.

6120-013-0001 Support, California State Library. Sutro Library Special Repairs Project. $20,000.

6120-151-0493 *April Finance Letter*. Local Assistance, California State Library. Telephonic Newspaper and Reading Services for the Visually Impaired. Payable from the California Teleconnect Fund Administrative Committee Fund. $40,000.

6120-160-0001 Local Assistance, California State Library. California Newspaper Project. $240,000.

6120-211-0890 Local Assistance, California State Library. Library Development Services, Payable from the Federal Trust Fund. $12,518,000.

6360-001-0407 *April Finance Letter*. State Operations, California Commission on Teacher Credentialing. Carryover of funds for the Teacher Credentialing Service Improvement Project. Payable from the Teacher Credentials Fund. $91,000.

6360-001-0408 Support, California Commission on Teacher Credentialing. Payable from the Test Development and Administration Account, Teacher Credentials Fund. $9,744,000.

6360-001-0890 Support, California Commission on Teacher Credentialing. Payable from the Federal Trust Fund. $7,000

6360-101-0890 Local Assistance, California Commission on Teacher Credentialing. Payable from the Federal Trust Fund. $378,000

6360-495 Reversion, California Commission on Teacher Credentialing. Revert $296,658 from Chapter 544, Statues of 1998 to the Teacher Credentials Fund.

Jack Scott, Chair
Bob Margett
John Vasconcellos

May 5, 2003
1:30 a.m. – Room 113

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I. K-12 Education (6110)

A. Prop 98 Update

- *Presentation by LAO: Status of Proposition 98—Current and Budget Years.*

B. Special Education

Background:

There are approximately 663,000 children and youth with disabilities receiving special education services in California schools. Special education students ages 5 to 18 years represent approximately 10.0 percent of our state's K-12 student population statewide.

The overwhelming majority (92.8 percent) of children and youth receiving special education services in our state are 5 to 18 years old. However, 5.9 percent are under age 5 years and an another 1.4 percent of students are age 19-22.

Special Education Students Enrolled, By Age, 2001-02

Age	Number	Percent
Under 5 Years	38,875	5.9
5 to 18 Years	615,166	92.8
19-22 Years	9,179	1.4
Total	663,220	100

Source: California Department of Education.

The population of children and youth with disabilities receiving special education services in California is very diverse racially and ethnically. Most students with disabilities in California -- 61.2 percent – are students of color.

Special Education Students Enrolled, By Race/Ethnicity, 2001-02

Students Enrolled	Hispanic	African – American	Asian	Filipino	Pacific-Islander	Native-American	White	Total
Number	281,263	81,444	26,340	7,994	2,913	5,764	257,502	663,220
Percent	42.4%	12.3%	4.0%	1.2%	.4%	.9%	38.8 %	100%

Source: California Department of Education.

Federal law defines 13 categories of disability. More than two-thirds of the students with disabilities in California fall in two categories – specific learning disability and speech or language impairment. (See Appendix A – Page 29)

Budget Items/Issues:

1. Overall Funding. The Governor's Budget proposes **$2.66 billion** in General Fund support (Proposition 98) for special education in 2003-04. This reflects a decrease of $52.1 million or 1.9 percent from the $2.71 billion contained in the 2002-03 budget, as revised by SB 18X. (This does not count the $214 million shift of June special education payments as a part of the "P-2 shift" contained in SB 18X.)

The Governor's Budget includes **$914.9 million** in federal special education funds in the budget year, which reflects an increase of **$115.6 million** in 2003-04. These funds are authorized under Part B of the Individuals with Disabilities Act (IDEA).

The latest estimates from the U.S. Department of Education indicate California will receive a total of $151.5 million in additional federal IDEA funds in 2003-04 -- $35.9 million above the Governor's projections. These additional dollars will increase IDEA, Part B funding to a total of **$972.7 million** in 2003-04. The Administration is likely to incorporate these new federal funds into their budget estimates at May Revision.

2. Federal Funding Offset . The Governor has proposed to use all of the $115 million in new IDEA funds to offset or deduct any state general fund costs for special education in the budget year. In that way, the state can back out any state funds it provides for special education growth, COLA, and special education deficiencies.

The deduct has been authorized in law since the early 1980's and was continued by AB 602 -- the state's special education reform measure enacted in 1997. However, the statutory provisions of the deduct were frozen or placed on hold between 1997-98 and 2000-01, so that new IDEA funds could be used to supplement state special education funding and implement funding equalization under AB 602.

IDEA statutes and regulations stipulate that states must ensure federal IDEA funds are used to supplement, not supplant state and local funds. In the early 1990's U.S. Representative George Miller became concerned about whether California's deduct provision was legal and in compliance with Congressional intent regarding federal special education law.

A couple of legal opinions developed in the early 1990's found the deduct provision to meet the legal test as long as the state provided maintenance-of-effort so that state and local funding for special education was not any less that the year before. These decisions also seem to require the state to use offset funds for new purposes, such as growth and

COLA. Nevertheless, the Administration faced some additional scrutiny from USDE when it returned to the offsetting practice in the current year.

Staff notes that the level of the federal funding offset in 2003-04 may change when the Administration revises its federal funding estimates for special education with the May Revision. It would appear that given limited state funding that can be counted as new funds and given maintenance-of-effort concerns in the budget year, the level of the offset may be reduced from $115 million currently proposed by the Governor in 2003-04 to $87.5 million. This action would reduce General Fund savings by $28.5 million – the amount the state could offset – and would increase available funding for special education in the budget year. (See Budget Year MOE issue below.)

3. Maintenance of Effort Adjustments

The IDEA and regulations contain maintenance-of-effort (MOE) requirements for states in order to qualify for federal funding. Under these MOE provisions, California must provide annual assurances that state funding – defined as state General Funds and property taxes expended for special education – does not decrease from year-to-year. Failure to comply results in penalties in the form of reduced federal funding in the amount of the state shortfall.

The LAO has identified two MOE issues that could threaten federal funding for our state. One problem originates in the current year and one originates in the budget year:

Current Year MOE Concern: The current year problem results from the shift of $214 million in special education apportionment payments from June 2003 to July 2003. This action was a part of the "P-2 Shift" enacted by SB 18X in order to make mid-year reductions to K-12 education.

This shift reduces state General Funds by $214 million in 2002-03 and thereby creates a $214 million MOE problem in 2003-03. If unresolved, the loss of funding recorded in the current year could result in a loss of federal funding of a similar amount in the budget year.

The LAO suggests two options in response:

(1) Ignore the MOE requirement since it is a technical violation of MOE, and if problems arise with the federal government, seek a waiver; or

(2) Appropriate $214 million in additional state General Funds in the budget year to demonstrate that the shift is a technical, "one-time" action and not ongoing as intended by the P-2 shift.

Budget Year MOE Concern:

The LAO has also identified a $49.5 million special education MOE issued in 2003-04. Overall, state General Funds proposed in the budget year fall $28.5 million short of meeting federal MOE requirements. In addition, another $21 million in General Funds included in the Governor's Budget for another purpose in 2003-04 would need to be retained, even though they are not needed for their original purpose.

As background, this $21 million was intended to restore funding from the Governor's across-the-board reductions proposed for 2002-03. Since the Legislature rejected the across-the-board reduction, these funds are not needed as a backfill, but now appear needed to avoid a General Fund MOE problem in the budget year.

The LAO suggests two options for addressing the budget year MOE concerns:

(1) The Legislature could ignore the MOE requirement thereby saving $57 million in General Funds by increasing the federal funds offset by $35.9 million and reducing the $21 million in unspecified funds in the Governor's Budget, which would no longer be needed. Without a waiver this would be a violation of federal MOE requirements and could result in a loss of $49.5 million in 2004-05.

Staff notes that based upon the LAO's recommendation, the California Department of Education recently made informal inquiries to the U.S. Department of Education about obtaining such a waiver of our state's MOE requirement in the budget year. While a formal request has not been made, early signals are that such a waiver has never been granted to a state and would not likely be granted to our state at this time.

(2) Alternatively, the Legislature could fully satisfy the MOE requirement, which would make $85.5 million in funds available for special education including $49.5 million from the General Fund and $35.9 million in new federal funds. Of the $49.5 million, $21 million is already included in the Governor's Budget, but has not been specified for any particular purpose.

Under this scenario, the LAO recommends a few spending options for the $85.5 million in funds that may be available in 2003-04:

Option 1. Provide a 1.55 percent COLA for special education, which would make special education the only categorical program receiving cost-of-living increases in the budget year.

Option 2. Implement the recommendations of the LCI/NPS study recently released by AIR to address funding and accountability issues for students who reside in group homes and attend non-public schools. (See item below.)

Option 3. Use funds to address funding shortages for mental health services --pursuant to AB 3632 -- for students with disabilities. (See item below.)

4. Mental Health Related Services – AB 3632

Note: This item is on the agenda at the request of Senate Budget Subcommittee #3, which heard this issue on March 10, 2003. Specifically Subcommittee #3 requested that Subcommittee #1 investigate the feasibility of funding AB 3632 mental health services with IDEA, Part B, federal grant funds on a prospective basis (i.e., 2003-04 forward).

Background -- Mental Health Services to Special Education Pupils: Federal law (PL 94-142 of 1975) -- the Education for All Handicapped Children Act—and the later Individuals with Disabilities Education Act (IDEA) mandates states to provide services to children enrolled in special education, including all related services as required to benefit from a free and appropriate education. Related services include mental health services, occupational and physical therapy and residential placement.

In California, County Mental Health Programs (MHPs) are responsible for providing mental health services to students when required in the pupil's Individualized Education Program (IEP). This is because AB 3632 (W. Brown), Statutes of 1984, shifted responsibility for providing these services from school districts and transferred them to the counties.

These services are an entitlement and children can receive services irrespective of their parent's income-level. In addition, County MHPs cannot charge families for these services because the children are entitled to a free and appropriate public education – referred to as FAPE -- under federal law.

What Mental Health Services Are Mandated? Mental health services include assessments, and all or a combination of individual therapy, family therapy, group therapy, day treatment, medication monitoring and prescribing, case management, and residential treatment. Services provided -- including initiation of service, duration and

frequency of service -- are identified on the student's IEP and must be provided as indicated. Services can only be discontinued on the recommendation of the County MHP and the approval of the IEP team, or by parental decision.

History of Funding for AB 3632 (Prior to 2002): For the past decade or so, counties have paid for the cost of the program through a combination of the following**:**

- **(1)** Categorical funding provided by the DMH as appropriated through the state budget process (about $12 million annually);
- **(2)** Mandate reimbursement claims as obtained via the State Commission on State Mandates process (referred to as the SB 90 process;
- **(3)** Realignment funds; and
- **(4)** Third-party health insurance when applicable, though parents can chose not to access their insurance for this purpose if they so decide (federal law).

It is estimated that about $100 million in total funds is expended annually. Based on statistics from 2001-02, there are about 27,000 special education pupils who receive mental health services provided by County MHPs.

Budget Act of 2002 and AB 2781*:* The Budget Act of 2002 eliminated the $12 million (General Fund) of categorical funding and directed the counties to obtain these funds through the mandate claims reimbursement process.

As such AB 2781 (Section 38 of the legislation), the omnibus education trailer bill to the Budget Act of 2002, requires the state to reimburse counties for all allowable costs incurred by counties in providing certain services to handicapped and disabled pupils. Reimbursement by the state would be provided either through the annual Budget Act or other statute.

However, the Budget Act also placed a moratorium on all mandate reimbursement claims for local government, including funds provided for these mental health services to special education pupils. As such, no funds are available in the current year for this purpose, other than County Realignment funds.

In addition, counties have not been reimbursed for prior year claims for these services.

Further, the statute provides that counties are not required to provide any share of these costs or to fund the cost of any part of these services with money received from the Local Revenue Fund (i.e., County Realignment Funds) for those reimbursement claims for services delivered in the 2001-02 fiscal year and thereafter to these pupils.

Governor's Proposed Budget: The budget proposes to continue the moratorium on all mandate reimbursement claims for local government, including funds provided for mental health services to special education pupils.

At this time, it is unclear when the moratorium may end.

Summary of Constituency Concerns: The California Mental Health Directors Association (CMHDA) is extremely concerned that funding for past claims have not been paid and that any future payment is unknown at this time (i.e., there is no statutory timeframe as to when mandate reimbursements will resume).

Since July 1, 2002 counties have not received any funding for mental health services provided as an entitlement to special education pupils. According to the CMHDA, counties must advance about $8 million per month (about $100 million annually) of County General Fund support to maintain these services. Further they contend that over $130 million is owed to counties for these services since the state has not yet paid claims from 2001-02 and some prior years.

Some counties may be able to provide some portion of funding for these services; however, the CMHDA believes this would create a "catch-22" situation whereby if counties use County Realignment funds for this purpose, they may not submit mandate reimbursement claims for their costs. In addition, County Realignment funds are intended to serve their "target" population (low-income and uninsured population of children diagnosed as being Seriously Emotionally Disturbed).

The CMHDA also states that a lack of funding is also causing service slow-downs in some areas and parents and Special Education Local Program Agencies (SELPAs) are becoming frustrated.

Staff Comments:

Staff notes that the provision of mental health services to special education pupils (i.e., a related service needed to ensure the success of the child's special education services) would be an appropriate expenditure of federal special education funds since these services are mandated by the IDEA.

Staff also notes that if counties stop providing services due to a lack of funding, that under federal law (IDEA and implementing regulations), schools are ultimately required to provide these special education related services.

Staff also notes that there may be supplanting requirements that limit the amount of federal funds IDEA funds that could be made available for AB 3632 services. Alternatively, the state could seek a waiver for such purposes.

Some federal funds might be able to be used without triggering federal supplanting requirements. For example, the state can utilize a significant portion of federal funds for state level activities, including direct services. These state-level activities do not appear to be subject to the federal supplanting provisions. In the past, California has underutilized the amount of federal funding expended for state-level activities compared to other states.

It should also be noted that mental health related services could be funded appropriately with state special education funding, especially given the availability of such additional funds to meet California's special education MOE problem in the budget year.

As indicated in the previous section, the LAO has suggested the possibility of using $85.5 million in additional special education funding that may be available in 2003-04 for AB 3632 services. This includes $49.5 million General Funds and $36 million in federal funds.

Additional research is needed to fully explore how state and federal special education funds could be utilized to cover the costs of AB 3632 services. In particular, the Subcommittee needs to identify how funding options would interact with the requirements of Proposition 98.

The Subcommittee will hear testimony today from a number of witnesses who may be able to clarify education funding options for AB 3632 services. As the Subcommittee pursues these options, staff would like to point out the following issues that signal a strong need for Legislative action to address the lack of AB 3632 funding and services.

1. Loss of AB 3632 funding may create a new federal MOE issue in the current year. The loss of approximately $100 million in 2002-03 represents a corresponding reduction in "state financial support" for special education and related services, as defined by IDEA. This $100 million MOE problem in the current year could threaten a corresponding loss of federal IDEA funds in the budget year.

2. Lack of FAPE may threaten California's entire federal IDEA grant in 2003-04 ($973 million). The provision of a free and appropriate public education (FAPE) to students with disabilities is the cornerstone of the IDEA. Due to the loss of AB 3632 services, one county in California – Tuolumne County – has formally stopped providing mental health

related services to students with disabilities as provided by the IEP. With no funding in sight, other counties may soon be following suit. Currently the Tri-County SELPA in Tuolumne County is suing the Tuolumne County Office of Education in Superior Court. A recent decision by the court found in favor of the county, indicating they were not liable for these special education services.

Under federal law, local education agencies are ultimately responsible for providing mental health related services to students with disabilities if other agencies do not. Without additional funding for counties or schools, it is very likely that services to students are or will soon be delayed or stopped. Under this scenario, it is unlikely that FAPE is or can be assured. In order to receive federal IDEA grants in July 2003, the California Department of Education must provide written assurances to the U.S. Department of Education that all public agencies in the state that provide special education and related services to children with disabilities will operate their programs in a manner fully consistent with IDEA. Without such assurances, California's full IDEA grant ($973 million) – due in July 2003 -- could be delayed or withheld.

5. LCI/NPS Study

The Budget Act of 2000 provided $1 million for a study to reevaluate state policy and funding for students with disabilities residing in licensed children's institutions (LCI's) who attend non-public schools (NPS's). The contract was awarded to American Institutes for Research (AIR). The final report entitled *Policies, Procedures, and Practices Affecting the Education of Children Residing in Group Homes* was released just two months ago -- in March 2003.

Funding educational services for youth living in LCI's – or group homes as commonly known -- was the most critical area of the study. Under the current model students who reside in group homes and attend non-public schools receive 100 percent state funding. This funding is not available to school districts. This funding arrangement limits options for students in attending school in less restrictive education settings and creates very strong incentives to serving students in non-public schools.

The Governor proposes funding of $124.6 million in the 2003-04 budget to fully fund the costs of children placed in LCI's who attend non-public schools.

Staff notes that given the fairly recent release of the LCI/NPS study by AIR and given unresolved questions about the impact of the funding formula on counties and Special Education Local Planning Areas (SELPA's), there is lack of confidence and consensus about proceeding with implementation at this time. It is unlikely that any resolution of

these issues is possible in time for the 2003-04 budget. As noted in the AIR study, the population of youth residing in LCI's and attending NPS's is very vulnerable.

For this reason, staff notes there is a great deal of urgency for making changes to the LCI/NPS formula – as contemplated by AB 602 -- to allow more flexible funding, assure less restrictive education settings, improve school accountability, and most importantly improve services and outcomes for students with disabilities residing in group homes.

For all the reasons cited above, action on LCI/NPS study needs to be assured for the 2004-05 budget. In order to meet this goal, staff recommends the development of Supplemental Report Language directing DOF, LAO and CDE to develop a plan by November 1, 2003, for changing the LCI/NPS funding formula after considering the research and recommendations contained in the LCI/NPS study.

In addition, staff recommends that the CDE develop an proposal for consideration by the Subcommittee as a part of the 2003-04 budget for improving state monitoring of NPS's. The proposal should be consistent with the recommendations of the AIR study. Staff suggests a small portion of new federal funds could be considered for such a purpose.

C. Education Mandates

Background: The California Constitution, as amended by Proposition 4 in 1979, requires the state to reimburse local agencies for costs incurred in complying with certain state-mandated education programs.

For K-12 education, this law provides for the reimbursement of costs incurred by school districts and county offices of education for any increased costs incurred after July 1, 1980 as a result of any statue enacted after January 1, 1975, which mandates a new program or a higher level of service for an existing program.

The Commission on State Mandates decides whether a statute creates a state-reimbursable mandate, and if so, estimates the statewide cost of the mandate.

School districts and county offices of education then file reimbursement claims with the State Controller's Office – detailing costs actually incurred. Once audited and approved, the SCO makes payments for these claims from funds appropriated by the State Budget Act, the State Mandates Claims fund, or specific legislation.

In the event the appropriation is insufficient to pay claims in full, claimants will receive prorated payments in proportion to the dollar amount of approved claims for the program.

Balances of prorated payments will be made when supplementary funds are made available.

The Government Code requires the state to pay interest (at the Pooled Money Investment Account rate) when paying overdue mandate claims to local agencies.

School districts and county offices of education can receive reimbursements for approximately 36 different mandates.

According to the LAO, the amount budgeted for K-12 mandates has been historically under-funded. This under-funding, coupled with recent decisions to defer payments for mandates, brings current state mandate liabilities – past year and ongoing – to approximately $1 billion.

Budget Items/Actions:

1. Governor's Proposal: The Governor's Budget proposes funding of $110 million for K-12 mandates in 2003-04. The Governor also proposes to defer another $870 million in funding in 2003-04 to cover prior year mandate expenses, as well as, new mandate costs.

The $110 million proposed by the Governor would fund most of the 36 mandates local education agencies can receive. (See Attachment A – Page 30) As a result, this proposal provides partial payment (less than half) of the annual, on-going costs of mandates -- estimated to equal approximately $260 million. (According to the Department of Finance, because very few of these claims are audited, the actual costs are not known.)

The $870 million deferral for K-12 mandate claims proposed by the Governor in 2003-04 includes three major components. The majority of this amount represents prior year mandate expenses. These components include: $565.3 million for prior year deficiencies; $256.7 million for new mandates in the current and budget year; and $48.6 million for the interest on the unpaid mandates to date.

The 2002-03 Budget Act provided $125 million for K-12 education mandates and deferred approximately $600 million in payments. As part of the current year budget reductions contained in SB 18X, the Legislature deferred $122 million in remaining K-12 mandates in the 2002-03 Budget Act.

2. LAO Proposal: The LAO recommends that the Legislature increase funding for K-12 mandates by an additional $100 million beyond the $110 million proposed by the

Governor. The LAO's proposal would bring total funding for K-12 mandates to $210 million in 2003-04.

The LAO proposes to allocate this funding as follows -- $199 million for K-12 mandates that would be included in the Core Services Block Grant proposed by LAO, and $10 million outside of the block grant to be used by county offices of education for mandates.

The LAO cites several advantages to a block grant approach to state mandates. First, since schools could redirect mandate savings to other education purposes, they would have an incentive to meet the requirements of the mandates in a more cost-effective manner. Secondly, there would be no incentive to maximize the amount of claims, a process that contributes to the high level of state costs. Third, schools would save money in administrative costs since they would no longer have to track and prepare claims. Lastly, districts would have an interest in evaluating the cost effectiveness of specific mandates and sharing that information with the Legislature for purposes of reassessing certain mandates.

3. Mandated Cost Control. K-12 education mandates costs have risen in recent years because state funding to cover the annual costs of these mandates has been under-funded and deferred. Total mandate costs now stand at nearly $1 billion. The Governor and Legislature have been silent on when these deferrals will be paid back.

The practice of deferring mandates does not reduce costs to the state – the costs remain and accumulate with interest. In this way, mandates are not like state grants where the amount paid out is discretionary on the part of the state. The claims, once audited and approved, must eventually be paid in full by the state. In addition, deferrals do not free local agencies from the need to comply with the mandates. The Legislature could reduce budget-year costs by eliminating or suspending specific mandates.

II. Office for the Secretary of Education (0558)

Background:

The Secretary of Education, a member of the Governor's Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation. The Office of the Secretary for Education (OSE) administers several education programs, including the Academic Volunteer and Mentor Service Program and the School-to-Career Program, which is proposed for elimination in 2003-04.

For the current fiscal year, the costs of the OSE are funded through the Governor's Office of Planning and Research pending legislation to establish the Secretary statutorily.

The Governor proposes total funding of $6.7 million for OSE in 2003-04. Of this amount $1.7 million is appropriated for state operations to fund 20.0 staff positions and operating expenses and equipment. In addition, the Governor proposes $5.0 million for the local assistance programs administered by OSE.

Budget Issues/Actions:

The Governor's budget proposes $2.6 million in reductions to OSE in 2003-04, including:

1. Local Assistance – Academic Volunteer and Mentor Service Program Reduction ($65,000). The Governor recommends $65,000 in General Fund (Prop 98) savings for local assistance from reducing funds for the Academic Volunteer and Mentor Service Program.

The Academic Mentor Volunteer Service Program was established by SB 1114 (Leonard), Chapter 901, Statutes of 1992; however, it was first funded in 1996.

Under this program, local education agencies compete for grants of up to $125,000 annually for three years to fund recruit, screen and place volunteer, academic mentors to work with at-risk children at school sites. Mentors provide academic tutoring, as well as guidance, role modeling and companionship to students. The program currently serves approximately 20,000 students statewide.

The 2002-03 Budget Act appropriated $5.7 million for this program. The Governor proposed a 9 percent across-the-board reduction for this program ($618,000) as a part of mid-year reduction proposals. The Legislature enacted this cut in SB 18X, which reduced total funding for the program to $5.082 million in 2002-03.

In 2003-04, the Governor proposes to reduce this program by another 1.3 percent, or $65,000, which would reduce the total funding to $5.017 million. While this reduction is tied to across-the-board reductions for selected categorical programs proposed by the Governor in 2003-04, this program is <u>not</u> included in the Governor's proposed Instructional Improvement Block Grant in 2003-04.

The LAO recommends that the Legislature eliminate funding for the Academic Volunteer Mentor Service Program due to the existence of other state and federal programs that provide similar program services. This would result in savings of $5.017 million in 2003-04.

2. Local Assistance – Elimination of the School-to Career Program ($2.0 million). The Governor proposes $1,999,000 in General Fund (Prop 98) savings for local assistance from eliminating the School-to-Career Program

With regard to local assistance programs at OSE, the Governor proposes to eliminate the School-to-Career Technology Grant Program, which would result in savings of nearly $2.0 million. This program was established by AB 1873 (Chapter 793/2000) as a competitive matching grant program to local entities. The program is a collaboration among OSE, CDE, the community colleges, and the Health and Human Services Agency.

The Governor signed AB 1873 with the caveat that funding would continue only if matching funds from the private and non-profit sectors exceed state funds.

3. **State Operations – Position Reductions ($552,000).** The Governor proposes $552,000 in General Fund savings from reducing 8.0 positions at OSE. This proposal brings total state operations funding for OSE to $1.7 million in 2003-04.

As a result of the mid-year reductions contained in SB 18X, the 2002-03 state operations budget for OSE was reduced by $122,000 (5 percent) to $2.25 million. In 2003-04, the Administration is proposing to reduce state operations for OSE by an additional $532,000 (23.6 percent) to reflect a reduction of eight positions.

The specific staff reductions proposed by the Governor for OSE in 2003-04 are summarized below. These proposed cuts would reduce staffing from 28 to 20 positions in 2003-04 -- a 29 percent reduction in staff at OSE:

#	Classification/Function
1.0	Senior Assistant to the Governor *Function: Undersecretary for Education*
1.0	Assistant to the Governor *Function: Senior policy advisor to the Governor*
1.0	Senior Project Analyst *Function: Coordinating analyst on issues involving higher education*
1.0	Administrative Assistant II *Function: Communications support*
1.0	Senior Intergovernmental Program Analyst *Function: K-12 analyst & program manager for School-to-Career program*
1.0	Assoc. Intergovernmental Program Analyst *Function: Academic Volunteer & Mentor caseload and program oversight*
1.0	Asst. Intergovernmental Program Analyst *Function: Academic Volunteer & Mentor caseload and program oversight*

1.0 Office Technician
Function: Office reception and clerical support

IV. Consent Items -- Higher Education

March 3, 2003 Consent

Includes: April Capital Outlay Finance Letters

Staff recommends that the following items be Approved as Budgeted. No issues have been raised with regard to any of these items:

6420-001-0890. Support, California Postsecondary Education Commission. Payable from the Federal Trust Fund. ~~$338,000~~ *$432,000*

6420-101-0890. Local Assistance, California Postsecondary Education Commission. Federal Eisenhower Professional Development Program. ~~$5,002,0~~00 *$8,200,000*

6600-001-0814. Support, Hastings College of Law. California State Lottery Education Fund. $157,000

6600-301-6028 Capital Outlay, Hastings College of Law. Preliminary plans and working drawings for 200 McAllister Street Building seismic, fire and life-safety improvements as well as an upgrades to the HVAC system and various code compliance issues. $1,875,000.

UC Capital Outlay projects (see following spreadsheet)

CSU Capital Outlay projects (see following spreadsheet)

Community Colleges Capital Outlay projects (see following spreadsheet)

7980-101-0890. Local Assistance, California Student Aid Commission. Payable from the Federal Trust Fund. $9,481,000

March 3, 2003 – Consent
March 3, 2003 – Discussed by Committee
April Finance Letters
UC Capital Outlay projects

UNIVERSITY OF CALIFORNIA		**Funding Request ($ in Thousands)**	
BERKELEY			
Doe Library Seismic Corrections, Step 4	PWC	16,920	
DAVIS			
Robert Mondavi Institute for Wine and Food Science	W	600	
Seismic Corrections -- Phase 4	PW	574	
IRVINE			
Computer Science Unit 3	C	29,089	
Central Plant Chiller Expansion, Step 5	PWC	18,800	
Biological Sciences Unit 3	PW	3,592	*
-Provisional Language allowing Design-Build Construction			**
LOS ANGELES			
Kinsey Hall Seismic Correction, Phase 2	C	17,387	
Electrical Distribution System Expansion, Step 6B	C	6,228	
Boelter Hall Fire Sprinkler System	PWC	5,081	
Campus Fire Alarm System Upgrade, Phase 3	WC	2,654	
Campbell Hall Seismic Correction	PW	534	
Geology Seismic Correction	PW	978	
MERCED			
Site Development and Infrastructure, Phase 3	C	12,799	
Castle Facilities Improvements	C	3,000	
-Spring Finance Letter - Renovate additional 5,000 sq. ft.	*C*	*1,167*	**
Logistical Support/Service Facilities	PW	874	
RIVERSIDE			
East Campus Infrastructure Improvements	PWC	8,400	

	College of Humanities and Social Sciences			
	Instruction and Research Facility	PW C	31,227	
	Psychology Building	PW	2,241	
SAN DIEGO				
	Pharmaceutical Sciences Building	C	24,714	
	Campus Emergency Services Facility	C	3,987	
	Biomedical Library Renovation and Addition	C	14,503	
	West Campus Utilities Improvements	C	3,940	
	Student Academic Services Facility	W	1,172	
	Satellite Utilities Plant, Phase 1	PW	647	
	Applied Physics and Mathematics Renovation	PW	845	
	Mayer Hall Addition and Renovation	PW	3,559	*
SAN FRANCISCO				
	Health Sciences West Improvements, Phase 1	C	12,934	
	Medical Sciences Building			
	Improvements, Phase 2	P	1,400	
SANTA BARBARA				
	Psychology Building Addition and Renewal	C	9,817	
	Snidecor Hall Office Wing Seismic Replacement	C	10,566	
	Biological Sciences Buildings Renovation	PW	1,000	
	Education and Social Sciences Building	PW	4,116	
SANTA CRUZ				
	Seismic Corrections, Phase 2A	WC	3,000	
	Humanities and Social Sciences Facility	WC	25,826	
	Emergency Response Center	WC	6,592	
	Alterations for Engineering, Phase 2	PW	396	
	McHenry Project	P	3,602	
ANR				
	Desert REC Irrigation Water System	PW C	763	
UNIVERSITYWIDE				
	Northern Regional Library Facility, Phase 3	C	16,177	
	TOTAL		**311,701**	
	2002 General Obligation Bond Funds		**307,534**	
	1998 General Obligation Bond Funds		**4,167**	
P	= Preliminary Plans			
W	= Working Drawings			
C	= Construction			

*	= Discussed in Committee						
**	= Governor's Spring Finance Letter						

		CALIFORNIA STATE UNIVERSITY	
		FY 03/04 Capital Outlay	
		Consent List	
	Item:		**Requested**
	6610-301-6028 For capital outlay, California State University, payable from the Higher Education Capital		
	Outlay Bond Fund of 2002		
(1)	06.48.315	Systemwide: Minor Capital Outlay Program, Preliminary plans, working drawings and construction	6,194,000
		Subtotal	**6,194,000**
	6610-302-6028 For capital outlay, California State University, payable from the Higher Education Capital		
	Outlay Bond Fund of 2002		
(1)	06.52.109	Chico: Student Services Center, Working drawings and construction	32,840,000
(2)	06.56.092	Fresno: Science II Replacement Building, Equipment	1,958,000
(3)	06.76.101	Sacramento: Infrastructure Upgrade, Phase 1, Preliminary plans, working drawings and construction	18,691,000
(4)	06.78.092	San Bernardino: Science Buildings Renovation/Addition, Phase II, Preliminary plans, working drawings and construction	21,786,000
(5)	06.80.157	San Diego: Social Sciences/Art Gallery/Parking Structure 8, Preliminary plans, working drawings and construction	25,384,000
(6)	06.86.115	San Jose: Joint Library-Secondary Effect, Preliminary plans, working drawings and construction	19,633,000
(7)	06.90.085	Sonoma: Darwin Hall, Preliminary plans, working drawings and construction	26,012,000
(8)	06.92.064	Stanislaus: Science II (Seismic), Working drawings and construction	45,696,000
**	*Finance Letter*	*Maritime Academy: Land Acquisition for natatorium construction*	*1,301,000*
		Subtotal	**193,301,000**
**	*Finance Letter*	*Add Item 6610-491 (reappropriation item) to reappropriate two telecommunications and infrastructure projects (San Diego and Monterey Bay)*	

**	*Finance Letter*	*Add Item 6610-482 to extend the time period to liquidate construction funds for three projects: (1) Fullerton -- Physical Education Renovation/Addition; (2) San Diego -- Chemistry-Geology/Business Administration/Math Building Renovations; (3) San Francisco -- Hensill Hall Renovation.*	
		Total Consent List	**199,495,000**

	District	College/Center	COMMUNITY COLLEGES Project Name	Ph.	2003-04 Amount	Finance Letter
1	Allan Hancock	Allan Hancock College	Library/Media Tech Center	ce	9,079,000	
2	Allan Hancock	Allan Hancock College	Science Health Occupations Complex	pw	1,109,000	
**	***Allan Hancock***	***Allan Hancock College***	***Skills Center Replacement Building***	***pw***	***386,000***	**
3	Barstow	Barstow College	Remodel for Efficiency	pw	266,000	
4	Butte-Glenn	Butte College	Learning Resource Center	ce	17,280,000	
5	Cerritos	Cerritos College	Science and Math Complex - Life Safety	e	432,000	
6	Cerritos	Cerritos College	Seismic Retrofit-Administration	c	2,080,000	
**	***Cerritos***	***Cerritos College***	***Seismic Retrofit -- Electronics Project***	***w***	***58,000***	**
7	Chabot-Las Positas	Las Positas College	Multi-Disciplinary Education Building	pw	701,000	
8	Chabot-Las Positas	Las Positas College	PE Gym - Phase I	ce	12,496,000	
9	Chaffey	Chaffey College	Science Building	e	64,000	
10	Coast	Golden West College	Structural Repair Campuswide	pw	199,000	
11	Coast	Orange Coast College	Learning Resource Center	pw	1,024,000	
**	***Coast***	***Golden West College***	***Structural Repair Campuswide (adjustment)***	***p***	***42,000***	**
**	***Coast***	***Orange Coast College***	***Learning Resource Center***	***p***	***-265,000***	**
12	Compton	Compton College	Performing Arts and Recreation Complex	pw	825,000	
13	Contra Costa	Diablo Valley College	Life Science Remodel for Laboratories	ce	5,041,000	
14	Contra Costa	Los Medanos College	Learning Resource Center	ce	8,176,000	
15	*Contra Costa*	*Los Medanos College*	*Math, Science, Technology Building*	*p*	*716,000*	
16	Contra Costa	San Ramon Valley Center	Phase I Building	ce	24,609,000	
**	***Contra Costa***	***Los Medanos College***	***Math, Science, Technology Building***	***w***	***476,000***	**
17	Copper Mountain	Copper Mountain College	Multi-use Sports Complex	pw	885,000	
18	Foothill-De Anza	De Anza College	Planetarium Projector	e	1,000,000	
19	Foothill-De Anza	Foothill College	Seismic Replacement-Campus Center	wc	11,438,000	
20	Foothill-De Anza	Foothill College	Seismic Replacement-Locker Rooms	pw	132,000	

	District	College/Center	COMMUNITY COLLEGES Project Name	Ph.	2003-04 Amount	Finance Letter
21	Foothill-De Anza	Foothill College	Seismic Replacement-Maintenance Building	pw	68,000	
22	Foothill-De Anza	Foothill College	Seismic Replacement-Student Services	c	3,606,000	
23	Fremont-Newark	Ohlone College	Child Development Center	e	251,000	
24	Glendale	Glendale College	Allied Health /Aviation Lab	ce	9,196,000	
25	Glendale	Glendale College	New Science Building Equipment	e	735,000	
26	Grossmont-Cuyamaca	Cuyamaca College	Science and Technology Mall	ce	18,349,000	
27	Grossmont-Cuyamaca	Grossmont College	New Science Building	ce	12,141,000	
28	Hartnell	Hartnell College	Library/Learning Resource Center Complex	ce	20,198,000	
29	Kern	Bakersfield College	Applied Science and Technology Modernization	c	4,017,000	
30	Kern	Delano Center College	Lab Building	ce	4,965,000	
31	Kern	Porterville College	Library Expansion	pw	507,000	
32	Kern	Southwest Center	Modernization Phase I	c	2,636,000	
33	Lake Tahoe	Lake Tahoe Community. College	Learning Resource Center	ce	7,133,000	
34	Long Beach	Long Beach City College - PCC	Industrial Technology Center-Manufacturing	pw	698,000	
35	Los Angeles	East Los Angeles College	Fine & Performing Arts Center	pwce	15,882,000	
36	Los Angeles	Los Angeles Harbor College	Applied Technology Building	pw	613,000	
37	Los Angeles	Los Angeles Mission College	Child Development Center	ce	5,432,000	
38	Los Angeles	Los Angeles Southwest College	Child Development Center	ce	4,482,000	
39	Los Angeles	Los Angeles Trade-Tech College	Child Development Center	ce	3,851,000	
40	Los Angeles	Los Angeles Valley College	Health Sciences Building	ce	14,214,000	
**	***Los Angeles***	***Los Angeles City College***	***Learning Resource Center***	***pw***	***1,450,000***	**
41	Los Rios	American River College	Allied Health Modernization	c	1,724,000	
42	Los Rios	American River College	Learning Resource Center Expansion	ce	9,065,000	

43	Los Rios	Consumnes River College	Instructional and Library Facilities 1	c	6,753,000	
	District	**College/Center**	**COMMUNITY COLLEGES Project Name**	**Ph.**	**2003-04 Amount**	**Finance Letter**
44	Los Rios	El Dorado Center	New Instructional and Library Facilities 1	ce	5,896,000	
45	Los Rios	Folsom Lake College	New Instructional Space Phase 1C	c	10,749,000	
46	Los Rios	Sacramento City College	Technology Building Modernization	c	1,562,000	
47	Merced	Los Banos Center	Site Development and Permanent Facilities	pw	1,032,000	
48	Merced	Merced College	Science Building Remodel	pw	1,048,000	
49	Mira Costa	Mira Costa College	Horticulture Project	ce	3,356,000	
**	***Mira Costa***	***Mira Costa College***	***Creative Arts Building Replacement***	***pw***	***793,000***	**
50	Mt. San Antonio	Mt. San Antonio College	Remodel Classroom Buildings	pwce	8,982,000	
51	Mt. San Antonio	Mt. San Antonio College	Science Bldg. Replacement	e	326,000	
52	North Orange County	Cypress College	Library/Learning Resource Center	ce	13,396,000	
53	North Orange County	Fullerton College	Library/Learning Resource Center	e	402,000	
54	Palo Verde	Palo Verde College	Physical Education Complex	pw	806,000	
55	Palo Verde	Palo Verde College	Technology Building Phase 2	ce	7,881,000	
56	Peralta	Vista College	Vista College Permanent Facility	ce	28,533,000	
57	Rancho Santiago	Santa Ana College	PE Seismic Replacement/Expansion	ce	5,524,000	
58	Rancho Santiago	Santiago Canyon College	Science Building	pw	773,000	
**	***Rancho Santiago***	***Santa Ana College***	***Physical Education Seismic Replace/extension***	***c***	***-516,000***	**
59	Riverside	Moreno Valley Center	Child Development Center	ce	2,090,000	
60	Riverside	Norco Valley Center	Child Development Center	ce	2,233,000	
61	Riverside	Riverside City College	Martin Luther King High Tech Center	ce	8,711,000	
62	San Bernardino	San Bernardino Valley College	Child Development Center	e	125,000	
63	San Francisco	Chinatown Center	Campus Building	ce	33,180,000	
64	San Francisco	Mission Center	Mission Center Building	ce	28,557,000	
**	***San Francisco***	***Chinatown Center***	***Chinatown Center-- Campus Building***	***ce***	***-33,180,000***	**
65	San Jose-Evergreen	San Jose City College	Science Building	ce	12,535,000	

66	San Luis Obispo County	Cuesta College	Theater Arts Bldg.	ce	11,665,000	
	District	**College/Center**	**COMMUNITY COLLEGES Project Name**	**Ph.**	**2003-04 Amount**	**Finance Letter**
67	San Luis Obispo County	North County Center	Initial Building - Science Cluster	e	1,650,000	
68	San Luis Obispo County	North County Center	Learning Resource Center	pw	702,000	
69	Santa Barbara	Santa Barbara City College	Gymnasium Remodel	ce	3,701,000	
70	Santa Barbara	Santa Barbara City College	Physical Science Renovation	pw	159,000	
71	Santa Clarita	College of the Canyons	Classroom/High Tech Center	ce	8,878,000	
72	Santa Monica	Santa Monica College	Liberal Arts Replacement	pwce	4,458,000	
73	Sequoias	College of the Sequoias	PE & Disabled Program Center	pw	505,000	
74	Sequoias	College of the Sequoias	Science Center	ce	10,586,000	
75	Shasta Tehama Trinity Jt.	Shasta College	Library Addition	ce	6,919,000	
76	Sierra Joint	Sierra College	Construct New Classroom/Labs	pw	1,301,000	
77	Sonoma County	Petaluma Center	Petaluma Center, Phase 2	pw	1,669,000	
78	Sonoma County	Santa Rosa Jr. College	Learning Resource Center	ce	31,935,000	
79	South Orange County	Irvine Valley College	Performing Arts Center	pwce	14,472,000	
80	Southwestern	Southwestern College	Child Development Center	ce	5,322,000	
81	Southwestern	Southwestern College	Learning Assistance Center	pwce	2,367,000	
82	State Center	Fresno City College	Applied Technology Modernization	pw	962,000	
83	State Center	Reedley College	Learning Resource Center Addition	ce	5,498,000	
84	State Center	Vocational Training Center	Voc Training Center Modernization / Expansion	p	777,000	

**	***State Center***	***Vocational Training Center***	***Voc Training Center Modernization / Expansio***	***p***	***-777,000***	**
85	Ventura County	Moorpark College	Child Development Center	ce	2,901,000	
86	Victor Valley	Victor Valley College	Speech/Drama Studio Addition	pw	591,000	
87	West Hills	West Hills College, Lemoore	Phase 2B Classrooms/Laboratories	ce	9,730,000	
	District	**College/Center**	**COMMUNITY COLLEGES Project Name**	**Ph.**	**2003-04 Amount**	**Finance Letter**
88	West Hills	West Hills College, Lemoore	Child Development Center	ce	1,902,000	
89	West Hills	West Hills College, Coalinga	Library Expansion	ce	2,117,000	
90	West Kern	Taft College	Child Development Center	p	221,000	
91	West Valley-Mission	Mission College	Main Building 3rd Floor Reconstruction	ce	4,323,000	
92	West Valley-Mission	West Valley College	Campus Technology Center	pw	791,000	
93	Yosemite	Modesto Junior College	Auditorium Renovation/Expansion	pw	1,026,000	
94	Yuba	Woodland Center	Learning Resources/Technology Center	pw	1,908,000	
95	Yuba	Woodland Center	Science Building	e	714,000	
96	Yuba	Yuba College	Adaptive Physical Therapy	e	44,000	
97	Yuba	Yuba College	Engineering, Math and Science	pw	685,000	
			TOTAL:		**$530,711,000**	

***** Department of Finance -- Spring Finance Letter***
**** Discussed in Committee on March 3, 2003***

6870-301-6028 *April Finance Letter*. Technical Changes to Item.

6870-490 *April Finance Letter*. Add Item to reappropriate following projects: (1) San Diego Community College District, District Office, Seismic Retrofit – District Headquarters Building – Construction; (2) San Diego CCD, Centre City Center, Seismic Retrofit – Snyder Administration Building – Construction; (3) Contra Costa CCD, Diablo Valley College – Seismic Retrofit, Technical Education Building – Working Drawings and Construction; (4) San Bernardino CCD, San Bernardino College – Seismic Replacement, Art Building – Construction; (5) San Bernardino CCD, San Bernardino Valley College – Seismic Replacement, Campus Center Building – Construction; (6) Lake Tahoe CCD, Lake Tahoe Community

College – Learning Resource Center – Working Drawings; and (7) San Francisco CCD, Chinatown Center – Chinatown Campus Building – Working Drawings.

6870-497 *April Finance Letter*. Add Item to revert the following projects: (1) $36,000 for the Cerritos College, Seismic Retrofit; and (2) $1,045,000 for Victor Valley College Seismic Retrofit.

6870-301-6028 *April Finance Letter*. Revisions to provisional item extending period of encumbrance.

March 17, 2003
Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

6440-001-0007. Support, University of California Breast Cancer Research $14,759,000

6440-001-0046. Support, University of California Institute for Transportation Studies $980,000

6440-001-0234. Support, University of California Tobacco Research $19,434,000

6440-001-0308. Support, University of California Earthquake Engineering Research $1,500,000

6440-001-0321. Support, University of California Oiled Wildlife Care Network $1,300,000

6440-001-0814. Support, University of California California State Lottery Education Fund $22,834,000

6440-001-0890. Support, University of California Federal GEAR UP Outreach Program $5,000,000

6440-001-0945. Support, University of California California Breach Cancer Research $480,000

6440-002-0001. Support University of California Deferral of Expenditures ($55,000,000)

6440-003-0001. Support, University of California Lease Purchase Bond Debt Service $115,283,000

6440-005-0001. Support, University of California Institutes for Science and Innovation $4,750,000

6440-490. Reappropriation, University of California

6440-495. Reversion, University of California

6610-001-0890. Support, California State University Federal Trust Funds $35,860,000

6610-003-0001. Support, California State University Lease-Purchase Bond Debt Service $61,553,000

6610-490. Reappropriation, California State University

April 7, 2003
Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

6870-001-0574 Facilities planning, Higher Education Capital Outlay Bond Fund of 1998. $1,116,000

6870-001-0909 Instructional Improvement and Innovation, Special Grant Cash Account of the Fund for Instructional Improvement Program. $10,000

6870-001-0925 Economic Development, California Business Resources and Assistance Innovation Network Fund. $10,000

6870-101-0909 Local Assistance, Community College Fund for Instructional Improvement. $1,242,000

6870-101-0925 Local Assistance Economic Development, California Business Resources and Assistance Innovation Network Fund. $15,000

6870-103-0001 Local Assistance, Lease-Purchase Payments. $55,948,000

6870-111-0001 Local Assistance, CalWORKS, AmeriCorps, Foster Parent Training, Vocational Education and Workforce Investment Act. $0

April 28, 2003 -- Proposed Consent

6120-011-0020 Support, California State Library. Payable from the State Law Library Special Account. $709,000.

6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. $5,781,000

6120-011-6000 Support, California State Library. Payable from the California Public Library Construction and Renovation Fund. $2,530,000.

6120-012-0001 Support, California State Library. Lease-Revenue Bonds. $2,427,000.

6120-013-0001 Support, California State Library. Sutro Library Special Repairs Project. $20,000.

6120-151-0493 *April Finance Letter*. Local Assistance, California State Library. Telephonic Newspaper and Reading Services for the Visually Impaired. Payable from the California Teleconnect Fund Administrative Committee Fund. $40,000.

6120-160-0001 Local Assistance, California State Library. California Newspaper Project. $240,000.

6120-211-0890 Local Assistance, California State Library. Library Development Services, Payable from the Federal Trust Fund. $12,518,000.

6360-001-0407 *April Finance Letter*. State Operations, California Commission on Teacher Credentialing. Carryover of funds for the Teacher Credentialing Service Improvement Project. Payable from the Teacher Credentials Fund. $91,000.

6360-001-0407 Support, California Commission on Teacher Credentialing. Payable from the Teacher Credentials Fund. $16,774,000.

6360-001-0408 Support, California Commission on Teacher Credentialing. Payable from the Test Development and Administration Account, Teacher Credentials Fund. $9,744,000.

6360-001-0890 Support, California Commission on Teacher Credentialing. Payable from the Federal Trust Fund. $7,000

6360-101-0890 Local Assistance, California Commission on Teacher Credentialing. Payable from the Federal Trust Fund. $378,000

6360-495 Reversion, California Commission on Teacher Credentialing. Revert $296,658 from Chapter 544, Statues of 1998 to the Teacher Credentials Fund.

Attachment A

Special Education Enrollment by Disability, Statewide Report, 2001-02

Disability	Students Enrolled	Percentage
Specific Learning Disability	347,595	52.4%
Speech or Language Impairment	167,892	25.3%
Mental Retardation	42,255	6.4%
Emotional Disturbance	24,554	3.7%
Other Health Impairment	24,241	3.7%
Autism	17,508	2.6%
Orthopedic Impairment	15,041	2.4%
Hard of Hearing	6,656	1.0%
Multiple Disability	6,619	1.0%
Deaf	4,634	.7%
Visual Impairment	4,578	.7%
Traumatic Brain Injury	1,458	.2%
Deaf-Blindness	189	.03%
TOTAL	**663,220**	**100%**

Source: California Department of Education, Special Education Division

Attachment B

State-Mandated Local Programs Funded By Governor in 2003-04

Mandate	Amount of Funding
Annual Parent Notification	$4,384.0
Caregiver Affidavits	348.0
Pupil Suspension – district employee reports	1.0
Intra-District Attendance	1.0
Inter-District Attendance	1.0
Inter-District Transfer – Parent's employment	1.0
Mandate Reimbursement process	1.0
Graduation Requirements	12,504.0
Notification Truancy	7,174.0
Pupil Expulsions/Expulsion Appeals	2,183.0
Open Meetings Acts	3,055.0
Pupil Exclusions	349.0
Charter Schools	538.0
Investment Reports	141.0
PERS Death Benefits	694.0
AIDS Prevention Instruction	2,805.0
Collective Bargaining	36,465.0
Pupil Classroom Suspension: counseling	1,614.0
Physical Performance Tests	1,058.0
Pupil Health Screenings	2,890.0
Juvenile Court Notices II	302.0
Removal of Chemicals	1,172.0
Law Enforcement Agency Notifications	1,358.0
Immunization Records	3,099.0
Habitual Truants	1.0
Collective Bargaining Agreement Disclosures	244.0
Expulsion Transcripts	26.0
Pupil Suspensions: Parents Classroom Visits	916.0
Notification to Teachers of Public Expulsion	2,567.0
Scoliosis Screening	2,017.0
Unused Sick Leave Credit	2,871.0
School Accountability Report Cards	1,903.0
Emergency Procedures	12,801.0
American Course Govt. Document	181.0
Pupil Residency Verification and Appeals	197.0
Criminal Background Checks	4,579.0
TOTAL	**110,441.0**

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

PART I

May 12, 2003
1:30 p.m.
Room 113

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I. California Department of Education

A. Proposition 98 Update

- ***Presentation by LAO: Status of Proposition 98 – Current and Budget Years***

B. Selected State Education Programs

1. AVID (Advanced Via Individual Determination) –6110-130-0001

Background: The AVID program is a college preparatory program that works with middle and high school students, particularly students from disadvantaged families in which no member has ever attended college. The program is designed to increase learning and performance so that students are eligible and prepared for college. Students enrolled in the program attend an elective class taught by a specially trained teacher.

The AVID program currently serves approximately 71,000 students in 1,007 middle and high schools in California. The AVID program has demonstrated success in preparing students for college. An independent evaluation of the program indicates that 95 percent of AVID students go on to college – 77 percent to a four-year college and 17 percent to a community college.

Budget Action/Issues: The Governor's Budget proposes to reduce funding for the AVID program by 50 percent in the budget year. The Governor's Budget provides $5.15 million in General Funds (Non-Proposition 98) for the AVID program in 2003-04 – half of the $10.3 million available for AVID in 2002-03.

Of the $5.15 million proposed for AVID in the Governor's Budget, $1 million is available for AVID regional centers; $2.75 million for competitive grants to LEA's; and $1.4 million for advanced placement teacher training or tutoring services.

The 50 percent reduction of this K-12 program is similar to the level of reductions proposed by the Governor for college outreach programs. In contrast, the Governor proposes across-the-board reductions for most K-12 categorical programs of approximately 12 percent. AVID is <u>not</u> included in the Governor's K-12 Education Block grant proposal.

2. ROC/P (Regional Occupational Centers and Programs)

Background: California's 73 Regional Occupational Centers and Programs (ROCPs) provide high school students 16 years of age and older, and also adult students, with valuable career and technical education so students can (1) enter the workforce with skills and competencies to be successful; (2) pursue advanced training in higher educational institutions; or (3) upgrade existing skills and knowledge.

Approximately 460,000 students are currently enrolled in Regional Occupational Centers and Programs. Students receive training at a variety of venues from regular classrooms to actual business and industry facilities such as automotive dealerships and hospitals. In most ROCPs, courses are offered during the regular school day throughout the school year, in the late afternoon and evening, and sometimes during the summer months.

ROCPs generally follow three distinct organizational structures:
(1) school districts participating in a county office of education operated ROCP; (2) school districts participating under a joint powers agreement; or (3) a single school district. ROCPs in California collaborate with public agencies and associations to create and implement important instructional classes and programs.

ROCPs work in partnership with local business and industry to design and provide programs for industry-based, transferable and portable certification programs based upon job market demand. The program is funded through the principal apportionment system, based upon the level of student ADA for programs.

Budget Action/Issues: The Governor's Budget proposes a $12 million reduction in General Funds (Proposition 98) for the ROC/P program by limiting program enrollment to students under the age of 16, unless the student is in 11th grade or higher or participates in a special education program. The Administration estimates that this change in statute would reduce the eligible student population for ROC/P by 3 percent and generate $12 million in savings in the budget year.

The Administration makes this proposal because it is "concerned that some districts may be encouraging younger students to enter ROC/P's as a means of receiving concurrent enrollment, rather than to serve the best interests of that student."

The Administration also asserts that alternative education and career-technical education programs are available to younger high school students through another program -- Partnership Academies.

Overall, the Governor's Budget estimates funding of $342.3 million for ROC/P programs in 2003-04, a $30.9 million reduction (8.3 percent) from 2002-03. The Governor proposes to include ROC/P funding and programs as a part of the K-12 Education Block Grant proposal.

C. LEA Reserve Flexibility

The Subcommittee will hear testimony from a number of individuals and organizations who will discuss the benefits and risks of providing greater flexibility to LEA's by:

(1) lowering the level of budget reserves for economic uncertainties, and/or

(2) giving LEA's greater access to funding from restricted reserve accounts.

Background: Existing law requires the State Board of Education to adopt standards and criteria to be used by local educational agencies in the development of annual budgets and the management of subsequent expenditures from that budget. Existing law requires those standards and criteria to include comparisons and reviews of reserves and fund balances.

Current State Board of Education standards and criteria require local educational agencies to maintain reserves for economic uncertainties. The amount of that reserve varies by districts, from 1 to 4 percent, based on a sliding scale by size. Most districts are required to maintain a 3 percent reserve. The funding to which the percentage is applied is based on both general and categorical funding received, but the reserve itself must be maintained with resources from districts' general funds.

The Governor proposed eliminating the general fund reserve requirement entirely for the 2002-03 fiscal year. Instead, the Legislature approved a provision in SB 18X that provides limited flexibility to LEA's in accessing their reserves for economic uncertainty and restricted reserve accounts in the current year.

Specifically, SB 18X, authorizes a local educational agency to use, for purposes determined by its governing body, up to 50% of its reserves for economic uncertainties and up to 50% of the balances, as of July 1, 2002, of restricted accounts in its General Fund, excluding restricted reserves committed for capital outlay, bond funds, sinking funds, and federal funds.

SB 18X also states the intent of the Legislature that local educational agencies use this flexibility for certain purposes and make every effort to maintain a prudent expenditure plan that ensures solvency for the 2002–03 fiscal year and in subsequent fiscal years.

As enacted, provision 3 of SB 18X includes the following language:

33128.2. (a) Notwithstanding the standards and criteria adopted pursuant to paragraph (3) of subdivision (a) of Section 33128 or any other law, for the 2002–03 fiscal year only, a local educational agency may use for purposes determined by its governing body up to 50 percent of its reserves for economic uncertainties and up to 50 percent of the balances, as of July 1, 2002, of restricted accounts in its General Fund, excluding restricted reserves committed for capital outlay, bond funds, sinking funds, and federal funds, in order to provide local budgeting flexibility as a result of midyear budget reductions for the 2002–03 fiscal year that are enacted by the Legislature after January 2003. (b) A local educational agency may not, pursuant to paragraph (a), use the combined budgetary reserves in excess of its total midyear budget reductions for the 2002–03 fiscal year. (c) It is the intent of the Legislature that a local educational agency use the flexibility provided in subdivision (a) to the extent midyear budget reductions for the 2002–03 fiscal year occur in the following programs:
(1) The Peer Assistance and Review Program.
(2) Supplemental instruction and remedial programs.
(3) One-time funding for the Instructional Materials Funding Realignment Program.
(d) It is further the intent of the Legislature that a local educational agency make every effort to maintain a prudent expenditure plan that ensures its solvency for the 2002–03 fiscal year and in subsequent fiscal years.

Budget Action/Issues: There is no specific proposal before the Subcommittee from either the Governor or the Legislative Analyst's office. Several education organizations have requested that LEA's be given additional flexibility in accessing local fund reserves in order to maintain classroom instruction given the fiscal enormous budget shortfalls facing our schools.

Suggested Questions:

- *In providing reserve flexibility to LEA's should it be time limited? Assuming the state's fiscal health is restored in the future, does it make sense to provide flexibility permanently?*
- *How have the provisions of SB 18X been utilized by LEA's?*
- *CDE has reportedly had difficulty clarifying the meaning of the reserve flexibility provisions of SB 18X for LEAs. What are the specific problems and are there lessons learned that could inform the Legislature's thinking on any proposals in the budget year?*
- *Do state agencies or LEA's have any idea about the amount of funding currently contained in restricted reserve accounts? Do such funds accumulate from particular categorical programs? Are there differences in how LEA's spend and accumulate funds from these accounts?*
- *In providing flexibility to LEA's are there some restricted reserves that should <u>not</u> be tapped, for example funds for Economic Impact Aid?*

D. Federal Funds – Selected NCLB Programs

Background: In January 2002, President Bush signed legislation re-authorizing the Elementary and Secondary Education Act (ESEA). The newly signed law –No Child Left Behind Act (NCLB) of 2001– makes sweeping changes to the previous Title I program under the ESEA law.

NCLB authorizes approximately $21.8 billion in federal fiscal year (FFY) 2003 for federal elementary and secondary education programs targeted to economically disadvantaged students. Of this amount, California is slated to receive $2.9 billion in funds to implement NCLB in 2003-04. This represents an increase of $304.5 million for programs authorized under No Child Left Behind -- including Title I programs -- in 2003-04.

The Subcommittee will consider the following budget items appropriating federal funds for programs authorized under the No Child Left Behind Act of 2002 (NCLB). At its April 21st hearing, the Subcommittee requested the CDE, LAO and DOF to develop expenditure plans for two of the following three programs. The Subcommittee requested that these plans address both budget year appropriations and any carryover funds from the current year that could be built into the budget year.

1. Title I –Reading First (6110-126-0890)

Background: This is a new program to assist states and local education agencies in establishing scientific research-based reading programs for all children in Kindergarten through grade three. The program is intended to ensure that every student can read at or above grade level before the end of third grade. It replaces the Reading Excellence Program, a competitive grant program to states**.**

Funding for the program is distributed pursuant to Chapter 730, Statutes of 2002 (AB 64/Strom-Martin), which provides competitive grants to K-3 classes in approved Reading First schools.

The State Board of Education previously determined that bilingual education programs are not eligible for Reading First grants, since they require 1 to 2.5 hours of English language arts instruction in English each day. Significant controversy has arisen because these programs are being left out of Reading First. As a result, bilingual education program advocates filed a lawsuit in State Superior Court challenging this decision.

The Superior Court ordered an injunction allowing bilingual programs to be eligible for Reading First program at present. However, last month the State Board approved emergency regulations to implement the Reading First Program and began the process for adopting permanent regulations. Schools are deemed eligible if they implement a full English-language arts program using the adopted instructional materials in English one hour a day in Kindergarten and 2.5 hours a day in grades 1-3.

Budget Action/Issues: California is receiving $133 million in funding for Reading First in 2002-03. In 2003-04, California is slated to receive an additional $13.6 million for Reading First, bringing total funding to $146.6 million.

Staff Question: What options does CDE have for making Title I Reading First funds available to bilingual education programs?

2. Title I – Part A Set-Aside Funds for School Improvement (6110-136-0890)

Background: Federal law requires that states set-aside two percent of their Title I, Part A funds for school improvement purposes. These funds are to be used to assist schools, i.e. provide interventions and sanctions, identified as program improvement schools. The two percent set-aside requirement grows to four percent in 2004-05.

Budget Action/Issues: The 2002-03 budget provides approximately $29.1 million in Title I set-aside funds for school intervention programs. It is estimated that approximately $31.4 million will be available for this purpose in 2003 –04. In addition, CDE estimates that there will be $15.1 million in savings from Title I set-aside funds in savings from the current year.

As proposed, these funds are provided for school intervention programs pursuant to Chapter 1020, Statutes of 2002 (AB 312/Strom-Martin).

Staff Comments: Does DOF and CDE have a plan for spending Title I set-aside funds in the current and budget years?

3. Title VI – State Assessments (6110-113-0890)

Background: The Title VI program provide states with funds to help cover the costs of meeting the assessment and data requirements of NCLB, including developing or improving assessments, developing curriculum and performance standards, expanding testing accommodations for English learners and students with disabilities, developing student data systems to track achievement and other indicators – such as graduation rates – required by NCLB, and increasing local capacity for improving student achievement.

Budget Action/Issues: The Governor's Budget provides $27.6 million in 2003-04, but has not specified how all of these federal funds will prioritized and spent. In addition, the Governor's Budget does not contemplate how additional funds from the current year might be spent.

The LAO recommends that any additional Title VI funds be spent on:

(1) expansion and enhancement of the longitudinal student-level database,
(2) the establishment of a teacher-level data base,
(3) new primary language tests, and/or
(4) new cohorts of the California School Information System (CSIS).

Staff Comments: Does DOF and CDE have a plan for spending Title VI State Assessment funds in the current and budget years?

E. Education Data Systems

1. Longitudinal Data System

Background: Under NCLB, states must maintain a comprehensive data system as a part of their accountability systems. NCLB requires a range of performance indicators and will require a wide range of data to be collected at the student school and state levels.

While some of this data is currently available, new data systems will have to be developed and existing systems modified to capture all the data and meet the new reporting requirements. Also, while California collects data about students, it does not collect student-level data that allows the state to track student level outcomes, such as graduation rates required by NCLB.

Senate Bill 1453 (Alpert), enacted in 2002, requires the CDE to contract with an entity to develop, host and maintain a longitudinal pupil achievement data system for the STAR, California English Language Development Test (CELDT), and the High School Exit Examination (HSEE).

The Department of Finance (DOF) notified the Legislature via a letter dated February 21, 2003, that they have partially approved an expenditure plan for the longitudinal data system required by SB 1453. The expenditure plan was submitted to DOF by the California Department of Education and the California Information Services (CSIS). Of the $6.9 million in federal Title VI funds appropriated in the 2002-03 budget pursuant to

SB 1453, the DOF has approved $460,000 in the current year (to-date). DOF anticipates approving another $1.1 million in 2003-04.

As a result, the DOF submitted an April 1st Finance letter requesting carryover of $6 million in Title VI funds from the current to budget year. (See Section F)

The LAO is concerned that the DOF is delaying the development of the longitudinal data system, which is needed to satisfy NCLB requirements under our state's agreements and plans with the US Department of Education. As a result, California may not be able to achieve compliance with NCLB. In particular, the LAO questions whether California will be able to provide student graduation data and other student outcome data, especially for English learners and migrant students, as required by NCLB.

Budget Issues/Questions:

- *How is California going to meet the data requirements of NCLB without a data reporting system that provides student level data? For example, how will California meet the graduation rates required by NCLB?*
- *How would you view our state's progress in implementing student level data in the short-term and long-term?*
- *What can the Department of Finance do to expedite the approval of the SB 1453 funds for development of the longitudinal data system without compromising proper review?*

Budget Action:

Staff recommends approving the April Finance letter (See Section F) that allows $6 million in unapproved and unexpended Federal Title VI funds in the current year to carryover to the budget year for purposes of developing the Longitudinal Data System pursuant to SB 1453.

2. Ed-Data Website

Background: The Ed-Data website provides financial, demographic, and academic information for K-12 public schools. The website is operated by four partners: EdSource, the Alameda County Office of Education, the California Department of Education, and FCMAT.

Budget Action/Issues: The Governor's Budget proposes to eliminate $418,000 in 2003-04 for the Ed-Data Website. These funds are needed to update and maintain the website.

F. April Finance Letters – Recommended Changes

On April 1, 2003, the Department of Finance requested amendments to the Governor's 2003-04 Budget for the following K-12 education items. Several of the amendments recommended by DOF are included on the consent list (See Section III)

The following three items have been set-aside for special consideration by the Subcommittee because they contain provisional language that subjects funding to approval of DOF:

1. 6110-001-0001, 6110-001-0890, and 6110-161-0890 Special Education (Issue 002, 001)

It is requested that $250,000 be transferred from Item 6110-001-0890 to Item 6110-161-0890 for interpreter training and certification. This transfer would correctly characterize this activity as local assistance rather than state operations. As a conforming action, it is requested that Provision 18 of Item 6100-001-0890 be deleted and that provisional language be added to Item 6110-161-0890 as follows:

X. Of the funds appropriated in Schedule (1) of this item, $250,000 shall be provided to districts for interpreter instruction, training, and certification. This funding shall be annually renewable for two years, pursuant to Department of Finance approval of an annual progress report which shall be completed by April 30 of each year, beginning in 2003.

2. 6110-112-0890, Public Charter Schools (Issue 004)

It is requested that this item be increased by $8,369,000 to reflect the receipt of greater than anticipated federal funding for grants to charter schools. It is also requested that the Department of Finance be granted authority to shift an amount of up to $422,00 to the SDE for state operations purposes relating to charter school grant activities upon approval of a work and expenditure plan.

It is requested that the following provisional language be added to the item:

Provisions:
X. Of the funds appropriated in this Item, an amount of up to $422,000 may be transferred to Item 6110-001-0890 to be used for state operations purposes relating to

federal charter school grants upon Department of Finance approval of a work and expenditure plan proposed by the Department of Education.

3. 6110-113-0890, Title VI Flexibility and Accountability (Issue 100)

It is requested that Schedule (5) of Item 6110-0-113-0890 be increased by $6,000,000 to reflect carryover from the Budget Act of 2002 that is available for a longitudinal database and data collection costs to comply with the requirements of the federal No Child Left Behind Act of 2001 (NCLB). The SDE requested this carryover because a feasibility study for the longitudinal database will not be completed in time to begin a project in 2002-03 and the issuance of student identifiers using these funds will not begin until 2003-04. Additionally, NCLB data requirements are being established this spring and summer through a series of state plan filings, so it is unlikely that any significant new costs to collect data in 2002-03 will be incurred.

It is requested that Provision 5 of this item be amended as follows:

"5. Funds appropriated in Schedule (5) are provided for the establishment of a longitudinal database, and for data collection requirements of the No Child Left Behind Act of 2001 (P.L. 107-110), pursuant to Chapter 1002, Statutes of 2002. Expenditure of these funds is subject to approval by the Department of Finance of an expenditure plan. Of these funds, $6,000,000 in carryover funding is provided on a one-time basis. The Department of Finance may transfer funds provided pursuant to this provision to Item 6110-001-0890 to provide the State Department of Education necessary resources to meet the data collection requirements of P.L. 107-110."

Staff comments: The LAO does not support language for the above items that subjects funding to approval of the Department of Finance. In particular, the LAO has been critical of delays by DOF in approving Title VI funding for creation of the longitudinal database pursuant to Chapter 1002, Statutes of 2002 (SB 1453/Alpert). Therefore, LAO does not support language that requires DOF to continually approve an expenditure plan.

Staff notes that DOF approval may interfere with Legislative intent and may also delay funding to programs unnecessarily. Therefore, staff recommends approval of the items above with changes to delete references to approval by DOF.

II. California School Finance Authority (0985)

A. Charter Schools Facilities Program (April Finance Letter)

Chapter 935, Statutes of 2002 (AB 14) established the Charter School Facilities Program (CSFP). This pilot program is designed to meet the facilities needs of charter schools throughout the state by providing a mechanism for the distribution of $100 million in General Obligation bond funding pursuant to Section 100620 of Chapter 33, Statutes of 2002 (AB 16).

The California School Finance Authority (CSFA), within the State Treasurer's Office, administers the CSFP. The CSFA is allowed to charge the Charter Schools Facilities Account for its administrative costs.

The State Treasurer's Office submitted an April Finance Letter request for $531,000 in General Obligation bond funds and three permanent positions for workload associated with the CSFP. Of the amount requested, $263,000 is for salaries and benefits, $220,000 is for internal and external contract services, and $48,000 is provided for operating expenses and equipment.

Staff Notes: While staff agrees that some level of resources and staffing may be required for the new program, we note the following concerns with the proposal contained in the Finance Letter:

1. *AB 14 specifically stated the intent of the Legislature that this program be implemented as a <u>pilot program</u> to determine the optimum method for providing school facilities funding for charter schools. Given this intent, the establishment of permanent positions as proposed appears neither advisable nor necessary. Staff recommends instead that these positions be provided on a three-year limited-term basis. (This is consistent with the OPSC staff proposed pursuant to Prop 47.).*

2. *The budget bill language proposed for this program would allow the Department of Finance to augment the budget of the CSFA in excess of the amount approved by the Legislature, 30 days after notification in writing is provided to the Chair of the Joint Legislative Budget Committee. However, neither of the other two departments currently administering the School Facilities Program (the State Department of Education and the Office of Public School Construction) have such latitude with state bond funds. The $100 million provided for charter schools pursuant to AB 16 is reportedly oversubscribed by $82 million. Since this language could result in*

additional state operations costs at the expense of local projects, it is recommended that Provision 1 of the proposed budget bill language be eliminated. (See attached alternate language.)

3. *Finally, the Finance Letter would provide funding for $95,000 in interdepartmental contracts, $65,000 of which is unspecified. Given that we have not been provided with adequate justification for this expenditure, and given the limited size of the bond funds available for this program, it is recommended that the funding for interdepartmental contracts be reduced by $65,000.*

Staff recommends the following alternative language:

0985-001-6040—For the support of the California School Finance Authority, payable from the Charter School Facilities Account, 2002 State School Facilities Fund…… ~~531,000~~ *466,000*

Schedule:

(1) 20- Charter School Facilities Program……~~531,000~~ *466,000*

Provisions:

~~1. Notwithstanding any other provision of law, the Director of Finance May authorize expenditures for the California School Finance Authority in excess of the amount appropriated not sooner than 30 days after notification in writing of the necessity therefore is provided to the chairperson of the fiscal committees and the Chairperson of the Joint Legislative Budget Committee, or not Sooner than whatever lesser time the chairperson of the Committee, or his or her designee, may in each instance Determine.~~

~~2.~~1. Of the amount appropriated in this item, $125,000 is for the one-time support of external contracts for consultants who are qualified to provide technical assistance and training in the development of financing programs for charter schools.

III. Proposed Consent –K-12 Education

Staff recommends that the following items be Approved as Budgeted. No issues have been raised with regard to any of these Items:

April 1, 2003 Finance Letters – Consent Items

1. 6110-001-0001, Restoration of K-3 Class Reduction Position (Issue 100)

It is requested that one Education Consultant position for the School Facilities Planning Division that was proposed for elimination in the 2003-04 Governor's Budget be restored. This action reflects an inadvertent elimination of a position associated with a departmental reduction proposal. Instead, the reduction was intended to be taken from operating expenses and equipment.

2. 6110-001-0001, Elimination of One-Time Funds (Issue 450)

It is requested that this item be reduced by $275,000 to eliminate one-time funds provided in the current fiscal year from the 2003-04 budget. Specifically, this proposal eliminates $150,000 for developing model curriculum for human rights and genocide, and $125,000 for studying public schools' compliance with federal Title IX.

3. 6110-006-0001, State Special Schools

It is requested that this item be augmented by $63,000 for the purpose of correcting the employee compensation adjustment for the State Special Schools, based on revised information provided by the State Department of Education (SDE).

4. 6110-113-0890, Title VI Flexibility and Accountability (Issue 101)

It is requested that Schedule (10) of Item 6110-113-0890 be increased by $1,500,000 to reflect carryover from the Budget Act of 2002 that is available for NCLB data collection. The SDE requested this carryover because the data collection plan has not been completed. Federal data reporting requirements for California are still under development in many areas.

5. 6110-181-0140, Environmental Education (Issues 001 and 002).

It is requested that $188,000 in reimbursement authority be scheduled in Item 6110-181-0140 for environmental education. The Department of Water Resources ($11,000),

California Coastal Commission ($10,000), State and Consumer Services Agency (Energy Conservation Education) ($156,000), and California Integrated Waste Management Board ($11,000) will provide funding for the services. The SDE will use the funds for local grants supporting regional coordinators who facilitate instruction to K-12 pupils statewide. The SDE requests a base increase of this amount, as state agencies are expected to request this level of services on an ongoing basis. A similar increase has been provided administratively in 2002-03 pursuant to the authority of Section 28.50, Budget Act of 2002.

It is requested that provisional language be added to Item 6110-181-0140 to allow SDE to use up to $40,000 of California Environmental License Plate Funds appropriated pursuant to environmental education grants, as authorized by Section 21190 (c) of the Public Resources Code.

It is requested that Budget Bill language be added to Item 6110-181-0140 be amended as follows to conform to these actions.

> "6110-181-0140 – For local assistance, Department of Education, ~~Program 20.10.055—Environmental Education~~, payable from the California License Plate Fund 400,000
>
> (1) Program 20.10.055-Environmental Education 588,000
> (2) Reimbursements. . . . . –188,000

Provisions:

X. Of the amount appropriated in Schedule (1) of this item, up to $40,000 of this appropriation may be transferred to Item 6110-001-0001 to be used for administrative costs related to the Environmental Education program, as authorized per Section 21190, Part C of the Public Resources Code."

April 21, 2003 Hearing – Consent Items -- Special Funds.

1. 6110-001-0178, Support, Schoolbus Driver Instructor Training, payable from the Driver Training Penalty Assessment Fund, $1,035,000.
2. 6110-001-0231, Support, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, $1,003,000.
3. 6110-001-0687, Support, California State Agency for Donated Food Distribution, payable from the Donated Food Revolving Fund, $5,254,000.

4. 6110-001-0975, Support, Library and Learning Services, payable from the California Public School Library Protection Fund, $15,000.
5. 6110-001-6036, Support, Administrative Services to local educational agencies, payable from the 2002 State Schools Facilities Fund, $2,188,000.
6. 6110-006-0814, Support, State Special Schools, payable from the California State Lottery Education Fund, $133,000.
7. 6110-101-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, $3,793,000.
8. 6110-101-0814, Local Assistance, School Apportionment, payable from the California State Lottery Education Fund, $799,421,000.
9. 6110-101-0975, Local Assistance, Library and Learning Resources, payable California Public School Library Protection Fund, $345,000.
10. 6110-102-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, $23,200,000.
11. 6110-301-0660, Capital Outlay, payable from the Public Buildings Construction Fund, $5,600,000. California School for the Deaf in Riverside – Preliminary working plans, working drawings, construction and equipment.

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

PART II

May 12, 2003

1:30 p.m.
Room 113

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IV. Consent *5*

I. STAFF DEVELOPMENT

GOVERNOR'S PROPOSED BUDGET proposes to allocate funding for 58 existing categorical programs through a K-12 Categorical Block Grant, in order to provide school districts with increased fiscal and programmatic flexibility.

There are approximately eleven professional development programs administered by the California Department of Education nine of which are proposed by the Governor to be included in his proposed categorical program block grant; the other like-programs would remain independent. Following is a list and brief description of those staff development programs proposed by the Governor for consolidation:

Instructional Time and Staff Development Day Buyout ($202.2 million) – Allocates funding to Local Educational Agencies (LEA's) to provide up to three days of staff development for certificated teachers and up to 1 day for instructional aides and teaching assistants.

Teaching as a Priority (TAP) ($78 million) – A block grant that is awarded on a competitive basis to low-performing school districts in order to provide incentives to employ and retain teachers in hard-to-staff schools. Recruitment and retention "incentives" may include such things as: signing bonuses, improved working conditions, teacher compensation and housing subsidies.

Peer Assistance and Review (PAR) ($76.6 million) Replaced the Mentor Teacher program. Provides funding to LEA's to develop programs in which experienced teachers consult other teachers in subject matter knowledge and teaching strategies. Funds allocated by the CDE while the LEA's determine the program at the local level through collective bargaining.

Beginning Teacher Support and Assessment (BTSA) ($75.4 million) – Designed to enhance the success and retention of beginning teachers by providing individuals support and assessment of teaching practices. Funding levels were previously set to cover 100 percent of the target (new teacher) audience.

Administrator Training ($4.7 million) – Operated by the California School Leadership Academy, this program is designed to improve administrator's clinical supervision and leadership skills.

Advanced Placement Teacher Training ($3.2 million) – Funding used to train teachers (or teams of teachers) in advanced levels of specified subject matter.

Bilingual Teacher Training ($1.6 million) – Established to prepare teachers in the appropriate teaching methodologies to facilitate the acquisition of English and the academic development of English learners. Grants are awarded through an application

process to 14 centers that provide specialized training to teachers who are assigned to English learners.

Intersegmental Staff Development ($1.9 million) -- Funds two programs—(1) the Comprehensive Teacher Education Institutes, which researches, develops, and disseminates innovative models of teacher preparation, and (2) the College Readiness program, which funds full-time math coaches.

National Board Certification Incentive Program ($10.3 million) – Funding provides monetary incentives for teachers to become certified by the National Board for Professional Teaching Standards. One-time awards are either $10,000 for teachers who achieve National Board Certification or $20,000 for Nationally-Board Certified Teachers who agree to teach in low-performing schools.

Following are the two Proposition-98 funded professional development programs not included in the Governor's Block-Grant Proposal. According to the Administration, these programs were not included because they were designed to be "short-term" programs that would eventually be discontinued, and as such, the Administration believes that funding for these programs shouldn't be included in an ongoing block-grant program.

Math and Reading Professional Development ($27.9 million) – Establishes an incentive program to encourage districts to provide teachers and aides with standards-based professional development in math and reading.

Principal Training Program ($26.2 million) – Provides professional development training to school administrators, with priority granted to Administrators serving in low-performing and hard-to-staff schools.

Furthermore, the Governor proposes to eliminate all but one of the *California Subject Matter Projects* which are administered by the University of California. The Governor proposes to retain $10 million for the Science Subject Matter Project ($5 million in federal funds and $5 million in State Non-98 General Fund).

LEGISLATIVE ANALYST RECOMMENDATIONS. In response to the Governor's "mega" block grant proposal, the Legislative Analyst has offered a series of smaller block-grant alternatives, which would include the development of a new *Academic Improvement Block Grant Program.*

Specifically, the LAO proposes to combine 22 programs that support staff development, instructional or curricular support, or class size reduction and appropriate a total of $2.8 billion for these activities. Funds would be available for a wide range of general school improvement activities. (Handout from the LAO will be available at the hearing).

II. COMMUNITY COLLEGES

A. CONCURRENT ENROLLMENT – STATUS REPORT/UPDATE ON AUDIT ACTIVITIES

As part of the December Revision, the Governor proposed to permanently reduce funding for the California Community Colleges by $80 million due to perceived inconsistencies related to students enrolled concurrently at public high school and community college campuses. While it was familiar with the anecdotal evidence of inappropriate activity, the Legislature rejected the Governor's proposal due to a lack of concrete information and proof related to the scope and depth of the problem.

At our hearing on April 7, 2003, the Community College Chancellor's Office indicated that it would have information available on the outcome of the audit at the beginning of May. At this time, the Committee would like to ask the Chancellor's Office, the Department of Finance and the Legislative Analyst for an update on this issue.

III. UNIVERSITY OF CALIFORNIA

A. FOLLOW UP ON UC MERCED

The Governor's Budget proposes to augment expenditures for UC Merced by $11.3 million, bringing total funding in 2003-04 to $37.97 million. Of this amount, $21.3 million is related to start-up operations of the campus and $16.6 million is related to the planning and construction of new buildings, as well as the refurbishment of temporary facilities at the former Castle Air Force Base. Including the amount proposed in the Governor's 2003-04 Budget, the state has expended over $90 million of General Fund and $190.1 million bond funds to develop the campus ($280.2 million total).

Staff notes that the Merced campus was originally intended to open in the Fall of 2005, with 1,000 full-time equivalent (or 1,036 "headcount") students, and the UC was on-track to meet this opening date. As part of the 2000-01 Governor's Budget, the Administration requested that the opening date be expedited to Fall of 2004. While rushed, the UC believes it can indeed open the campus in 2004.

Many issues related to the proposed UC campus at Merced were previously discussed at our hearing on March 17, 2003. At this time the committee would like to explore, in more detail: (1) the start-up and operating budgets for the campus; (2) the personnel and compensation related costs; (3) the number of staff and faculty already hired by the university, including their job descriptions and functions; and (4) the potential for additional cost savings if the Legislature acted to defer the opening of the campus until Fall of 2005.

VI. Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

Amend Item 7980-001-0001. *April Finance Letter*. California Student Aid Commission. Student Expenses and Resources Survey (SEARS). Increase to Reimbursements $289,000.

Add Item 6440-491. *May Finance Letter*. University of California. Reappropriation of Item 6440-302-6028, Budget Act of 2002. For UC Berkeley: Seismic Safety Corrections, Hertz Hall.

Add Item 6440-491. *May Finance Letter*. University of California. Reappropriation of Item 6440-302-6028, Budget Act of 2002. For UC Los Angeles: Engineering 1 Seismic Mitigation.

Add Item 6440-491. *May Finance Letter*. University of California. Reappropriation of Item 6440-302-6028, Budget Act of 2002. For UC Riverside: Heckmann International Center for Management Construction and Equipment.

Add Item 6440-492. *May Finance Letter*. University of California. Extend Liquidation of Item 6440-302-0574, Budget Act of 2002. For UC Santa Cruz: Physical Science Building.

Increase Item 6610-301-0658. *May Finance Letter*. California State University. Increase item by $241,000 to reappropriate unspent construction funds for the CSU Pomona Engineering Labs Replacement Project.

Amend Item 6610-491. *May Finance Letter*. California State University. Reappropriation of Item 6610-301-0001, Budget Act of 2000. For CSU Chico: Telecommunications Infrastructure Upgrade.

Amend Item 6610-491. *May Finance Letter*. California State University. Reappropriation of Item 6610-302-0574, Budget Act of 2001. For CSU Fresno: Science II Replacement Building.

Amend Item 6610-491. *May Finance Letter*. California State University. Reappropriation of Item 6610-302-0574, Budget Act of 2001. For CSU Fullerton: Auditorium/Fine Arts Instructional Facility.

Amend Item 6610-491. *May Finance Letter*. California State University. Reappropriation of Item 6610-302-0574, Budget Act of 2001. For CSU Sacramento: Academic Information Resource Center.

Amend Item 6610-491. *May Finance Letter*. California State University. Reappropriation of Item 6610-302-0574, Budget Act of 2001. For CSU San Bernardino: Science Building Renovation/Addition, Phase 1 Annex.

Amend Item 6870-490. *May Finance Letter*. California Community Colleges. Reappropriation of Construction funds for Long Beach City College, Child Development Center.

Amend Item 6870-490. *May Finance Letter*. California Community Colleges. Reappropriation of Working Drawing funds for San Francisco Community College District, Mission Center Building.

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

Tuesday, May 20, 2003
1:30 p.m. Room 112

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California State Library

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6120-011-0001 CA State Library	*May Revision Finance Letter:* Shift Funding for CSL Operations (Issue 001)	Administration proposal was for the State Library to issue a "library card" which would charge patrons for State Library services. May Revision revised the amount of revenue expected to be reaped from the card from $3m to $1m, with the General Fund providing the $2 million difference. The State Library notes that the effect of this proposal is a $1 million unallocated reduction to their operations (in addition to the $1 million reduction proposed by the Governor in January due to "savings from reduced local assistance programs").	Amend May Revision to provide $2.5 million General Fund for State Library and $500,000 from reimbursements.	No	0,500
6120-213-0001 CA State Library	Consolidation of State Literacy Programs	Governor's Budget proposes to establishes new block grant (and a new budget item) for literacy programs	Approve Governor's proposal, contingent upon legislation		
6120-221-0001 CA State Library	*May Revision Finance Letter:* Public Library Foundation (Issue 001)	$15.8 million reduction as part of Governor's January proposal. Additional $14.8 million reduction per May Revision, leaving $1 million in program	Deny May Revision; instead provide $13.8 million augmentation to PLF	No	13,766
6120-150-0001 CA State Library	Civil Liberties Education Program	Gov's Budget deletes funding for program. Various expenditure levels available to retain program: $135k- report only; $185k- some curriculum development; $250k- full program.	Approve augmentation of $250,000 for program	Add Item	0,250

California Postsecondary Education Commission

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6420-001-0001 6420-001-0890 6420-101-0001 6420-101-0890 CPEC	*May Revision Finance Letter:* Amount of ongoing support for CPEC (Issue 001)	January budget proposed to reduce funding for CPEC by 50%. In the May Revision the Administration proposes to merge a scaled-down version of CPEC with the California Student Aid Commission and transfer CPEC's remaining operational support ($700,000) to Student Aid.	Deny May Revision and augment CPEC by $1.5 million (including the restoration of all related positions). Approve budgets for local assistance and federal funds at levels proposed in the May Revision.		1,549

University of California

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-001-0001 UC	*New Issue:* Amount and nature of reductions to operating budget	Additional unallocated reduction was agreed upon by all four Legislative caucuses as part of the Pension Obligation Bond negotiations	Approve additional reduction of $80.5 million	Establish new Schedule (8) Unallocated Reduction	-80,500
6440-004-0001 UC	*New Issue:* UC Merced State Operations	Defer the opening of UC Merced for one year (from Fall 2004 to Fall 2005) to generate General Fund savings	Approve reduction of $4 million.	BBL stating campus opening in 2005 (attachment 3A)	-4,000
6440-001-0001 UC	Student Outreach Reductions (50%)	Approve as budgeted in January	AAB		
6440-001-0001 UC	*New Issue:* Supplemental Report Language	Adopt follow-up SRL related to A through G course development	Adopt SRL	SRL (attachment 3B)	
6440-001-0001 UC 6110-195-0001 CDE	California Subject Matter Projects (SMP)	Governor's Budget dismantles all of the SMPs except the Science SMP which is slated to receive $10 million ($5 million GF/ $5 million Federal Funds). LAO proposes language which would allow the $10 million to be spread amongst a consolidated group of SMP	Approve LAO's proposed language in order to retain a core group of SMP	BBL (attachment 3C)	
6440-001-0001 UC	Debt service on UC-Mexico Research Facility	Language proposed by UC with the concurrence of DOF would allow UC to use of to $7 million of their support appropriation to finance the purchase and renovation of a research facility in Mexico City	Approve UC's proposed language	BBL (attachment 3D)	

Drafted by: Amy Supinger
Senate Committee on Budget and Fiscal Review
445-5202

UC Merced Deferral of Opening Date:

Item 6440-004-0001
Amend Provision 1 as follows:

Funds shall be available for planning and startup costs associated with academic programs to be offered in the San Joaquin Valley and planning, startup costs, and ongoing support for the Merced campus, *which is scheduled to open in the Fall of 2005*. Including the following *costs* : (a) site studies, infrastructure planning, community planning and development, long-range development plans, environmental studies, and other physical planning activities; (b) academic planning activities, support of academic program offerings prior to the opening of the new campus, and faculty recruitment; (c) the acquisition of instructional materials and equipment; and (d) ongoing operating support for faculty, staff, and other annual operating expense for the new campus.

Drafted by Amy Supinger
Senate Committee on Budget and Fiscal Review
445-5202

A through G Course Requirements:

Supplemental Report Language, Item 6440-001-0001

"A-G Courses. It is the intent of the Legislature that the University of California (UC) continue to assist school districts that maintain high schools to ensure that (a) school districts and high schools are informed of UC's certification process for courses needed to meet admissions requirements ("a-g" courses) and (b) high school pupils are well-informed of the a-g course admissions requirements at the California State University (CSU) and the UC.

It is the intent of the Legislature that UC continue the following activities regarding the approval process and subsequent maintenance of the a-g course lists:

- Continue to enhance and update both the a-g interactive guide and the a-g online web sites.
- Continue to train and support Cadre of Expert teams, consisting of high school educators and UC outreach staff, to serve as resources for high schools on the a-g approval process.
- Continue to make presentations at regional and state conferences, meetings and events.

In an effort to assess the accuracy of high school's a-g course lists, it is the intent of the Legislature that UC survey a select number of high schools to evaluate the accuracy of their a-g lists.

The UC shall report to the Legislature by February 15, 2004 on the above efforts. The Legislative Analyst's Office shall review and comment on the report during budget hearings.

Drafted by Jennifer Kuhn
Office of the Legislative Analyst

LAO-Recommended Budget Bill Language for California Subject Matter Projects

6440-001-0001—University of California

Schedule (7) California Subject Matter Projects $5,000,000

Provision X. The funds appropriated in Schedule (7) are for support of four Subject Matter Projects—Language Arts, History/Social Science, Mathematics, and Science. This reflects a $15 million reduction in state General Fund for these projects. The reduction is due to an overall decline in state revenues, a reduction in total General Fund monies for the university, the priority of the state to protect core academic services at the university, and the need to achieve savings in other areas of the university, such as K-12 professional development. *If the federal government provides written notification that these funds may not be used for these four projects, then the Department of Finance may instead use the funding only for the Science SMP after notifying the Joint Legislative Budget Committee through the Section 28.00 process.*

LAO-Recommended Budget Bill Language for California Subject Matter Projects

6110-195-0890—Department of Education, Title II, Part A

Schedule (3) California Subject Matter Projects $4,350,000

Provision X. The funds appropriated in Schedule (3) shall be for transfer to the University of California, which shall use the funds for four Subject Matter Projects (SMP)—Language Arts, History/Social Science, Mathematics, and Science. By supporting the four projects, it is the intent of the Legislature to preserve the university's basic program infrastructure and help the state comply with the "high-quality professional development" requirements of the *No Child Left Behind Act of 2001*. In the absence of this federal funding, the state would have eliminated all state funding for all existing projects, except the Science Project. *If the federal government provides written notification that these funds may not be used for these four projects, then the Department of Finance may instead use the funding only for the Science SMP after notifying the Joint Legislative Budget Committee through the Section 28.00 process.*

Drafted by Amy Supinger
Senate Committee on Budget and Fiscal Review
445-5202

Suggested Budget Bill Language to deal with UC- Mexico building in Mexico City:

Item 6440-001-0001

Provision XX:

Notwithstanding Section 3.00, for the term of the financing, the University of California may use funds appropriated in Schedule (1) for debt service and costs associated with the purchase, renovation, and financing of a facility for the UC-Mexico research and academic programs in Mexico City. The amount to be financed shall not exceed $7 million.

California State University

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6610-001-0001 CSU	*New Issue:* Amount and nature of reductions to operating budget	Additional unallocated reduction was agreed upon by all four Legislative caucuses as part of the Pension Obligation Bond negotiations	Approve additional reductions of $69.5 million	Establish new Schedule (4) Unallocated Reduction	-69,500
6610-001-0001 CSU	Legislative, Executive and Judicial Fellows Program	Governor's January Budget reduced funding for Fellows Program by 50% or $1.4 million	Deny Governor's proposal; adopt 10% reduction ($287,700) instead		1,106
6610-001-0001 CSU	Student Outreach (50% reduction)	Reporting language proposed by LAO	Approve as budgeted, with SRL from LAO	SRL (attachment 4B)	

Drafted by Anthony Simbol
Office of the Legislative Analyst

Supplemental Report Language Regarding CSU Outreach

(Revised 5/14/03)

Item 6610-001-0001—California State University

Early Assessment Academic Preparation Program. The California State University (CSU) shall report to the Legislature by December 1, 2003, on its progress in implementing the Early Academic Preparation Program—a pilot program designed to improve high school students' proficiency in English and mathematics prior to entering CSU. This progress report shall (1) describe CSU's collaborations with the State Department of Education and State Board of Education in developing outreach services, (2) review the types of services being provided to high schools, (3) provide data on the amount of funding allocated to each school and service type, and (4) list all participating high schools and the number of participating students and teachers at each school.

In addition, CSU shall provide the Legislature with an evaluation on the effectiveness of the Early Academic Preparation Program by December 1, 2005. The evaluation report shall include, at a minimum, the following information:

- ***Changes in Student Achievement.*** For each participating high school, CSU shall report changes over the pilot period in the (1) number of high school seniors that pass the English and mathematics sections of the state's high school exit exam, (2) college participation rate of its graduates, and (3) percent of its graduates entering CSU and needing remediation in English, mathematics, or both subjects.
- ***Quality of Services Provided to Teachers.*** The CSU shall survey and provide data from a representative sample of teachers at the participating high schools at the beginning and end of the

academic year. The survey shall assess the teachers' level of satisfaction with the various Early Academic Preparation Program activities, such as in-service training. In addition, the CSU shall report on teachers' understanding of (1) the state's high school content standards and curriculum frameworks and (2) CSU's entry-level content standards and placement exams.

- ***Cost-Effectiveness of Outreach Services.*** The CSU shall examine and report on the cost-effectiveness of the Early Academic Preparation Program in comparison to other CSU academic outreach programs (including campus based outreach programs) that focus on preparing disadvantaged K-12 students for college. For each outreach program, CSU shall provide data on the (1) amount of funds spent on the program, (2) number of participating schools, teachers, and students, and (3) high school graduation, college participation, and remediation rates of participating students.

Student Aid Commission

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
7980-001-0001 7980-001-0784 Student Aid, Operations	*May Revision Finance Letter:* Transfer General Fund expenditures to the Student Loan Operating Fund (Issue 004, 001, 002), *with DOF-noted adjustments*	Transfers $7.7 million in operating expenditures from the General Fund to the Student Loan Operating Fund and backfill General Fund reductions	Approve May Revision		
7980-002-0001 Student Aid, Operations	*May Revision Finance Letter:* Shift operating funds from CPEC to Student Aid (Issues 001, 002, 004)	Transfers all funds, functions and positions originally proposed for CPEC in 2003-04 to the Student Aid Commission, pursuant to legislation.	Deny May Revision		
7980-101-0890 Student Aid, Operations	*May Revision Finance Letter:* Shift Local Assistance and Federal Funds from CPEC to Student Aid (Issue 001)	Transfer federal local assistance funds from CPEC to the Student Aid Commission for Administration.	Deny May Revision (conforming)		
7980-101-0001 Student Aid, Grants	Reduces amount of maximum Cal Grant award for students attending private institutions	Governor's Budget requests to reduce maximum award for students attending private institutions (savings of $10.2 million)	Deny Governor's Proposal, provide $10.2 million augmentation		10,200
7980-101-0001 Student Aid, Grants	*New Issue:* Unallocated reduction for Cal Grant Program	Consistent with language adopted by SB 28X, reduce overall funding level for Cal Grants by $10 million; reduction NOT tied to maximum award level or number of awards.	Unallocated reduction of $10 million		-10,000
7980-101-0001 Student Aid, Grants	Reduce funding for the Cal Grant C Program	Governor's Budget reduces funding for the Cal Grant C program by $4 million	Deny Governor's proposal, provide $4 million augmentation	No	3,200
7980-101-0001 Student Aid, Grants	*May Revision Finance Letter:* Eliminate issuance of new Graduate APLE warrants	May Revision provides for no new warrants to be issued, but retains program in statute	Approve May Revision	With DOF TB/BBL	
			TOTAL		**-133,444**

CONSENT

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6120-011-0001 CA State Library	*May Revision Finance Letter:* Technical Adjustment to federal schedule (issue 003)	Technical adjustment proposed in May Revision to properly schedule federal funds	Approve May Revision		
6120-150-0001 CA State Library	Library of California	Governor's Budget proposes to delete all funding for the Library of California project and repeal the program	Approve Governor's proposal to eliminate funds, but retain program in statute	No	
6120-211-0001 CA State Library	*May Revision Finance Letter:* Transaction-Based Reimbursements	Fee proposal related to interlibrary loans and direct "non-jurisdictional" loans rescinded by Administration as part of May Revision	Approve May Revision		
6120-101-6029 CA State Library	*May Revision Finance Letter:* California Cultural & Historical Endowment (Issue 001)	May Revision proposes creation of new item to provide support from Prop. 40 funds for grants to develop programs that retain cultural and historical resources; conforms to action taken by Senate Sub #2.	Approve May Revision	New Item	
6360-101-0001 CTC	Funding for local assistance programs	Funding for intern, pre-intern and paraprofessional teacher training programs	AAB		
6360-101-0001 CTC	*LAO Issue:* Provide flexibility to move funds between various local assistance programs	LAO composed budget bill language to allow funds to be transferred between various local assistance programs, as needed.	Approve LAO's recommended language	TB (attachment 6A)	

Amend Ed. Code Section 44386 (b) as follows:

~~As determined by~~ *Notwithstanding Section 26.00 of the annual Budget Act,* the Commission on Teacher Credentialing~~,~~ may *transfer* funds ~~appropriated in the annual Budget Act for~~ *among* the alternative certification program, ~~may also be made available for expenditure on~~ the Pre-Internship Teaching Program authorized pursuant to Article 5.6 (commencing with Section 44305) of Chapter 2 of Part 25~~.~~*, and the Paraprofessional Teacher Training Program authorized pursuant to Article 12 (commending with Section 44390) of Chapter 2 of Part 25 for the purpose of helping California respond to the* No Child Left Behind Act of 2001 *and meet the federal "highly qualified" teacher requirements by the end of the 2005-06 school year. The Commission shall submit an annual end-of-the-year expenditure report on the alternative certification program, Pre-Intern Teaching Program, and Paraprofessional*

CONSENT

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6440-001-0001 UC	*May Revision Finance Letter:* Augmentation for Fee waivers (Issue 003)	May Revision included $1.5 million to backfill fee waivers for National Guard members, pursuant to legislation	Approve May Revision		
6440-001-0234 UC	*May Revision Finance Letter:* Tobacco Research (Issue 001)	May Revision increases funding for tobacco-related research from Proposition 99 ($4.4m)	Approve May Revision		
6440-001-0001 UC	*May Revision Finance Letter:* Technical Correction (Issue 003)	May Revision identified technical correction related to budgeting of financial aid	Approve May Revision		
6600-001-0001 Hastings College of the Law	Amount and nature of reductions to operating budget	Governor's Budget includes $4.1 million in specified General Fund reductions to Hastings College of Law	Reduction level be approved as budgeted, but specified as an "unallocated reduction"		
6610-001-0001 CSU	*May Revision Finance Letter:* Fee Waivers for National Guard (Issue 003)	May Revision included $1.5 million to backfill fee waivers for National Guard members, pursuant to legislation	Approve May Revision		
6610-001-0001 CSU	*May Revision Finance Letter:* Technical Change (Issue 001)	Technical Change identified in May Revision related to Pro Rata charges	Approve May Revision		

CONSENT

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
7980-101-0001 Student Aid Commission, Grants	*May Revision Finance Letter:* Convert Cal Grant T awards to APLE warrants, *with DOF adjustments to Budget Bill Language*	May Revision proposes to eliminate the Cal Grant T program for a savings of $-3.0m and subsequently increases the number of APLE warrants by 700.	Approve May Revision	TB to eliminate programs; BBL per DOF (attachment 8A)	
7980-101-0001 Student Aid Commission, Grants	Budget Bill Language to reduce the number of APLE program warrants	Governor's Budget proposed to reduce the number of APLE warrants authorized in budget bill language from 7,500 to 6,500	Deny Governor's Proposal and retain current number of warrants (combined with above issue, total number of APLE warrants equals 8,200	BBL; revise to reflect higher number of warrants	
7980-101-0001 Student Aid Commission, Grants	Eliminate the California Workstudy Program	Governor's Budget proposed to eliminate funding for the California Workstudy Program, while retaining the program in statute	Approve as budgeted (-$5.3 million)	No	
7980-002-0001 7980-001-0784 Student Aid Commission, Operations	*May Revision Finance Letter:* Decreased Health Benefits due to Early Retirement Program (Issue 003)	Compensates for employees who would retire under the Early Retirement Program.	Approve May Revision as it relates to Item 7980-001-0784 for CSAC employees; Deny portion of request that is attributable to CPEC employees		

Drafted by: Amy Supinger
Senate Committee on Budget and Fiscal Review
445-5202

Conversion of Cal Grant T Awards to APLE

Item 7980-101-0001-004-0001
Add Provision 1(I) as requested by the Department of Finance:

(i) The Commission shall be authorized to issue a maximum of 700 loan assumption warrants over the amount specified in Provision (1) (e), pursuant to legislation to be enacted in the 2003-04 Regular Session. The total liability of the loan assumption warrants issued in 2003-04 pursuant to this Provision shall not exceed $3 million.

Eliminate Cal Grant T Program

Repeal Article 7 of Chapter 1.7 of Part 42 of the Education Code (Education Code Section 69440)

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

May 21, 2003
1:30 p.m.
Room 112

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Introduction: Proposition 98 Update

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I. K-12 EDUCATION:

A. GOVERNOR'S BLOCK GRANT PROPOSAL

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-234-0001 CDE	Governor's Block Grant Proposal -- Categorial Program Funding	The Governor January 10 Budget proposes to consolidate $5.1 billion for approximately 64 education categorical programs into a single K-12 Instructional Improvement Block Grant in 2003-04. The proposal excludes approximately 28 programs from the block grant, such as Class Size Reduction, Special Education, II/USP, HP, etc. Districts would receive a prorated share of the block grant funding in the budget year – at a reduced rate adjusting for across-the-board reduction -- based upon funding they received in the current year. Program statutes and regulations governing the 64 programs in the block grant would be repealed.	Reject the Governor's Block Grant proposal. Reinstate all individual categorical programs items, with revised funding amounts in the Budget Act.		
6110-001-001 CDE	Governor's Block Grant Proposal -- State Operations	The Governor's January 10 Budget proposed elimination of 97 positions and $6,741,000 to reflect state operations savings associated with the Education Block Grant proposal.	Reject the Governor's proposal. Restore 97 positions and $6.7 million in state operations funding.		6,741,000

B. PROGRAM ADJUSTMENTS -- REVENUE LIMITS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-610-0001 6110-608-0001 CDE	*May Revision Finance Letter:* Restoration of Across-the-Board Reductions to Revenue Limits (Issues 067 and 308)	Increases school district revenue limits by $605,403,000 and county office revenue limits by $6,951,000 to restore funding associated with the 2.15 percent reduction in revenue limits in the Governor's January 10 Budget. Total funds restored equals $612,354,000.	Approve May Revision	TB	
6110-601-0001 6110-608-0001 CDE	*May Revision Finance Letter:* Revised Revenue Limit Reduction Proposal (Issues 059,067,304,308)	Reduces revenue limit apportionments by $350,000,000 for school districts and county offices of education. This reflects an approximate 1.2 percent reduction -- $343,093,000 for districts and $6,907,000 for county offices of education.	Approve May Revision	TBL	
6110-601- 0001 CDE	*May Revision Finance Letter:* Budget Year Apportionments to School Districts (Issues 055, 056, 057, and 058)	Increases apportionments for school districts by $120,063,000 to reflect: an increase of $183,411,000 for student growth; an increase of $47,214,000 to reflect an adjustment in the employer contribution rate and an increase in the PERS offset; an increase of $25,233,000 to reflect an increase in the unemployment insurance rate; and a decrease of $135,795,000 to reflect revised local property tax revenue offsets.	Approve May Revision		

B. PROGRAM ADJUSTMENTS -- REVENUE LIMITS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-601-0001 CDE	*May Revision Finance Letter:* Current Year Apportionments to School Districts (Issues 062, 063, and 064) D264	Decreases apportionments for school districts by a net amount of $32,320,000 to reflect: an increase of $76,089,000 to reflect revised student growth; a decrease of $5,144,000 to reflect an adjustment in the salary base for the PERS offset; and a decrease of $103,265,000 to reflect revised local revenue offsets.	Approve May Revision		
6110-608-0001 CDE	*May Revision Finance Letter:* Current Year Apportionments to County Offices (Issues 350, 351, and 352)	Increases apportionments for county offices by $2,441,000 to reflect: an increase of $7,563,000 for revised growth; a decrease of $4,479,000 for local property tax estimates; and a decrease of $643,000 for a revision to the PERS offset.	Approve May Revision		
6110-608-0001 CDE	*May Revision Finance Letter:* Budget Year Apportionments to County Offices (Issues 300, 301,302, and 303.)	Increases apportionments for county offices by $1,801,000 to reflect: a decrease of $959,000 for revised student growth (ADA); a decrease of $5,755,000 for changes to local property tax estimates; an increase of $4,496,000 for a revision to the PERS offset; and an increase of $417,000 for growth attributed to the across the board reductions in 2002-03.	Approve May Revision		

C. RESTORATION OF ACROSS-THE-BOARD REDUCTIONS--CATEGORICAL PROGRAMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-230-0001 CDE	*May Revision Finance Letter:* Categorical Programs in Block Grant (Issue 001)	Increases categorical funding by $567,066,000 to restore funding associated with across-the-board reductions for categorical programs included in Education Block Grant proposed by the Governor's January 10 Budget.	Approve May Revision		
6110-137-0001 CDE	*May Revision Finance Letter:* Math and Reading Professional Development Program (Issue 259)	Increases funding by $3,798,000 to reflect restoration of across-the-board reductions.	Approve May Revision		
6110-280-0001 CDE	*May Revision Finance Letter:* Angel Gate Academy (Issue 013)	Increases funding by $22,000 to reflect restoration of across-the-board reductions.	Approve May Revision		
6110-230-0001 CDE	*May Revision Finance Letter:* Charter Schools Facilities Grants and ROC/P Property Tax. (Issue 002)	Increases funding by $16,324,000 to restore $4,334,000 to the Charter School Facilities Grant and $11,990,000 to the ROC/P Property Tax Offset, ,which were both included in the block grant.	Approve May Revision		

C. RESTORATION OF ACROSS-THE-BOARD REDUCTIONS--CATEGORICAL PROGRAMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-107-0001 CDE	*May Revision Finance Letter:* County Office of Education Fiscal Oversight (Issue 052)	Increases funding for the Fiscal Crisis and Management Assistance Team (FCMAT) program by $912,000 to restore funding associated with across-the-board reductions in the Governor's January 10 Budget. Restores associated BBL.	Amend May Revision to provide additional $418,000 to restore funding for the Ed-Data Website.	BBL	418,000
6110-123-0001 CDE	*May Revision Finance Letter:* Accountability Programs (Issue 210)	Increases funding for the Immediate Intervention/Underperforming Schools Program, the High Priority Schools Grant Program and funding for sanctions by $42,517,000 to restore funding associated with across-the-board reductions in the Governor's January 10 Budget.	Approve May Revision		
6110-140-0001 CDE	*May Revision Finance Letter:* California School Information Services (Issue 261 and 262)	Increases funding for the California School Information Services (CSIS) program by $823,000 to restore across-the-board reductions in the Governor's January 10 Budget.	Approve May Revision		
6110-200-0001 CDE	*May Revision Finance Letter:* Healthy Start Program (Issue 011)	Restores item for the Healthy Start Program and provides $2,000,000 in local assistance funds for the program. Reinstates associated BBL language.	Approve May Revision	BBL	

C. RESTORATION OF ACROSS-THE-BOARD REDUCTIONS--CATEGORICAL PROGRAMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-224-0001 CDE	*May Revision Finance Letter:* Year Round School Grant Program (Issue 127 and 128)	Increases funding by $27,871,000 to rescind the proposal to phase-out the Year Round School Program over four years and to make across-the-board reductions. Restores funding to 2002-03 level.	Approve May Revision		
6110-234-0001 CDE	*May Revision Finance Letter:* K-3 Class Size Reduction Program (Issue 125)	Increases funding by $179,686,000 to rescind the across-the-board reductions to the K-3 Class Size Reduction Program. Deletes BBL that would reduce per-pupil funding rates to conform to available funds.	Approve May Revision		
6110-295-0001 CDE	*May Revision Finance Letter:* State Mandated Local Programs (Issue 003)	Increases funding by $15,019,000 for State Mandated Local Programs.	Approve May Revision		

D. RESTORATION OF PERS MITIGATION OFFSET

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-601-0001 CDE	*May Revision Finance Letter:* Restores Public Employees Retirement System (PERS) Offset Mitigation Funds. (Issue 065)	Restores $35,000,000 in funding for PERS Offset Mitigation pursuant to Chapter 2, Statutes of 2002. Revises TBL to maintain authorizing statute.	Approve May Revision	TBL	

E. RESTORATION OF ADVANCED VIA INDIVIDUAL DETERMINATION (AVID)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-130-0001 CDE	Governor's Budget: AVID Reduction (Issue 201)	The Governor's January 10 Budget proposes a $5.15 million (50 percent) reduction for the AVID program in the budget year. This proposal would reduce funding from $10.3 million in the current year, to $5.15 million in the budget year.	Reject the Governor's Budget and restore AVID funding to $10.3 m.		$5,150,000

F. PROGRAM REDUCTIONS/ELIMINATIONS--CATEGORICAL PROGRAMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-230-0001 CDE	*May Revision Finance Letter:* Targeted Categorical Program Reductions (Issues 003,004,129)	In lieu of the across-the-board reductions, this item makes $454,993,000 in targeted reductions and eliminations to the following categorical programs:	Approve May Revision, with amendments to restore funding for: (1) Local Arts Education Program ($6 m); (2) Center for Civic Education ($250,000); and (3) ROC/P funds for students under age 16 year ($12 m). Adopt LAO trailer bill language with instructional materials reduction to allow LEA's to use AB 2519 materials until 2005 and to have 36 months to adopt Reading/Language Arts instructional materials.		$18,250,000
6110-134-0001 CDE	*Eliminate Teaching as A Priority*	$88,650,000			
6110-193-0001 CDE	*Eliminate Administrator*	$5,282,000			
6110-189-0001 CDE	*Reduce Instructional Materials*	$75,000,000			
6110-193-0001 CDE	*Reduce Advanced Placement TeacherTraining*	$3,500,000			
6110-204-0001 CDE	*Eliminate Grade 7-8 Math Academies*	$12,759,000			

F. PROGRAM REDUCTIONS/ELIMINATIONS--CATEGORICAL PROGRAMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-181-0001 CDE	*Reduce Education Technology Grants and California Technology Assistance Project*	$1,000,000			
6110-205-0001 CDE	*Eliminate K-4 Intensive Reading Program*	$30,549,000			
6110-180-0001 CDE	*Eliminate Institute for Computer Technology*	$574,000			
6110-195-0001 CDE	*Reduce National Board Teacher Certification Incentives*	$5,000,000			
6110-124-0001 CDE	*Reduce Gifted and Talented*	$10,000,000			
6110-193-0001 CDE	*Reduce Peer Assistance Review*	$25,100,000			
6110-149-0001 CDE	*Reduce School Library Materials*	$19,000,000			
6110-240-0001 CDE	*Reduce College Prep Partnership*	$5,000,000			
6110-177-0001 CDE	*Eliminate Local Arts Education Partnerships*	$6,000,000			
6110-208-0001 CDE	*Eliminate Center for Civic Instruction*	$250,000			

F. PROGRAM REDUCTIONS/ELIMINATIONS--CATEGORICAL PROGRAMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-126-0001 CDE	*Eliminate Miller-Unruh Reading*	$29,929,000			
6110-229-0001 CDE	*Eliminate Teacher Recruitment Ctrs*	$9,400,000			
6110-105-0001 CDE	*Reduce Adult Education & ROC/P's*	$7,000,000			
6110-116-0001 CDE	*Reduce School Improvement Program*	$42,000,000			
6110-235-0001 CDE	*Reduce Supplemental Grants*	$80,000,000			
6110-144-0001 CDE	Principal Training Program (Issues 257 and 258)	Reduces funding by $22,500,000 and provides an $1,345,000 increase to restore the across-the-board reductions. This provides a net decrease of $21,155,000 and leaves $5,000,000 available for the Principal Training program in 2003-04.	Approve May Revision		

G. PROGRAM REDUCTIONS--EQUALIZATION

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-601-0001 CDE	*May Revision Finance Letter:* Equalization (Issue 054)	Eliminates $250,000,000 for Equalization funding in 2003-04, including $203,000,000 appropriated by Chapter 1167, Statutes of 2002, and $47,000,000 in additional funding proposed in the Governor's Budget. Requests TBL to conform to this action.	Approve May Revision	TBL	

H. PROGRAM REDUCTIONS--ASSESSMENT

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-113-0001 CDE	*May Revision Finance Letter:* Golden State Examinations (Issue 201)	Reduces funding for Golden State Exams from $5,933,000 to $3,733,000 in Schedule (1), resulting in a savings of $2,200,000. Remaining funds would be transferred to Schedule (3) to support three Golden State Examinations that are integrated into the California Standards Test and will be used in a pilot program by CSU for placement and remedial purposes.	Reject May Revision, and eliminate all funding for Golden State Exams for a total savings of $5.9 million in the budget year.		$3,733,000
6110-113-0001 CDE	*May Revision Finance Letter:* Unallocated Assessment Reductions (Issue 202)	Reduces funding by $13 million to reflect an unallocated reduction in funds for assessments to reduce test taking time for students.	Approve alternative LAO proposal to eliminate NRT in all grades except 4th and 8th for a savings of $10 million. These assessment savings total $10.7 million, when considered together with the $3.7 million in recommended savings for the Golden State Exam (see item above).		($3,000,000)

I. PROGRAM REDUCTIONS--ACCOUNTABILITY PROGRAMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-123-0001	*May Revision Finance Letter:* Shift Funding for Immediate Intervention/Underperforming Schools Program (Issue 211)	Decreases funding by $23,000,000 to reflect a shift of funding source for a portion of the II/USP. $30,763,000 in Proposition 98 Reversion Account funding will be used to backfill this amount and a $7,763,000 shortfall projected for 2003-04.	Adopt the May Revision Proposal, with the following changes: (1) Fund all cohort 2 II/USP; and (2) Add budget bill language to allow the carryover of funds and specify that the additional schools, including the 56 funded in May, are a part of the original timelines.		
6110-123-0001 CDE	*May Revision Finance Letter:* Deferral of 20 Percent of Accountability Programs from 2002-03 to 2003-04 (Issue 209)	Increases funding by $81,646,000 to reflect the impact of a 20 percent deferral for the II/USP and HP grant programs from 2002-03 to 2003-04 contained in SB 18X.	Approve May Revision		
6110-123-0001 CDE	*May Revision Finance Letter:* Deferral of 20 Percent of Accountability Programs from 2003-04 to 2004-05 (Issue 208)	Decreases funding by $65,950,000 to reflect the impact of continuing a 20 percent deferral for the II/UPS and HP grant programs into 2004-05.	Approve May Revision		

J. PROGRAM REDUCTIONS--SUPPLEMENTAL INSTRUCTION

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-104-0001 CDE	*May Revision Finance Letter: Core* Supplemental Instruction (Issue 001)	Decreases funding in Schedule (4) by $25,000,000 to capture savings resulting from lower than anticipated program participation.	Approve May Revision		
6110-104-0001 CDE	*May Revision Finance Letter: Core* Supplemental Instruction (Issue 002)	Reduces funding in Schedule (4) by $60,000,000 to reflect lowering the cap on reimbursement to districts and charter schools from 7 to 5 percent. Adds provisional language	Amend to reflect an additional $31,000,000 in savings estimated by LAO.	BBL	$31,000,000

K. PROGRAM REDUCTIONS--DEFERRED MAINTENANCE

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-188-001 CDE	*May Revision Finance Letter:* State School Deferred Maintenance Program (Issue 129 and 130)	Restores item for the Deferred Maintenance Program and provides $76,963,00 for the program. This represents a reduction of $128,726,000 from the 2002-03 funding level. Reinstates associated BBL language.	Approve May Revision	BBL	

L. FEDERAL FUNDS -- MIGRANT EDUCATION

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-125-0890 CDE	*May Revision Finance Letter:* Federal Title I Funds for Migrant Education (Issue 001)	Increases funding in Schedule (1) by $5,806,000 to reflect a decrease of $194,000 in the federal grant allocation and additional one-time carryover funding of $6,000,000 from 2002-03. Adds provisional language	Approve May Revision funding, but reject portions of provisional language that condition funds upon approval of plan by DOF.	BBL	

M. FEDERAL FUNDS -- ADULT EDUCATION

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-156-0890 CDE	*May Revision Finance Letter:* Federal Adult Education Funds (Issue 501)	Increase funding authority for Adult Education by $6,000,000 to reflect one-time carryover funds. This increased authority will be used to supplement grant awards for Adult Basic Education and English as a Second Language programs. Adds BBL to indicate carryover funds are one-time only.	Amend May Revision to add $3,014,000 to reflect total funding available.	BBL	($3,014,000) Federal Funds

N. FEDERAL FUNDS -- VOCATIONAL EDUCATION

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-166-0890 CDE	*May Revision Finance Letter:* Federal Vocational Education Funds (Issue 501)	Increase funding authority for Adult Education by $3,972,000 to reflect one-time carryover funds. Adds BBL to indicate carryover funds are one-time only.	Amend May Revision to add $318,000 to reflect total funding available.	BBL	($318,000) Federal Funds

O. FEDERAL FUNDS - CONSENT ITEMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-103-0890 CDE	May Revision Finance Letter: Federal Funds for Robert Byrd Scholarship (Issue 207)	Decreases funding by $30,000 to reflect a decrease in the federal grant allocation for the Robert Byrd Scholarship Program.	Approve May Revision		
6110-001-0001 6110-001-0890 CDE	May Revision Finance Letter: Federal NCLB Funds for State Operations (Issue 402)	Transfers $7,728,000 from Program 10 to Program 20 in Item 6110-001-0890. This is a technical adjustment only.	Approve May Revision		
6110-119-0890 CDE	*May Revision Finance Letter:* Federal Title I Funds for Neglected and Delinquent Youth Children (Issue 001)	Decreases funding by $1,009,000 to reflect a decrease in federal grants funds.	Approve May Revision		
6110-123-0890 CDE	*May Revision Finance Letter:* Federal Title V Funds for Innovative Programs (Issue 212)	Increases funding in Schedule (2) by $1,098,000 to reflect an increase in the federal grant allocation.	Approve May Revision		

O. FEDERAL FUNDS - CONSENT ITEMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-125-0890 CDE	*May Revision Finance Letter:* Federal Title III Funds for English Language Acquisition (Issue 001)	Increases funding in Schedule (3) by $21,376,000 to reflect an increase in federal grant programs. Funds will be distributed by formula grant.	Approve May Revision	BBL?	
6110-136-0890 CDE	*May Revision Finance Letter:* Federal Title I Funds for Basic Grants (Issue 001)	Increases funding in Schedule (1) by $211,039,000 to reflect an increase in federal Title I Basic Grants. These funds are distributed by formula grants to LEAs.	Approve May Revision		
6110-136-0890 CDE	*May Revision Finance Letter:* Federal Title I Funds for Even Start Family Literacy (Issue 001)	Increases funding in Schedule (1) by $285,000 to reflect an increase in federal Even Start Family Literacy program grants. Funds will be used to increase the size or number of competitive grants to student and adult literacy.	Approve May Revision		
6110-136-0890 CDE	May Revision Finance Letter: Federal Homeless Children Education Funds (Issue 001)	Increases funding in Schedule (2) by $690,000 to reflect a $619,00 increase in the federal grant and $71,000 in one-time carryover funds. Adds BBL to indicate carryover funds are one-time only.	Approve May Revision	BBL	

O. FEDERAL FUNDS - CONSENT ITEMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-137-0890 CDE	May Revision Finance Letter: Federal Rural and Low-Income Schools (Issue 001)	Increases federal Rural and Low-Income Schools funding by $87,000 to reflect an increase in federal grant level. Funds are allocated on a formula basis.	Approve May Revision		
6110-180-0890 CDE	*May Revision Finance Letter:* NCLB Title II, Part D Funds -- Education Through Technology (001)	Increases funding by $4,803,000 to reflect one-time carryover of $600,000 and federal grant increase of $4,203,000. Makes conforming changes to BBL.	Approve May Revision	BBL	
6110-183-0890 CDE	*May Revision Finance Letter:* NCLB Title IV Funds -- Safe and Drug-Free Communities	Increases funding by $896,000 to reflect federal grant increase.	Approve May Revision		
6110-183-0890 CDE	*May Revision Finance Letter:* NCLB Title IV Funds -- Community Services for Expelled or Suspended Students (Issue 007)	Decreases funding by $21,000 to reflect a revised estimate of federal grant.	Approve May Revision		

O. FEDERAL FUNDS - CONSENT ITEMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-193-0890 CDE	*May Revise Finance Letter:* NCLB Title II, Mathematics and Science Partnership Grant Program (Issue 251)	Adds item and provides funding of $14,041,000 to establish a new program. The program will provide competitive grants for institutes of higher education and low-performing schools in order to provide staff development and curriculum support for math and science teachers.	Approve May Revision		
6110-201-0890 CDE	*May Revision Finance Letter:* Federal Child Nutrition Programs	Increases funding by $11,500,000 to reflect revised estimates for meals served to low-income children.	Approve May Revision		
6110-240-0890 CDE	*May Revision Finance Letter:* NCLB Title I, Part G -- Advanced Placement Program	Increases funding by $270,000 to reflect federal grant levels.	Approve May Revision		

P. CONTINUATION OF SB 18X DEFERRALS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-104-0001 CDE	*May Revision Finance Letter:* Continuation of Categorical Deferrals in SB 18X (Chapter 4; Statutes of 2003, First Extraordinary Session) (Issue 006)	Reduces funding in the Block Grant Item by $287,207,000 to reflect the continuation of deferrals of categorical payments previously made with the Second Principal Apportionment. Replaces the deferral of $214,000,000 for special education with deferrals from three programs: Home-to-School Transportation, School Safety Block Grant, and Targeted Instruction Improvement Grant.	Approve May Revision		
6110-619-0001 CDE	*May Revision Finance Letter:* Continuation of Deferrals for Core & Remedial Supplemental Instruction in SB 18X (Issue 003)	Decreases funding by $83,056,000 to reflect a deferral of that amount from 2003-04 to 2004-05. This continues the deferral adopted pursuant to SB 18 X for another year.	Approve May Revision		

Q. FUNDING SB 18X DEFERRALS IN THE BUDGET YEAR

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-621-0001 CDE	*May Revision Finance Letter:* Community Day Schools Deferral Pursuant to SB 18X (Issue 305)	It is noted that non-Budget Act Item 6110-619-0001 and funding of $4,451,000 is added to reflect the deferral of Item 6110-190-0001 of Section 2.00 of the Budget Act of 2002, pursuant to SB 18X.	Approve May Revision		
6110-624-0001 CDE	*May Revision Finance Letter:* Charter School Block Grant Deferral Pursuant to SB 18X (Issue 111)	It is noted that non-Budget Act Item 6110-621-0001 and funding of $4,635,000 is added to reflect the deferral of Item x of Section 2.00 of the Budget Act of 2002, pursuant to SB 18X.	Approve May Revision		
6110-656-0001 CDE	*May Revision Finance Letter:* Gifted and Talented Pupil Deferral Pursuant to SB 18X (Issue 012)	It is noted that non-Budget Act Item 6110-624-0001 and funding of $3,958,000 is added to reflect the deferral of Item x of Section 2.00 of the Budget Act of 2002, pursuant to SB 18X.	Approve May Revision		
6110-661-0001 CDE	*May Revision Finance Letter:* Adult Education Deferral Pursuant to SB 18X (Issue 506)	It is noted that non-Budget Act Item 6110-656-0001 and funding of $40,925,000 is added to reflect the deferral of Item 6110-156-0001 of Section 2.00 of the Budget Act of 2002, pursuant to SB 18X.	Approve May Revision		

Q. FUNDING SB 18X DEFERRALS IN THE BUDGET YEAR

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-663-0001 CDE	*May Revision Finance Letter:* Special Education Deferral Pursuant to SB 18X (Issue 107)	It is noted that non-Budget Act Item 6110-661-0001 and funding of $214,103,000 is added to reflect the deferral of Item 6110-161-0001, Budget Act of 2002, pursuant to SB 18X.	Approve May Revision		
6110-664-0001 CDE	*May Revision Finance Letter*: Apprenticeship Program Deferral Pursuant to SB 18X (Issue 505)	It is noted that non-Budget Act Item 6110-663-0001 and funding of $5,738,000 is added to reflect the deferral of Item 6110-103-0001 of Section 2.00 of the Budget Act of 2002, pursuant to SB 18X.	Approve May Revision		
6110-704-0001 CDE	*May Revision Finance Letter:* Supplemental Instruction Deferral Pursuant to SB 18X (Issue 001)	It is noted that non-Budget Act Item 6110-664-0001 and funding of $83,056,000 is added to reflect the deferral of Item 6110-104-0001 of Section 2.00 of the Budget Act of 2002, pursuant to SB 18X.	Approve May Revision		
6110-705-0001 CDE	*May Revision Finance Letter:* Grade 7-8 Math Academies Deferral Pursuant to SB 18X (Issue 012)	It is noted that non-Budget Act Item 6110-704-0001 and funding of $3,621,000 is added to reflect the deferral of Item 6110-124-0001 of Section 2.00 of the Budget Act of 2002, pursuant to SB 18X.	Approve May Revision		

Q. FUNDING SB 18X DEFERRALS IN THE BUDGET YEAR

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-704-0001	*May Revision Finance Letter:* K-4 Intensive Reading Program Deferral Pursuant to SB 18X (Issue 012)	It is noted that non-Budget Act Item 6110-705-0001 and funding of $9,776,000 is added to reflect the deferral of Item 6110-205-0001 of Section 2.00 of the Budget Act of 2002, pursuant to SB 18X.	Approve May Revision		
6110-620-0001 CDE	*May Revision Finance Letter:* Staff Development Day Buyout Deferral Pursuant to SB 28X (Issue 256)	It is noted that non-Budget Act Item 6110-620-0001 and funding of $48,656,000 is added to reflect the deferral of Item 6110-112-0001 of Section 2.00 of the Budget Act of 2002, pursuant to SB 28X.	Approve May Revision		

R. REAPPROPRIATIONS FROM PROP 98 REVERSION ACCOUNT

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-485 and 6110-105-0001 CDE	May Revision Finance Letter: Add Item to Appropriate Funds from the Proposition 98 Reversion Account (Issues 161, 066, 211, 213, and 214)	It is requested that a total of $42,729,000 in the following amounts be reappropriated from the Proposition 98 Reversion Account:	Approve May Revision		
		(1) $4,908,000 for allocation by the Superintendent of Public Instruction to SELPAs to fully fund the 2001-02 Special Education average daily attendance increase. (Issue 161);			
		(2) $500,000 to the County Office Fiscal Crisis and Management Assistance Team (FCMAT) for assessments and recovery plans for fiscally distressed districts, including the Oakland Unified School District. (Issue 066);			
		(3) $30,763,000 to SDE for the purpose of funding grants for schools in the Immediate Intervention/Underperforming Schools Program pursuant to Chapter 3, Statutes of 1999. (Issue 211);			

R. REAPPROPRIATIONS FROM PROP 98 REVERSION ACCOUNT

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
		(4) $1,310,000 to SDE for the purpose of funding grants for schools in the High Priority Schools Grant Program pursuant to Chapter 749, Statutes of 2001. (Issue 213);			
		(5) $800,000 to the SDE for the purpose of funding Certificated Staff Incentive Awards as needed pursuant to Chapter 52, Statutes of 1999. (Issue 214);			
		(6) $4,448,000 to the School Library Materials for the purpose of funding school (or K-4 classroom) library materials. (Issue 450)			

S. PROPOSITION 98 REVERSIONS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-495 CDE	May Revision Finance Letter: Budget Year, Proposition 98 Reversion -- Department of Education (Issues 100, 101, 213, 215, 220, 254, 501, and 507)	It is requested that a total of $36,700,500 in the following amounts be reverted from the Proposition 98 Reversion Account: (1) $2,785,000 from Schedule (1) of Item 6110-140-0001, Budget Act of 2002. (Issue 254);	Approve May Revision		
		(2) $700,000, or whatever lesser or greater amount reflects unexpended funds in 2001-02, from Item 6110-166-0001, budget Act of 2001. (Issue 507);			
		(3) $1,310,000 from Schedule (3) of Item 6110-123-0001, Budget Act of 2002. (Issue 213);			
		(4) $4,916,000 from Schedule (4) of Item 6110-123-0001, Budget Act of 2002. (Issue 215);			
		(5) $400,000 from Schedule (41) of Item 6110-485, Budget Act of 2001. (Issue 220);			
		(6) $1,900,000 or whatever lesser or greater amount reflects unexpended funds in 2002-03, from Item 6110-158-0001, Budget Act of 2002. (Issue 510)			

T. PROGRAM SAVINGS -- LOCAL ASSISTANCE

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-230-0001 CDE	*May Revision Finance Letter:* Adults in Correctional Facilities Program Savings (Issue 507)	Decrease funding by $1,900,000 to reflect a reduction in the federal grant level.	Approve May Revision		
6110-202-0001 CDE	May Revision Finance Letter: Child Nutrition Program (Issue 001)	Reduces funding by $2,339,000 to reflect a revised estimate of State reimbursements for meals served to low-income children. This revised estimate is based on a continuation of savings anticipated in the current year (See Issue 009, Item 6110-497).	Approve May Revision		
6110-203-0001 CDE	*May Revision Finance Letter:* State Per-Meal Reimbursements for Child Nutrition (Issue 003)	Augments funding by $1,676,000 to reflect the addition of the Summer Seamless Feeding Program, which provides reimbursements for meals served to low-income children while school is out of session.	Approve May Revision		
6110-295-0001 CDE	*May Revision Finance Letter:* Augmentation for Linking Education, Activity, and Food (LEAF) Program (Issue 008)	Increases reimbursement authority by $194,000 for the LEAF pilot program. This adjustment results from an increase in the funding available from the California Endowment.	Approve May Revision		

T. PROGRAM SAVINGS -- LOCAL ASSISTANCE

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-202-0001 CDE	*May Revision Finance Letter:* Child Nutrition -- Current Year Reversion (Issue 002)	Reverts $2,778,000 from Schedule (1) to reflect anticipated savings in the Child Nutrition Program.	Approve May Revision		

U. PROGRAM ADJUSTMENTS -- STATE OPERATIONS -- VARIOUS PROGRAMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0001 and 6110-001-0890 CDE	*May Revision Finance Letter:* State Operations for Mathematics and Science Partnership Grant Program (Issue 250)	Increases funding by $225,000 to provide state operations support for the new federal Mathematics and Science Partnership Grant Program. Of this amount, $200,000 is for an evaluation of the partnerships, $20,000 is for an annual meeting of all partnership participants, and $5,000 is for expenses for field personnel to serve to score the competitive grants (see 6110-193-0890, Issue 251 for local assistance).	Approve May Revision		
6110-001-0001 and 6110-001-0890 CDE	*May Revision Finance Letter:* Extension of Limited-Term CalWORKS Positions (Issue 501)	Increases funding by $175,000 for 1.0 Associate Governmental Program Analyst and 1.0 Office Technician. The funding and positions will support the continued data collection on CalWORKs recipients attending Adult schools and ROC/Ps.	Approve May Revision		
6110-001-0001 CDE	*May Revision Finance Letter:* State Operations for Healthy Start (Issue 350)	Increases funding by $324,000 as a technical adjustment to restore learning Support and Partnership Division funds and Healthy Start indirect costs inadvertently taken in the Governor's Budget.	Approve May Revision		

U. PROGRAM ADJUSTMENTS -- STATE OPERATIONS -- VARIOUS PROGRAMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0001 CDE	*May Revision Finance Letter:* Child Nutrition State Operations Reimbursement Authority (Issue 351)	Increases reimbursement authority for this item by $2,000,000 on a one-time basis to accommodate reimbursements from the Nutrition Education Network for nutrition education materials. These federal funds are available via an interagency agreement with the Department of Health Services.	Approve May Revision		
6110-001-0001 CDE	*May Revision Finance Letter:* Increase and Provide Carryover Authority for Principal Apportionments System Rewrite (PASR) (Issue 050)	Increases funding by $190,000 to provide funding for parallel operation of the existing principal apportionment system and the nearly completed PASR project, which SDE indicates is necessary to ensure the new system is operating properly. These funds will be used for the purposes specified in the most recently approved Special Project Report (SPR). In addition, it is requested that provisional language be revised, as follows, to allow funds appropriated in prior years to be used in the budget year for the same purposes.	Amend May Revision to delete program language which conditions expenditures upon approval of DOF.	BBL	

V. PROGRAM ADJUSTMENTS -- STATE OPERATIONS -- EAST END COMPLEX RENT

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
	May Revision Finance Letter:	The January Budget included an increase to SDE's state operations budget for the increased costs of occupancy of the East End Complex. Due to the Superintendent's recent decision not to occupy Block 172 of the East End, it is requested that several state operations items be decreased to reflect adjusted rent costs as follows:			
6110-001-0001 CDE	East End Complex	Decrease Item 6110-001-0001 by $382,000 and amend provisional language.	Approve May Revision		
6110-001-0890 CDE	East End Complex	Decrease Item 6110-001-0890 by $575,000 and amend provisional language.	Approve May Revision	BBL	
6110-001-6036 CDE	East End Complex	Decrease Item 6110-001-6036 by $15,000 and amend provisional language.	Approve May Revision	BBL	
6110-001-0178 CDE	East End Complex	Decrease Item 6110-001-0178 by $6,000 and amend provisional language.	Approve May Revision	BBL	
6110-001-0231 CDE	East End Complex	Decrease Item 6110-001-0231 by $6,000 and amend provisional language.	Approve May Revision		
6110-001-0687 CDE	East End Complex	Decrease Item 6110-001-0687 by $42,000 and amend provisional language.	Approve May Revision	BBL	

V. PROGRAM ADJUSTMENTS -- STATE OPERATIONS -- EAST END COMPLEX RENT

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-015-0001 CDE	East End Complex	Decrease Item 6110-015-0001 by $3,000 and amend provisional language.	Approve May Revision	BBL	
6110-507-0942 CDE	East End Complex	Decrease Item 6110-507-0942-0001 by $5,000 (provisional language amended as part of change to Item 6110-001-0001)	Approve May Revision		
6110-001-0001 and 6110-001-0890 CDE	East End Complex Rent (Issue 401)	Shifts $1,312,000 among program schedules. This technical adjustment is necessary to correctly schedule the federal funds increase for SDE rents costs to the appropriate programs	Approve May Revision		

II. Office of the Secretary for Education (OSE)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
0650-114-0001 Office of Secretary for Education	*Governor's January Budget:* School-to-Career Program	Eliminates the School-to-Career Program for a savings of $2,000,000.	Approve as Budgeted, but do not repeal statute.		
0650-111-0001 Office of Secretary for Education	*May Revision Finance Letter:* Academic Volunteer and Mentor Service Program (Issue 001)	Increases funding by $683,000 to restore across-the-board reductions.	Approve May Revise		

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

Part 2

May 23, 2003
1:30 p.m.
Room 2040

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I. GOVERNOR'S SCHOLARS PROGRAM

A. Reduction Pursuant to SB 18X

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
0954-101-0001	*May Finance Revision Letter:* Governor's Scholar's Program (Issue 001)	Decreases by $16,800,000 the expenditure authority for the Governor's Scholarship Programs, based on revised award projections. This change is consistent with statutory changes adopted in SB 18X and administrative adjustments to the program. The revision reflects the expected cost of providing awards to 11th graders who qualified in the current year.	Approve May Revision		

II. California Department of Education -- State and Federal Funding

A. Basic Aid

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-610-0001	*May Revision Finance Letter:* Basic Aid District Excess Taxes (Issue 053)	Increases revenue limit funding by $126,244,000 to rescind the Governor's January 10 proposal for Basic Aid districts excess taxes.	Approve May Revision		
6110-230-0001	*May Revision Finance Letter:* Basic Aid District Alternative (Issue 004)	Reduce Categorical Funding for Basic Aid Districts by approximately $20,000,000 as an alternative to the Governor's January 10 proposal.	Reject May Revision. Adopt alternative reduction proposal based on a 1.198 percent reduction to Basic Aid revenue limits and excess property taxes. This reduction will yield state savings of approximately $10 million.	BBL	($10,000,000)

B. Special Education

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-161-0001	*May Revision Finance Letter:* State General Funds for Special Education (Issue 100)	**Property Tax Adjustment:** Reduce state special education funding by $3,140,000 to reflect an increase in Special Education Property Tax revenues.	Approve May Revision		
6110-161-0001	*May Revision Finance Letter:* State General Funds for Special Education (Issue 102)	**Growth:** Increase state special education funding by $15,636,000 to reflect an increase in prior-year adjustments for growth.	Approve May Revision		
6110-161-0001	*May Revision Finance Letter:* State General Funds for Special Education (Issue 104)	**General Fund Offset:** Increase state special education funding by $32,493,000 to reflect decrease in the amount of special education federal funds available for use as an offset pursuant to the state special education funding formula.	Approve May Revision		
6110-161-0001	May Revision Finance Letter: State General Funds for Special Education (Issue 105)	**Maintenance-of-Effort:** Decrease in state special education funding by $21,004,000 due to the elimination of one-time funds to address federal maintenance- of- effort requirements under the Governor's mid-year reduction proposals. The Legislature rejected this proposal, so these funds are no longer needed.	Approve May Revision		

B. Special Education

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-161-0890	*May Revision Finance Letter:* Federal IDEA Funds for Special Education (Issues 002-005)	**AB 3632 Services:** Increase federal IDEA funds by $35,910,000 to reflect an increase in Part B grants. Add provisional language specifying $69,000,000 is to be used to reimburse mandate claims associated with AB 3632 related mental health services. This allocation is the result of shifting $33,090,000 from Schedule (1) local assistance and using an increase of $35,910,000 in Part B funds.	Approve May Revision	BBL	
6110-161-0890	*May Revision Finance Letter:* Federal IDEA Funds for Special Education (Issues 006)	**Preschool Adjustment:** Decrease federal IDEA funds by $319,000 to reflect a lower pre-school grant level.	Approve May Revision		
6110-161-0890	*May Revision Finance Letter:* Federal IDEA Funds for Special Education (Issue 007)	**Sweetwater Funds:** Add provisional language to specify that $500,000 appropriated in Schedule (4) is available to fund nonpublic school costs in a single school district for students residing in licensed children's facility (group home).	Amend May Revision to specify that $350,000 in Schedule (4) is available for emergency impaction funds.	BBL	

C. Federal Funds -- Title I Set - Aside

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-136-0890	May Revision Finance Letter: Federal Title I State Set-Aside Funds for School Interventions and Sanctions (Issue 217)	Increases funding in Schedule (1) federal Title I Set-Aside Funds by $19,227,000 to reflect an increase in the federal grant of $3,700,000 and $15,500,000 in carryover funds.	Approve May Revision Funding Level, but adopt LAO Spending Plan and BBL language.	BBL	

D. Federal Funds -- Title I Reading First

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-126-0890	*May Revision Finance Letter:* Federal Title I Funds for Reading First Program (Issue 252)	Increases funding by $13,635,000 to reflect an increase in federal grant allocation.	Approve May Revise funding level, but direct $10 million to fund students who are being instructed in bilingual programs and do not currently have access to the Reading First program. TBL to amend the State Reading First Plan to allow bilingual programs to be eligible (reference the 2.5 hours of instruction in English and the instructional materials.	BBL	

E. Federal Funds -- Title VI State Assessments

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-113-0890	*May Revision Finance Letter:* Federal Title VI Funds for Assessments (Issue 203)	Increases federal Title VI State Assessments funds by $17,221,000 to reflect an increase of $1.1 million in the federal grant allocation and a carryover of $16.1 million in 2002-03 funds.	Approve May Revise with amendment to include $1 million set-aside for alternative assessment for special education pending Legislation. Delete language that conditions expenditures upon approval by DOF.		
6110-113-0890	*May Revision Finance Letter:* Federal Title VI Funds for Standards and Assessments for Students with Disabilities (Issue 204)	Increases funding by $600,000 on a one-time basis to provide training and materials regarding standards and assessments for pupils with disabilities.	Approve May Revision	BBL	

F. Education Mandates

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-295-0001	*May Revision Finance Letter:* State Mandated Local Programs (Issue 003)	Decreases funding by $125,423,000 to reduce payment for all K-12 Education Mandates to $1,000 and defer the remainder of payments for an additional year.	Approve May Revision.		

G. State Operations -- East End Complex

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
	May Revision Finance Letter:	The January Budget included an increase to SDE's state operations budget for the increased costs of occupancy of the East End Complex. Due to the Superintendent's recent decision not to occupy Block 172 of the East End, it is requested that several state operations items be decreased to reflect adjusted rent costs as follows:	Approve May Revision		
6110-001-0001 CDE	East End Complex	Decrease Item 6110-001-0001 by $382,000 and amend provisional language.	Approve May Revision		
6110-001-0890 CDE	East End Complex	Decrease Item 6110-001-0890 by $575,000 and amend provisional language.	Approve May Revision	BBL	
6110-001-6036 CDE	East End Complex	Decrease Item 6110-001-6036 by $15,000 and amend provisional language.	Approve May Revision	BBL	
6110-001-0178 CDE	East End Complex	Decrease Item 6110-001-0178 by $6,000 and amend provisional language.	Approve May Revision	BBL	
6110-001-0231 CDE	East End Complex	Decrease Item 6110-001-0231 by $6,000 and amend provisional language.	Approve May Revision		
6110-001-0687 CDE	East End Complex	Decrease Item 6110-001-0687 by $42,000 and amend provisional language.	Approve May Revision	BBL	

G. State Operations -- East End Complex

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-015-0001 CDE	East End Complex	Decrease Item 6110-015-0001 by $3,000 and amend provisional language.	Approve May Revision	BBL	
6110-507-0942 CDE	East End Complex	Decrease Item 6110-507-0942-0001 by $5,000 (provisional language amended as part of change to Item 6110-001-0001)	Approve May Revision		
6110-001-0001 and 6110-001-0890 CDE	East End Complex Rent (Issue 401)	Shifts $1,312,000 among program schedules. This technical adjustment is necessary to correctly schedule the federal funds increase for SDE rents costs to the appropriate programs	Approve May Revision		

H. Other May Revise

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-230-0001	*May Revision Letter:* Continuation of Deferrals Pursuant to SB 18X.	The Subcommittee Approved this May Revision proposal on 5/22. The Subcommittee also took action on 5/22 to eliminate the Grade 7-8 Math Academies ($12.8 m) and $K-4 Intensive Reading Program ($30.6 m). The P2 deferral includes $3.6 m for Math Academies and $9.8 m for Intensive Reading. Payments for these programs in the budget year cannot be deferred if they are being eliminated.	Amend the May Revise to adopt $13.4 million in alternative deferrals for Math Academies ($3.6) and K-4 Intensive Reading ($9.8 m) programs. This action conforms to the Subcommittee's action to eliminate these programs in the budget year. The Subcommittee may want to consider the Targeted Instruction Improvement Grant as an alternative program deferral.		
6110-230-0001	*May Finance Revision:* National Board Teacher Certification Incentives Program (Issue 003)	Decreases funding by $5,000,000 bringing total funding for the program to $6.5 million. Alternatively, the LAO has recommended several options for reducing the program.	Approve LAO Option B. to provide an additional $800,000 over the May Revision level, bringing total funding to $7.3 million. This covers existing commitments through July 1, 2003, and provides funding for teachers now becoming certified and serve in low-performing schools.		800,000
6110-120-0001	*May Revision Letter:* Supplemental Grants	The May Revision Proposal recommends an $80,000,000 reduction to the Supplemental Grants program. A total of $241,739,000 is budgeted for this program in 2003-04. This equates to a 33 percent reduction to this program.	Open -- The Subcommittee held this item open for discussion.		

H. Other May Revise

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-123-0001	*May Revision Letter:* Accountability Programs -- Sanctions Savings (Issue 211)	The Subcommittee took action on this item on 5/22, including $4.5 million in savings from the HP program identified by LAO. The LAO has identified an additional $3.0 million in savings from school sanctions programs.	Approve additional savings of $3,000,000 from school sanctions programs.		-3,000,000
6110-195-0890	*May Revision Letter:* NCLB Title II Grants -- Improving Teacher Quality Grants	Increase funding by $20,504,000 to reflect an increase in the federal grant levels.	Approve May Revision		
0650-114-0001 Office of Secretary for Education	*Governor's January Budget:* School-to-Career Program	Eliminates the School-to-Career Program for a savings of $2,000,000.	Reject Governor's January Budget Proposal and move $1.7 million to the California Department of Education.		

I. LEA Reserve Flexibility Language

The Subcommittee is considering a number of options for providing greater flexibility to local education agencies in the use of reserve funds for general purposes, including:

(1) making restricted reserve balances available for general purposes;

(2) lowering the level of budget reserves for economic uncertainties below the one to five percent now required;

(3) lowering the reserve requirement for Deferred Maintenance below the 3 percent level now required.

Background: Existing law requires the State Board of Education to adopt standards and criteria to be used by local educational agencies in the development of annual budgets and the management of subsequent expenditures from that budget. Existing law requires those standards and criteria to include comparisons and reviews of reserves and fund balances.

Current State Board of Education standards and criteria require local educational agencies to maintain reserves for economic uncertainties. The amount of that reserve varies by districts, from 1 to 4 percent, based on a sliding scale by size. Most districts are required to maintain a 3 percent reserve. The funding to which the percentage is applied is based on both general and categorical funding received, but the reserve itself must be maintained with resources from districts' general funds.

The Governor proposed eliminating the general fund reserve requirement entirely for the 2002-03 fiscal year. Instead, the Legislature approved a provision in SB 18X that provides limited flexibility to LEA's in accessing their reserves for economic uncertainty and restricted reserve accounts in the current year.

Specifically, SB 18X, authorizes a local educational agency to use, for purposes determined by its governing body, up to 50% of its reserves for economic uncertainties and up to 50% of the balances, as of July 1, 2002, of restricted

accounts in its General Fund, excluding restricted reserves committed for capital outlay, bond funds, sinking funds, and federal funds.

SB 18X also states the intent of the Legislature that local educational agencies use this flexibility for certain purposes and make every effort to maintain a prudent expenditure plan that ensures solvency for the 2002–03 fiscal year and in subsequent fiscal years.

As enacted, provision 3 of SB 18X includes the following language:

33128.2. (a) Notwithstanding the standards and criteria adopted pursuant to paragraph (3) of subdivision (a) of Section 33128 or any other law, for the 2002–03 fiscal year only, a local educational agency may use for purposes determined by its governing body up to 50 percent of its reserves for economic uncertainties and up to 50 percent of the balances, as of July 1, 2002, of restricted accounts in its General Fund, excluding restricted reserves committed for capital outlay, bond funds, sinking funds, and federal funds, in order to provide local budgeting flexibility as a result of midyear budget reductions for the 2002–03 fiscal year that are enacted by the Legislature after January 2003. (b) A local educational agency may not, pursuant to paragraph (a), use the combined budgetary reserves in excess of its total midyear budget reductions for the 2002–03 fiscal year. (c) It is the intent of the Legislature that a local educational agency use the flexibility provided in subdivision (a) to the extent midyear budget reductions for the 2002–03 fiscal year occur in the following programs:
(1) The Peer Assistance and Review Program.
(2) Supplemental instruction and remedial programs.
(3) One-time funding for the Instructional Materials Funding Realignment Program.
(d) It is further the intent of the Legislature that a local educational agency make every effort to maintain a prudent expenditure plan that ensures its solvency for the 2002–03 fiscal year and in subsequent fiscal years.

Budget Action/Issues: There is no specific proposal before the Subcommittee from the Governor, although if is understood that some LEA flexibility is a part of the Governor's May Revision. Several education organizations have requested that LEA's be given additional flexibility in accessing local fund reserves in order to maintain classroom instruction given the fiscal enormous budget shortfalls facing our schools.

Suggested Questions:

- *In providing reserve flexibility to LEA's should it be time limited? Assuming the state's fiscal health is restored in the future, does it make sense to provide flexibility permanently?*
- *How have the provisions of SB 18X been utilized by LEA's?*
- *CDE has reportedly had difficulty clarifying the meaning of the reserve flexibility provisions of SB 18X for LEAs. What are the specific problems and are there lessons learned that could inform the Legislature's thinking on any proposals in the budget year?*
- *Do state agencies or LEA's have any idea about the amount of funding currently contained in restricted reserve accounts? Do such funds accumulate from particular categorical programs? Are there differences in how LEA's spend and accumulate funds from these accounts?*
- *In providing flexibility to LEA's are there some restricted reserves that should not be tapped, for example funds for Economic Impact Aid?*

J. Adult Education Funding – Concurrent Enrollment

The issue for the Subcommittee to consider is the Governor's January Budget proposal to reduce funding for adult education by $13.5 million to reflect the results of "audits" of adult education programs in the early 1990's. There is currently $582 million in the 2003-03 budget for Adult Education, as revised by SB 18X.

Background: In the Governor's January Budget proposal, the Administration proposed to reduce adult education funding by $13.5 million "pursuant to audits of inappropriate concurrent enrollment in the 1990's". The Administration did not rescind this proposal as part of the May Revision, so the issue remains before the Subcommittee.

The issue in question is very old, referring to adult education ADA claimed by 36 school districts in the 1990-91 through 1992-93 fiscal years. There is substantial disagreement as to whether the proposed cuts reflect the results of actual audits, or simply recalculations of funding based on new state agency interpretations. Disagreements among the local agencies and the various involved state agencies have resulted in the issue remaining in impasse for many years. The issue is currently in litigation.

Comments:

The Legislature has repeatedly taken action to resolve these audits, included legislation (AB 259/Chavez) passed last year to refer the issue to the newly formed Education Audits Appeals Panel. That bill was vetoed by the Governor, who indicated in the veto message that he was asking the Secretary for Education to work with the newly elected State Superintendent to develop a plan of action to deal with the issue. Absent any such agreement, and since the issue is in litigation, it appears premature to reduce adult education ADA based on findings which are under serious dispute.

Staff recommends rejecting the Governor's January 10 Budget Proposal to reduce funding by $13.5 million.

K. April Finance Letters – Recommended Changes

On April 1, 2003, the Department of Finance requested amendments to the Governor's 2003-04 Budget for the following K-12 education items. Several of the amendments recommended by DOF are included on the consent list (See Section III)

The following two items have been set-aside for special consideration by the Subcommittee because they contain provisional language that subjects funding to approval of DOF:

1. 6110-001-0001, 6110-001-0890, and 6110-161-0890 Special Education (Issue 002, 001)

It is requested that $250,000 be transferred from Item 6110-001-0890 to Item 6110-161-0890 for interpreter training and certification. This transfer would correctly characterize this activity as local assistance rather than state operations. As a conforming action, it is requested that Provision 18 of Item 6100-001-0890 be deleted and that provisional language be added to Item 6110-161-0890 as follows:

X. Of the funds appropriated in Schedule (1) of this item, $250,000 shall be provided to districts for interpreter instruction, training, and certification. This funding shall be annually renewable for two years. pursuant to Department of Finance approval of an annual progress report which shall be completed by April 30 of each year, beginning in 2003.

Staff recommends approval of language with deletion of language (shaded above) requiring an annual progress report and approval by DOF.

2. 6110-112-0890, Public Charter Schools (Issue 004)

It is requested that this item be increased by $8,369,000 to reflect the receipt of greater than anticipated federal funding for grants to charter schools. It is also requested that the Department of Finance be granted authority to shift an amount of up to $422,00 to the SDE for state operations purposes relating to charter school grant activities upon approval of a work and expenditure plan.

It is requested that the following provisional language be added to the item:

Provisions:
X. Of the funds appropriated in this Item, an amount of up to $422,000 may be transferred to Item 6110-001-0890 to be used for state operations purposes relating to federal charter school grants upon Department of Finance approval of a work and expenditure plan proposed by the Department of Education.

Staff recommends approval of language with deletion of language (shaded above) requiring approval of a work and expenditure plan.

III. Charter Schools Facilities Program -- April Finance Letter

Chapter 935, Statutes of 2002 (AB 14) established the Charter School Facilities Program (CSFP). This pilot program is designed to meet the facilities needs of charter schools throughout the state by providing a mechanism for the distribution of $100 million in General Obligation bond funding pursuant to Section 100620 of Chapter 33, Statutes of 2002 (AB 16).

The California School Finance Authority (CSFA), within the State Treasurer's Office, administers the CSFP. The CSFA is allowed to charge the Charter Schools Facilities Account for its administrative costs.

The State Treasurer's Office submitted an April Finance Letter request for $531,000 in General Obligation bond funds and three permanent positions for workload associated with the CSFP. Of the amount requested, $263,000 is for salaries and benefits, $220,000 is for internal and external contract services, and $48,000 is provided for operating expenses and equipment.

Staff Notes: While staff agrees that some level of resources and staffing may be required for the new program, we note the following concerns with the proposal contained in the Finance Letter:

1. *AB 14 specifically stated the intent of the Legislature that this program be implemented as a pilot program to determine the optimum method for providing school facilities funding for charter schools. Given this intent, the establishment of permanent positions as proposed appears neither advisable nor necessary. Staff recommends instead that these positions be provided on a three-year limited-term basis. (This is consistent with the OPSC staff proposed pursuant to Prop 47.).*

2. *The budget bill language proposed for this program would allow the Department of Finance to augment the budget of the CSFA in excess of the amount approved by the Legislature, 30 days after notification in writing is provided to the Chair of the Joint Legislative Budget Committee. However, neither of the other two departments currently administering the School Facilities Program (the State Department of Education and the*

Office of Public School Construction) have such latitude with state bond funds. The $100 million provided for charter schools pursuant to AB 16 is reportedly oversubscribed by $82 million. Since this language could result in additional state operations costs at the expense of local projects, it is recommended that Provision 1 of the proposed budget bill language be eliminated. (See attached alternate language.)

3. *Finally, the Finance Letter would provide funding for $95,000 in interdepartmental contracts, $65,000 of which is unspecified. Given that we have not been provided with adequate justification for this expenditure, and given the limited size of the bond funds available for this program, it is recommended that the funding for interdepartmental contracts be reduced by $65,000.*

Staff recommends approval of the April Finance letter with the following alternative language:

0985-001-6040—For the support of the California School Finance Authority, payable from the Charter School Facilities Account, 2002 State School Facilities Fund…… ~~531,000~~ *466,000*

Schedule:

(1) 20- Charter School Facilities Program……~~531,000~~ *466,000*

Provisions:

~~1. Notwithstanding any other provision of law, the Director of Finance May authorize expenditures for the California School Finance Authority in excess of the amount appropriated not sooner than 30 days after notification in writing of the necessity therefore is provided to the chairperson of the fiscal committees and the Chairperson of the Joint Legislative Budget Committee, or not Sooner than whatever lesser time the chairperson of the Committee, or his or her designee, may in each instance Determine.~~

~~2.~~1. Of the amount appropriated in this item, $125,000 is for the one-time support of external contracts for consultants who are qualified to provide technical assistance and training in the development of financing programs for charter schools.

Senate Committee
on Budget and Fiscal Review
SUBCOMMITTEE 1

MAJOR ACTION REPORT

May 28, 2003

Senate Bill 53
2003-04 Budget Bill

Members
Jack Scott, Chair
Bob Margett
John Vasconcellos

Consultants
Kim Connor
Amy Supinger

SUBCOMMITTEE NO. 1

EDUCATION

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Department of Education 1-1

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K-12 EDUCATION

0558 OFFICE OF THE SECRETARY OF EDUCATION

- Rejected the Governor's proposal to eliminate the School-to-Career program and instead shifted the program and most funding ($1.7 million) to the California Department of Education.

0995 GOVERNOR'S SCHOLARS' PROGRAM

- Reduced funding by $16.8 million based upon changes in SB 18 X, which (1) defer funding for awards until students reach 12th grade and (2) reflect State Board of Education actions that change student eligibility criteria.

6110 CALIFORNIA DEPARTMENT OF EDUCATION

- Appropriated the same level of funding for K-12 education programs as proposed by the Governor's May Revision proposal.
- Rejected the Governor's proposal to consolidate more than 64 categorical programs into a single K-12 Instructional Improvement Block Grant. The Governor's original block grant proposal would have repealed nearly all statutes governing the programs in the block grant.
- Restored 97 positions and $6.7 million in state operations funding to CDE associated with the Governor's block grant proposal.
- Adopted the Governor's May Revision proposal to eliminate across-the-board reductions to revenue limits and categorical programs. Specifically, the budget:
  - Restored the $612.4 million reduction (2.15 percent) for Revenue Limits, and instead reduces Revenue Limits by $350 million (1.2 percent). This restoration provides a net increase to Revenue Limits of $262.4 million.
  - Restored $835 million in across-the-board reductions to categorical programs and instead makes targeted reductions or eliminations to specific programs.
- Adopted the Governor's May Revision proposal to make the following targeted *reductions* to categorical programs: Instructional Materials ($75 m); Supplemental Grants ($70 m); School Improvement Program ($42 m); Peer Assistance and Review ($25 m); School Library Materials ($19 m); Gifted and Talented Education ($10 m); Adult Education and ROC/P programs ($7 m); National Board Teacher Incentive Incentives ($4.2 m); College Preparation Partnership ($5 m); Advanced Placement Teacher Training ($4.1 m); and Education Technology Grants and California Technology Assistance Project ($1 m).

- Restored reductions for two categorical programs included in the Governor's May Revision: – Local Education Art Partnerships ($6 million) and Civics Education ($250,000). The Senate also restored $10 million for Supplemental Grants – a total reduction of $70 million -- and reduced savings for the National Board Teacher Incentives by $ 800,000.
- Adopted the Governor's May Revision proposal to *eliminate* the following categorical programs: Teaching-as-a-Priority ($88.7 m); Miller-Unruh Reading Program ($28.9 m); Teacher Recruitment Centers ($9.4 m); Administrator Training ($5.3 m); 7th and 8th Grade Math Academies ($12.8 m); K-4 Intensive Reading Program ($30.5 m); and the Institute for Computer Technology ($574,000).
- Adopted the May Revision proposal to eliminate $250 million for revenue limit "equalization," including $203 million appropriated by Chapter 1167, Statutes of 2002, and $47 million in additional funding initially proposed in the Governor's January Budget.
- Reduced Deferred Maintenance funding by $128.7 million below the 2002-03 level, but maintains funding for hardship.
- Adopted the May Revision proposal to defer payment of all education mandates in 2003-04 for a savings of $125 million.
- Reduced funding core supplemental instruction services by $85 million to reflect $25 million in savings from lower program participation and $60 million in savings from lowering the enrollment cap from 7 to 5 percent.
- Provided $ 69 million in additional federal IDEA funds available for special education to fund mental health related services for students with disabilities pursuant to state law – AB 3632 – and federal law.
- Restored funding for the K-3 Class Size Reduction program at the program's base funding level for the 2002-03 fiscal year.
- Restored $35 million for the PERS Mitigation Offset in order to assist school districts in making retirement contributions for classified employees.
- Adopted the Governor's May Revision proposal for the state's school accountability – Immediate Intervention/Underperforming Schools Program (II/USP) and High Priority (HP) Schools programs – to fully fund all schools that have applied.
- Approved two separate actions that reduce funding for Basic Aid districts by $27.6 million, including:
    - $17.8 million to eliminate Basic Aid funding ($120 per ADA) and satisfy the constitutional obligation to provide state Basic Aid through the provision of categorical funds to these districts; and
    - $9.8 million to further reduce categorical funding for Basic Aid districts based on a 1.198 percent reduction to Basic Aid revenue limits and excess property taxes, in lieu of the Governor's $20 million May Revision reduction proposal for Basic Aid districts.

- Rejected the Governor's proposal to make a $13 million unallocated reduction for state assessments and instead substitute specific reductions to assessment programs, including:
  - Elimination of the Golden State Exam, for an additional savings of $3.7 million beyond the May Revision (and total savings at $5.9 million); and
  - Reducing grade level testing under the state's norm-referenced test (CAT/6) to students in 4th and 8th grades – instead of grades 2-11 – for a savings of $10 million.
- Provided $10 million in new NCLB Title I funds for the Reading First program to cover students in bilingual programs that do not currently have access to these federal K-3 supplemental reading funds.
- Rejected the Governor's proposal to limit ROC/P funds to students under age 16 years and restores $12 million to conform to this action.
- Restored $13.5 million for Adult Education to reflect reductions tied to audit results for concurrent enrollment from the early 1990's.
- Restored $5.15 million in funding for the Advancement Via Individual Determination (AVID) program.
- Restored $418,000 in funds to the Ed-Data website that provides easy-to-access financial, demographic and academic information for K-12 public schools.
- Utilized funding from the Peer Assistance and Review program – approximately $61 million – as a "balancer" to meet appropriation levels reflected in the Governor's Budget May Revision.

Trailer Bill Language

1. Adopted language that gives school districts additional flexibility in accessing education reserves, specifically language to reduce reserves for deferred maintenance from 3 to 2 percent; to lower the reserves for economic uncertainty in half; and to restore reserves levels in 2003-05.

PRE-K

4220 CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE (CDPAC)

- Denied the Governor's request to eliminate CDPAC by appropriating and additional $367,000.

6110 CALIFORNIA DEPARTMENT OF EDUCATION – CHILD DEVELOPMENT

- Reversed the original January child care realignment proposal, which would have shifted child care services to the counties. This resulted in an increase in the Proposition 98 guarantee of $879 million.
- Adopted a series of caseload adjustments, fund transfers, and programmatic reforms (with accompanying Budget Bill Language) in order to reduce expenditures and increase the amount of funding available for child care services in the Budget Year to the levels proposed in the Governor's May Revision. Specifically, the committee:
- Eliminated subsidized child care services to child over the age of 13;
- Eliminated subsidized care to "grandfathered" families who are earning over 75 percent of the State Median Income;
- Clarified and reformed regulations related to provisions of the Regional Market Rate which address hourly and full day care as well as premium care;
- Reduced the administrative and support services rate for Alternative Payment Providers by one percent (1%);
- Increased the amount of funding available for child care services from TANF and federal child care funds.
- Denied the Governor's request to fully-fund the After School program and instead reduced funding by $7 million. This leaves $114 million available for the program.
- Decreased funding for state Preschool by $10 million which is $6 million less than the amount proposed by the Governor as part of the May Revision.

HIGHER EDUCATION

6120 CALIFORNIA STATE LIBRARY

- Provided an additional $14.8 million to the Public Library Foundation, bringing the total appropriation level for 2003-04 to $15.8 million (which is the amount originally proposed in the Governor's January Budget).
- Appropriated $250,000 to retain the core operations of the Civil Liberties Education Program.
- Retained funding ($12.2 million) for the Transaction-Based Reimbursement Program, which helps cover the costs associated with interlibrary loans.
- Allocated $128.4 million from Proposition 40 funds for the new California Cultural and Historical Endowment.

6420 CALIFORNIA POSTSECONDARY EDUCATION COMMISSION (CPEC)

- Denied the Governor's May Revision proposal to merge the California Postsecondary Education Commission with the California Student Aid Commission.
- Appropriated an additional $1.5 million to bring funding for CPEC back to current-year levels.

6440 UNIVERSITY OF CALIFORNIA

- Adopted the majority of the funding reductions proposed by the Governor in January with the following exceptions:
- Further reduced funding to the UC by $80.5 million pursuant to an agreement reached by all four Legislative Caucuses related to the approval of the Pension Obligation Bonds; the subcommittee opted to designate the reduction for student enrollment ($48.7 million) with the remainder of the reduction ($31.8 million) being unallocated.
- Deferred the opening of the UC Merced Campus for one year (from Fall 2004 to Fall 2005) for a General Fund savings of $4 million.
- Provided $5 million above the amount provided by the Governor for Student Outreach Programs.
- Approved all Capital Outlay projects as proposed by the Administration.

6610 CALIFORNIA STATE UNIVERSITY

- Adopted the majority of the funding reductions proposed by the Governor in January with the following exceptions:
- Further reduced funding to the CSU by $69.5 million pursuant to an agreement reached by all four Legislative Caucuses related to the approval of the Pension Obligation Bonds; the subcommittee opted to designate the reduction for student enrollment ($66 million) with the remainder of the reduction ($3.5 million) being unallocated.
- Provided $2.5 million above the amount provided in the Governor's Budget for student outreach programs.
- Allocated additional funds ($1.2 million) for the Legislative, Executive and Judicial Fellows program to bring the reduction level from 50 percent 10 percent.
- Approved all Capital Outlay projects as proposed by the Administration.

6870 CALIFORNIA COMMUNITY COLLEGES

- Approved the May Revision proposal to increase student fees from $11 per unit to $18 per unit. Originally, the Governor's January Budget proposed increasing fees to $24 per unit.
- Retained spending level for community colleges as it was proposed in the May Revision.
- Approved the May Revision augmentation of the community colleges budget, which provided an additional $305 million in General Fund support.
- Provided additional support to the community colleges by shifting $200 million in June 2004 General Apportionments and Partnership for Excellence payments to July 2005.

7980 CALIFORNIA STUDENT AID COMMISSION

- Shifted all operating expenses for the Student Aid Commission from the General Fund to the Student Loan Operating Fund, for a General Fund savings of $7.7 million.
- Retained the current maximum Cal Grant award level ($9,708) for students attending private institutions; the Governor proposed to reduce the amount of the grant by $880.
- Accepted the May Revision proposal to make baseline reductions to the Cal Grant program by $20 million, due to the chronic over-estimation of awards that has been occurring in recent years.
- Further reduced the baseline amount of funding available for Cal Grants by $10 million, pursuant to an agreement reached by all four Legislative Caucuses related to the approval of Pension Obligation Bonds.

- Denied the Governor's request to reduce the Cal Grant C program.
- Eliminated the Cal Grant T program and converted existing awards to the Assumption Program of Loans for Education (APLE).